




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

2018





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

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

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Business Overview

NO. OF PROJECTS

116

Piped Gas Projects

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

Distributed Energy Projects

Sichuan Energy Investment, Shenyang Economic and Technological Development Zone, Qingdao Jimo Chuangzhi New District, Xuzhou Industrial Park (Jiawang district), Binzhou Yangxin Economic and Technological Development Zone, Changchun, Guilin, Tangshan Chengnan Economic Development Zone, Binzhou Boxing Economic Development Zone, Xuzhou Biomedical Industrial Park, Maanshan Economic and Technological Development Zone South District

Midstream Projects

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

Vehicle Gas Refilling Stations

Qiqihar (Lianfu), Qiqihar (Xingqixiang)

Others

Maanshan Piping Prefabrication, Towngas Natural Gas Sales





Five-Year Financial Summary

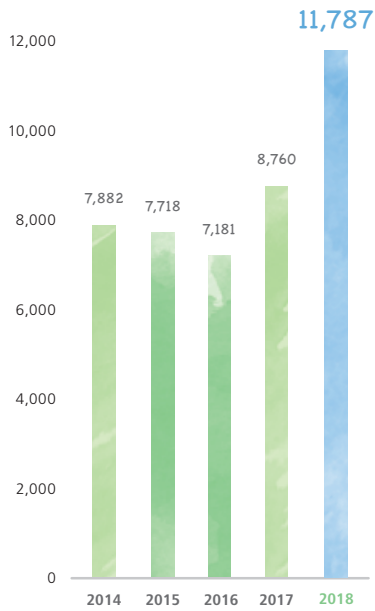
	For the year ended 31 December				
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
RESULTS					
Revenue	7,881,833	7,718,293	7,181,150	8,759,783	11,787,002
Profit before taxation	1,531,059	1,268,043	1,455,403	1,917,654	1,892,130
Taxation	(350,085)	(343,511)	(362,133)	(405,373)	(478,981)
Profit for the year	1,180,974	924,532	1,093,270	1,512,281	1,413,149
Profit for the year attributable to:					
Shareholders of the Company*	1,054,189	807,042	973,997	1,365,385	1,224,274
Non-controlling interests	126,785	117,490	119,273	146,896	188,875
Profit for the year	1,180,974	924,532	1,093,270	1,512,281	1,413,149
	HK cents	HK cents	HK cents	HK cents	HK cents
Earnings per share					
Basic	40.19	30.45	36.26	49.87	43.89
Diluted	40.08	30.43	N/A	N/A	N/A

	As at 31 December				
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
ASSETS AND LIABILITIES					
Total assets	27,350,239	28,870,524	28,027,110	32,774,810	34,014,606
Total liabilities	(12,905,761)	(14,170,668)	(13,362,927)	(15,576,994)	(16,245,290)
	14,444,478	14,699,856	14,664,183	17,197,816	17,769,316
Equity attributable to shareholders of the Company	13,253,951	13,478,084	13,499,351	15,845,033	16,229,197
Non-controlling interests	1,190,527	1,221,772	1,164,832	1,352,783	1,540,119
Total equity	14,444,478	14,699,856	14,664,183	17,197,816	17,769,316

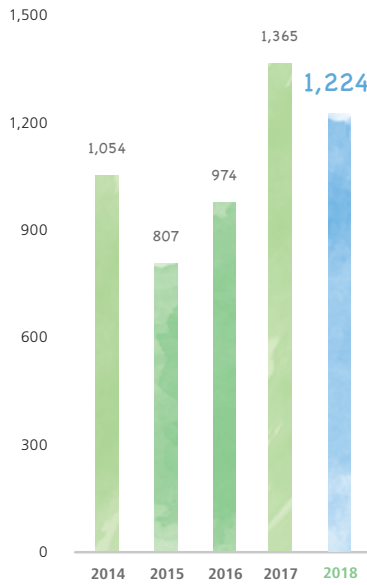
* the Company: Towngas China Company Limited

Financial Highlights

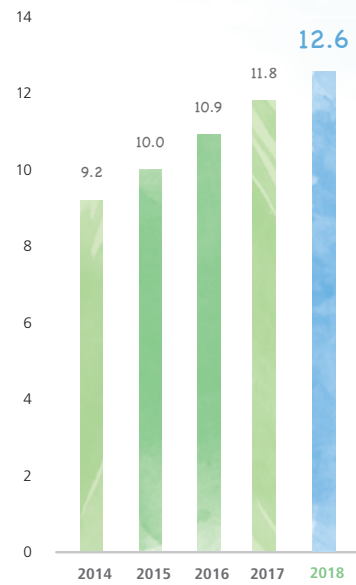
Revenue
(HK\$ Millions)



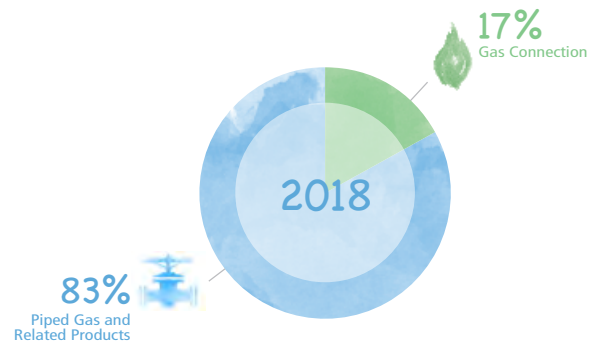
Profit Attributable to Shareholders of the Company
(HK\$ Millions)



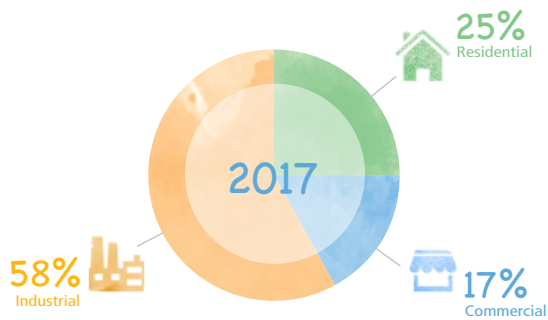
Number of Customers (All Entities)
(Millions)



Analysis of Revenue



Percentage of Gas Volume by Customer Mix (All Entities)



Chairman's Statement



Economic Landscape

In 2018, the global economy saw sustained and moderate growth, though with less momentum. The economy of the United States (the "US") delivered a better-than-expected performance. As the US Federal Reserve continued to raise interest rates, emerging market currencies experienced varying degrees of exchange rate volatility while the depreciation of the Renminbi faced greater pressures during the second half of the year. At the same time, the Sino-US trade dispute has given rise to continuing uncertainty over China's economic growth prospects in 2018. To stabilise economic growth, a number of government policies were implemented. This included lowering the value-added tax (VAT) rate on major commodities and services by 1%, amending the Individual Income Tax Law, cutting the reserve requirement ratio four times, as well as promulgating certain targeted policies to facilitate the economic development of non-public sectors and relieve operating pressures faced by private enterprises. The Central Government is also placing significant emphasis on the importance of providing greater support with strong fiscal policies, together with substantial tax cuts and fee deductions. These macro-policies have played a significant role in improving business sentiment in mainland China, helping to restore corporate investment confidence while also increasing national disposable income and spurring growth in domestic consumption. In 2018, the economy maintained a growth of 6.6%.



Market Prospects for Natural Gas Business

2018 marked a critical year for China as the country worked towards its goal to “build a prosperous society in all respects”. Introducing and implementing anti-pollution measures is also seen as a key strategy to achieve this goal. The Chinese government released a “Three-Year Action Plan to Win the Battle for a Blue Sky”. Under this initiative, the aim is to ensure that by 2020, the percentage of days with good air quality in prefecture-level cities or above must reach 80% annually. At the same time, the number of pilot cities under the central-funded “Plan for Clean Heating in Winter in Northern Areas (2017-2021)” increased from “2+26” to “2+38”. To improve gas storage capacities, the National Development and Reform Commission (“NDRC”) also issued policies stipulating that the gas storage capacity of upstream gas suppliers and urban gas companies must reach 10% and 5% of the annual contract gas volume respectively. Gas storage capacities of local governments must also reach the three-day gas consumption level of their administrative divisions. Additionally, policies on the construction of local gas storage facilities were successively issued in provincial regions such as Jiangsu, Shandong, Sichuan and Henan.

Chairman's Statement

In August 2018, the State Council issued "Several Opinions on Promoting the Coordinated and Stable Development of Natural Gas", stating that the output of domestic natural gas is expected to rise to 200 billion cubic metres or more by 2020. Further policies are being launched, seeking to strengthen interconnect systems between the nation's various natural gas trunk pipelines; open up facilities to third-party markets in a fair manner; introduce differential seasonal prices and suspend gas supply contracts with variable pricing; These initiatives will enhance the stability of natural gas supplies, strike a reasonable balance between supply and demand and encourage the greater use of natural gas, a clean source of energy, among end uses. With the help of these measures, the natural gas industry in mainland China is set to enter a new stage of both sustainable and rapid development.

Reforms in the Marketisation of Natural Gas

In May 2018, the NDRC issued the "Circular on Adjusting Residential City-Gate Natural Gas Prices", under which the gate station prices of residential and non-residential piped gas are centrally managed for greater alignment. Regulations on price adjustments for end users were therefore formulated and price-linked policies for residential users have been successively issued in Shaanxi, Hubei, Shandong and Guangdong together with other provinces and municipalities in the country. Rationalisation of residential gate station prices is seen as crucial to the marketisation reforms of natural gas, and will be conducive to the development of the entire natural gas industry chain in the long term. The Group is keeping abreast of the latest developments in these pricing reforms, ensuring that we will formulate corresponding strategies in a timely manner.

Business Outlook

China is dedicated to implementing environmental protection policies and expanding the use of clean energy. Under this backdrop, the Group is working to seize every opportunity as we tap market potential, promote innovative development and achieve stable business growth.

In the industrial and commercial markets, the Group will actively coordinate efforts to maximise our growth. With the gradual implementation of clean energy improvement projects based on natural gas supply as the country is continuing on its road to "gas conversion" with increasing numbers of coal-fired furnaces being converted through "expanding geographic outreach and capacity" in key regions. At the same time, the Group is leveraging advanced energy-saving technologies to improve energy efficiencies and reduce overall energy costs for customers, so as to encourage the "coal to natural gas" boiler (furnace) conversion of industrial and commercial customers. Riding on the benefits of this encouraging environment, the Group strives to achieve our business development goals and are committed to making every possible contribution to improving the quality of life for the general public and the overall environment.

As for the residential market and our extended business, the promotion and application of Bauhinia safety gas appliances entered a new stage. With customers leaning towards ever more sophisticated and safe gas appliances, Bauhinia recorded outstanding sales performances, and the Group has also improved its safety performance significantly. Mia Cucina, our upmarket and stylish kitchen cabinets maintained steady business revenues while our gas dryers and residential household heating installations recorded ongoing growth. Towngas Lifestyle's online customer centre, Virtual Customer Centre (VCC) served 36 project companies covering more than 5 million users with the number of registered members also exceeding 1.3 million. This online customer centre not only provides more convenient and efficient internet services, it also lays solid foundations for offering more diversified and value-added services for over 12 million customers.

Operating under the Group's subsidiary, Towngas China Energy Investment Limited ("TCEI"), our distributed energy business is thriving. In conjunction with Tsinghua University, TCEI jointly established a research and development centre in December 2018 with a view to promoting cooperation in the integrated energy field and pushing forward the development of distributed energy projects in the country. We are also exploring emerging energy business development models such as micro-grids, additional grids and energy storage initiatives, as we work towards providing clean and environmentally friendly integrated energy services.

The first phase of construction of the underground salt-cavern gas storage project in Jintan city, Jiangsu province, owned by The Hong Kong and China Gas Company Limited ("HKCG"), the Group's parent company, has been completed. Commencing operations in October 2018, it will replenish natural gas supply during peak consumption periods in winter, easing pressures and ensuring adequate supplies in the cold weather. The contract of the second phase of the project was also officially signed in November 2018. By 2023, the total gas storage and working gas storage capacities of this facility is expected to amount to 1,000 million and 600 million cubic metres respectively. With these increasing gas storage capacities, our ability to provide gas safely will be further strengthened, securing our leading position in the industry as we satisfy government requirements with regard to gas storage capacities in urban areas. We are also actively engaged in strategic cooperations, working with upstream enterprises to secure additional gas sources. At the same time, in synergy with our gas storage operations, we are working on joint investment and construction projects with regard to liquefied natural gas ("LNG") receiving stations in the coastal areas of northern China, eastern China and southern China while also making advance plans for importing LNG. Lowering the cost of gas purchases and being able to adjust gas supplies during peak consumption periods will not only promote our further business development, but also allow us to meet our customers' needs more effectively.

Building on our values for "courtesy" and "craftsmanship", and riding on the successful implementation of our Total Quality Management (TQM) initiative, we continue to promote the spirit of "integrity" across the board and embrace our total commitment to quality service. We believe that these contributions to both the economy and society will help to promote social harmony and improve service quality, apart from also initiating innovative and advanced technology. Moving forward, China's market will be more open, placing greater emphasis on the improvement of the environment, balancing regional development and facilitating concerted development between the urban and rural areas. In turn, the Group will continue to focus on innovation and environmental-friendliness, moving with the times and exploring new business opportunities. Looking forward, we will ride on our advantages to overcome challenges and set new milestones for our ongoing business development.

Alfred Chan Wing-kin

Chairman

Hong Kong, 19 March 2019

Financial Review



In 2018, total gas sales volume of the Group grew strongly by **19%** to **10,004** million cubic metres.



Total number of customers

reached **12.63** million,
with **860,000** new customers.



Profit after taxation attributable to shareholders of the Company

amounted to HK\$ **1,224** million. Excluding the one-off gain of HK\$209 million contributed from the deemed partial disposal of interest in Foshan Gas Group Co., Ltd. ("Foshan Gas") upon its listing on Shenzhen Stock Exchange in 2017, profit after taxation attributable to shareholders of the Company increased 6% as compared to last year.



Basic earnings per share

amounted to HK **43.89** cents.



Revenue

Revenue from the sales of piped gas and related products increased 39% from HK\$6,996 million in 2017 to HK\$9,755 million in 2018. This growth was primarily attributable to the increase in the volume of gas sold and higher average gas sale prices. The total consolidated volume of gas sold during the year amounted to 3,046 million cubic metres, representing an increase of 29% compared to last year. In the gas connection business, income from connection fees for the year amounted to HK\$2,032 million, up 15% as compared to 2017, with approximately 430,000 consolidated new household connections being made in 2018.

Total Operating Expenses

Total operating expenses in 2018 amounted to HK\$10,190 million, an increase of 36% as compared to HK\$7,470 million in 2017. The increase was mainly due to the Group's business development together with inflation. The cost of gas fuel, stores and materials used amounted to HK\$8,099 million, while that was HK\$5,552 million in 2017. 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 6% and 13%, respectively. At the same time, an increase of HK\$66 million in overheads was due to the inclusion of new subsidiaries in 2018.

Finance Costs

Finance costs in 2018 amounted to HK\$315 million, a rise of 20% as compared to 2017. This rise in finance costs reflected the increase in loans mainly due to the acquisition and set-up of new projects and business development.

Equity Instruments at Fair Value through Other Comprehensive Income ("FVTOCI")

Equity instruments at fair value through other comprehensive income mainly consisted of the Group's investment in Chengdu Gas Group Corporation Ltd. ("Chengdu Gas") and Nanjing Public Utilities Development Co., Ltd. ("Nanjing Public"), which contributed dividends to the Group during the year. Chengdu Gas and Nanjing Public were stated at fair value and the fair value change was recognised to other comprehensive income ("OCI") 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 2018, the Group's bank loans and other loans amounted to HK\$9,504 million, of which HK\$2,784 million represented bank loans and other loans due within 1 year, HK\$6,702 million represented bank loans and other loans due between 1 to 5 years, and HK\$18 million represented bank loans and other loans due over 5 years. Other than the HK\$3,624 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 loss of HK\$231 million caused by the fluctuations of Renminbi exchange rate in 2018. The Group's borrowings denominated in Renminbi amounted to HK\$5,077 million and the remaining HK\$4,427 million borrowings were denominated mainly in Hong Kong dollars and United States dollars as at the end of the year. Cross currency swap contracts, cross currency interest rate swaps contracts and foreign currency forward contracts were made to hedge foreign currency risk for most of non-Renminbi denominated bank loans so as to reduce risk arising from fluctuations of Renminbi. Apart from the borrowings as mentioned above, the Group also has Renminbi short-term loans amounting to HK\$25 million from joint ventures on a fixed interest rate basis. The gain resulting from change in fair value of other financial assets and liabilities in 2018 was HK\$13 million. As at 31 December 2018, 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 32.6%.

As at 31 December 2018, the Group's cash and cash equivalents together with time deposits amounted to HK\$1,668 million, of which 98% are Renminbi-denominated and the rest are denominated in Hong Kong dollars and United States dollars.

As at 31 December 2018, the Group's unutilised available facilities amounted to HK\$4,860 million.

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



Credit Ratings

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

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2018.

Final Dividend

The Board recommended the payment of a final dividend for the year ended 31 December 2018 of HK fifteen cents per share (2017: HK fifteen cents per share). The Board also proposed to offer a scrip dividend option to allow shareholders to elect to receive the final dividend wholly or partly in the form of new fully paid shares instead of in cash.



Review of Operations

Towngas China actively explored new business opportunities and continued to expand the footprint of our existing markets in 2018, thereby achieving major breakthroughs and gaining significant growth momentum for our future development. Up to the date of this Annual Report, our business portfolio grew to include 116 project companies comprising city gas supply, gas pipelines construction, the operation of vehicle gas refilling stations and the sale of household gas appliances as well as other extended businesses. The Group recorded a remarkable growth of 19% in total gas sale volumes, growing strongly to 10,004 million cubic metres, with the industrial and commercial sectors showing a significant increase to 7,626 million cubic metres, a surge of 21% compared to 2017.

China's "13th Five-Year Plan for Energy Development" proposes that the proportion of natural gas consumption should account for 10 per cent of the national primary energy consumed by 2020, increasing further to 15 per cent by 2030. In response to this national development strategy, we are actively developing environmentally friendly businesses while also pushing forward coal-to-gas conversion projects. A Sustainability Committee, consisting of Mr. Peter Wong Wai-yee, an Executive Director and the Chief Executive Officer of the Company, as well as other senior management members, was thus set up during the year to drive these goals and enhance corporate governance. The committee is responsible for advancing and monitoring the Group's sustainable development strategies which cover not only environmental protection issues, but also health and safety, business processes, community engagement as well as innovation and environmentally friendly activities that will both enhance business values and help to build sustainable communities.





HKCG is the country's first city-gas enterprise to build an underground salt-cavern gas storage, which has contributed to the Group's city-gas project companies' peak-shaving capacity since its commissioning in 2018.

HKCG became China's first city gas enterprise to construct an underground salt-cavern gas storage facility. The project is divided into three phases with a total investment of RMB1.2 billion and a total gas storage capacity of 1 billion cubic metres. The first phase of the project has been completed, with three wells constructed to provide a maximum daily gas capacity of 5 million cubic metres. The contract for the second phase of the project was also signed in November 2018. As urbanisation speeds up in China, there is an increase in the market demand for natural gas and Towngas China is no exception. Riding this wave, our construction of peak-shaving gas storage facilities will provide a continuous supply of clean energy by storing excess supply of natural gas which is relatively cheaper during the summer months to meet the demand of gas companies when gas prices are higher during the winter months, thereby benefiting the community and creating greater economic value for the Group.



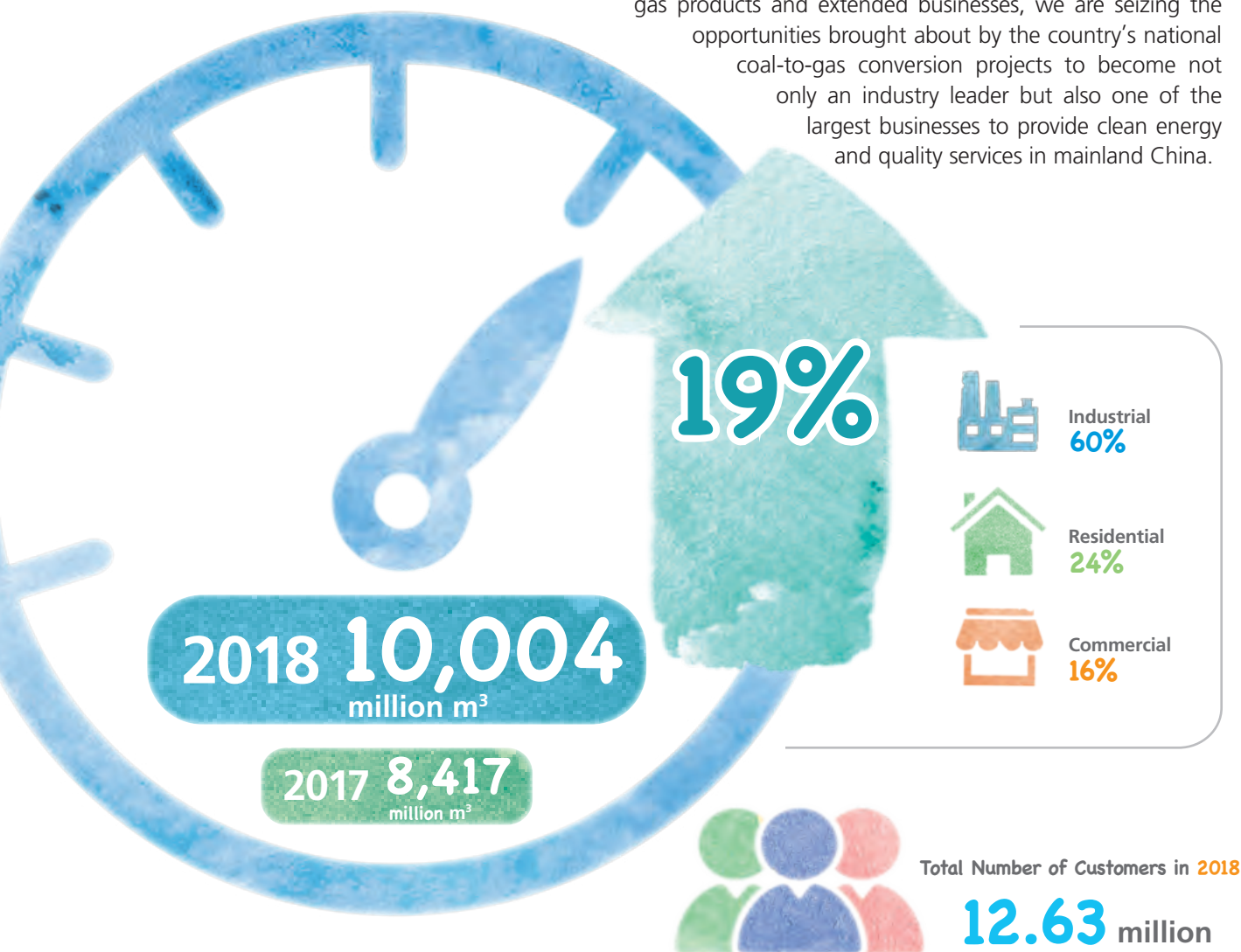
The Towngas Jintan Gas Storage makes use of large and safe salt caverns to store gas during periods of low gas usage. The stored gas makes for a reserve supply during peak periods, thereby ensuring peak-shaving capabilities.

Review of Operations

Sales of Piped Gas

In 2018, the Group's total piped gas sale volumes grew strongly by 19% to 10,004 million cubic metres. The total number of customers rose to 12.63 million, representing a year-on-year increase of 860,000 customers. In particular, industrial gas sales increased by 24% to 6,008 million cubic metres, accounting for 60% of total gas sales; commercial gas sales increased by 11% to 1,618 million cubic metres, representing 16% of total gas sales; and residential gas sales rose by 12% to 2,378 million cubic metres, accounting for 24% of total gas sales.

Cementing the solid foundations laid by our city gas business in mainland China, our business now spans 20 provinces, municipalities and autonomous regions, providing a reliable and stable supply of clean energy. Together with our ancillary gas products and extended businesses, we are seizing the opportunities brought about by the country's national coal-to-gas conversion projects to become not only an industry leader but also one of the largest businesses to provide clean energy and quality services in mainland China.





Development of New Projects

During the year, the Group launched two gas projects, a city gas project in Liujiang district, Liuzhou city in the Guangxi Zhuang autonomous region and a midstream natural gas pipeline network and city gate station project in Chiping county, Liaocheng city in Shandong province. The principal industrial activity in Liuzhou city is the manufacturing of automobile parts and components and mechanical equipment. This project is wholly owned by the Group. Being our third project in Guangxi, it will generate regional synergies with our other two piped gas projects in Guilin and Fusui (Zhongwei) in the province. The midstream natural gas pipeline network and city gate station project in Chiping county, Liaocheng city in Shandong province is our fourth midstream pipeline transmission project. Under this project, the “Jinan–Liaocheng” natural gas pipeline and Chiping South city gate station will be constructed. This new venture holds bright prospects for the future with its ample sources for natural gas supply. In addition, we launched a gas-related project to organise the centralised procurement of natural gas sources for the Group’s enterprises in 2018.

Apart from our focus on the gas business, we also continue to actively identify potential business opportunities for “distributed energy”. In addition to the two distributed energy projects established in the previous year, we added a total of eight new distributed energy projects during the year. These new businesses are located in Jiawang district, Xuzhou city in Jiangsu province; Jimo Chuangzhi new district, Qingdao city in Shandong province; the Yangxin Economic and Technological Development Zone of Binzhou city in Shandong province; Changchun city in Jilin province; Guilin city in the Guangxi Zhuang autonomous region; the Chengnan Economic Development Zone of Tangshan city in Hebei province; Boxing Economic Development Zone of Binzhou city in Shandong province and Xuzhou Biomedical Industrial Park in Jiangsu province. The natural gas consumption of these projects is expected to reach 400 million cubic metres in five years. They will also generate regional synergies with our adjacent gas projects in market exploitation and sources of gas supplies etc.

In addition, the Group had added one new distributed energy project at the beginning of 2019. The project is located in the South District of Maanshan Economic and Technological Development Zone in Anhui province, laying a solid foundation for the Group’s business development in 2019. This project is the first distributed energy project in Anhui province. It is an exemplary project for regional natural gas distributed energy and plays an active role to promote the development of distributed energy projects in Anhui province.

Review of Operations



Industrial and Commercial Markets

Issued by the International Energy Agency, the “Market Report Series: Gas 2018” forecast that global demand for natural gas will rise and China will become the world’s largest natural gas importer over the next five years as a result of the country’s economic development and policies to combat air pollution. At the same time, as industrial and commercial markets continue their boom, the industrial sector is set to take over from the power sector as the key growth driver for natural gas.

According to the “Opinions on Promoting Multi-functional, Complementary and Optimised Demonstration Projects” jointly issued by the National Development and Reform Commission and the National Energy Administration, plans are underway for approximately 50 per cent of the new industrial parks to adopt distributed energy systems and approximately 30 per cent of existing industrial parks to improve their energy efficiency by 2020. Thus, distributed energy systems have enormous potential for growth.

Distributed Energy

Distributed energy systems are highly energy efficient. They generate electricity with natural gas, a clean energy source, while using the residual heat and steam produced in the process for hot water supply and other purposes. As such, the application of distributed energy systems continues to expand. Within the Group, we have been actively investing in distributed energy projects since 2015, and many industrial and commercial parks, tourist resorts and various public facilities in mainland China are now equipped with these stable energy supply systems.

In 2018, we enhanced our investment in the distributed energy business with the launch of two new projects. One of these, located in Guilin in the Guangxi Zhuang autonomous region, is our first collaborative project with a biotechnology enterprise. In addition to distributed energy systems, we also harvest landfill gas generated from sewage and other waste matter, with nearly 30 per cent of the gas collected being used to produce energy. This project has realised our goal to convert waste into energy.

Inaugurated last year, TCEI functions as our wholly owned comprehensive energy project investment platform in mainland China. It is principally engaged in the investment and establishment of distributed energy projects. In 2018, TCEI achieved a breakthrough with the establishment of projects in northern, eastern as well as southern China. We expect more projects to be set up in the future which will further increase our market share in this rapidly expanding sector.



The Group’s industrial and commercial customers come from a range of industries, including the pictured biotech customer from Guilin city, Guangxi Zhuang autonomous region, which uses natural gas-powered steam boilers that are more environmentally friendly and energy efficient than traditional coal-powered ones.





Coal-to-Gas Conversion Projects

The "Three-Year Action Plan to Win the Battle for a Blue Sky" endorsed by the State Council of the People's Republic of China (the "PRC") in 2018 reiterates the country's determination to drive coal-to-gas conversions, as the country works to raise the proportion of natural gas within the total amount of energy consumed to reach its goal. Therefore, in 2018 we encouraged our customers to use boilers driven by natural gas instead of coal as the latter generates a higher degree of pollution, resulting in a total of 4,450 tonnes of new and modified boilers. Our coal-to-gas boiler conversion projects have contributed to the annual sale of more than 1,200 million cubic metres of gas since 2015. These conversion projects also achieved a year-on-year increase of 56 per cent in gas sales in 2018.



To improve air quality, the State Council of the People's Republic of China announced the "Three-Year Action Plan to Win the Battle for a Blue Sky", which reiterated China's commitment to coal-to-gas measures.



The Group encourages its customers to make the switch from coal to gas. One of our customers in Songyang county, Lishui city, Zhejiang province has modified their furnace to heat stainless steel pipes, which reduces fuel and energy costs while reducing the impact on the environment.



Review of Operations

Industrial and Commercial Applications

In terms of industrial and commercial applications, our project companies play a proactive role, not only selling natural gas to customers, but also installing water heating systems and large-scale gas dryers according to their business needs. These services served to boost our gas sales and cater to the needs of customers.

For instance, in regards to commercial natural gas water heating systems, we installed over 300 water heaters for commercial customers ranging from hotels to schools to residential apartments in 2018. Prospects are highly positive and we expect to expand the range of applications even further in the coming year. Providing a more cost-effective solution for our customers, we not only install the relevant equipment or systems, but also provide after-sales services in the areas of purchase, installation, use and maintenance of the equipment.



Through a range of services ranging from equipment installation to gas supply, the Group provides hotels, schools, households and more with quality, low-energy consumption hot water supply.



Small and Medium-sized Food Outlets

Capitalising on our forward-looking development strategies and steady gas supply, we are not only cementing our leadership in the small and medium-sized catering market, but also gaining the support of the local governments and the trust of our customers. In 2018, we gained more than 10,000 catering customers. We anticipate that the contribution of this sector to our gas sales will continue to increase with our ever-widening customer base.



Gas sales to small and medium-sized food outlets are expected to increase.



Residential Market

During the year, the gas sold to the residential market accounted for 24 per cent of our total gas sales in 2018. By the end of 2018, we have 151 customer centres across the country, with nine new centres set up during the year.

We have promoted our “Three Courtesies” culture – manners, etiquette and politeness – since 2015, encouraging employees to be courteous and helpful at all times. As this promotion has proven to be extremely successful within the Group, we expanded the initiative in 2018, motivating our employees to promote the “Three Courtesies” outside of work, in a bid to create a happier and more harmonious community.

The “Flying Dandelion Programme” aims to provide training for the Group’s internal trainers who will then share the Group’s quality service values with our frontline staff. By the end of 2018, a total of 43 internal trainers had participated in the programme, while a total of 134 training sessions were held for frontline staff during the year. More than 6,600 members of our team, including customer service staff, on-site inspectors, repairmen and “Three Courtesies” Smiling Service Ambassadors attended these sessions, thereby improving our overall service standards.



In order to increase the number of communication channels with our customers, the Group has launched nine customer centres during the year, making up a total of 151 centres across the country.



Review of Operations

Bauhinia Gas Appliances

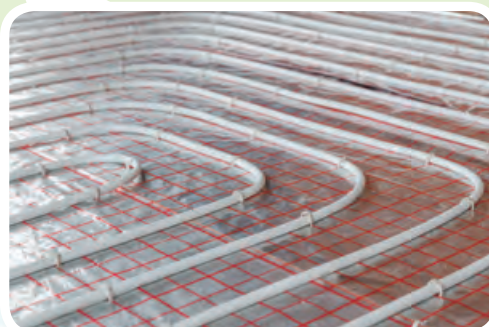
Ever since our expansion into the mainland market, we have been known for our stringent quality control and product safety. Building on this sterling reputation as well as our broad residential customer base, we launched our proprietary gas appliance brand, Bauhinia, in 2005, with a variety of gas appliance products. Since then, we have won a significant share of the downstream gas appliance market, in addition to benefitting from expanding commercial opportunities. Over the past 13 years, Bauhinia has built a reputation as both a quality and leading brand, with a comprehensive catalogue of products ranging from gas heating appliances and cooking stoves to gas dryers, as we cater to customers' various needs.

Gas Heating Appliances

Benefitting from the country's new energy and environmental protection policies, residential heating systems are increasingly commonplace, bringing further growth momentum to the residential market. A total of 18,900 combi boiler units were sold in 2018, representing a year-on-year increase of 26 per cent. During the year, Bauhinia also launched four fashionable premix condensing heating appliances which can fully utilise the heat and potential heat released from the condensation of steam and flue gas to avoid wastage resulting from heat loss. The new product can cover a heating area of up to 280 square metres, satisfying the needs of customers with various home sizes.



As household heating systems become more popular, we expect to see a growth in the household market.





Gas Dryers

With growing consumption and improvements in the quality of life in mainland China, Bauhinia sold more than 13,000 gas dryers in 2018, representing a year-on-year increase of 70 per cent. Bauhinia's gas dryers have four major advantages: they dry laundry efficiently, can handle large volumes, and are extremely hygienic and gentle on fabric.

Gas dryers take only 45 to 60 minutes to finish a drying cycle, which is three times faster than traditional dryers. They can dry up to six kilograms of laundry in one load, including heavy coats and large blankets. The drying temperature can be set as high as 70 degree Celsius, providing greater sanitisation while the acaricidal rate, which measures tick and mite elimination, can reach up to 100 per cent. And, with its humidity sensors, drying temperatures are adjusted based on the dampness of the clothes to make clothes softer. Looking forward, Bauhinia is targeting three areas – eastern, southwestern and southern China, to promote the advantages of our gas dryers and make our products better known to more families.



Launched in 2018, the Group's gas dryer sales have risen by 70% to reach over 13,000 units.

Gas Cooking Stoves

With their safety flameout protection devices, Bauhinia's gas cooking stoves passed the national quality inspection department's quality check with flying colours, proving them a safe choice for every family kitchen. During the year, we sold more than 96,000 built-in hobs. We will continue our research into both our customers' cooking habits and the latest technology to develop more quality and efficient products for our users.



The Group sold over 96,000 built-in hobs over the year.



Review of Operations



Extended Services

Towngas Lifestyle

Towngas Lifestyle, our multi-functional internet service platform, has provided our customers with a wide range of accessory gas products and services over the years. Since the launch of our online customer centre Virtual Customer Centre (VCC) platform, in 2016, Towngas Lifestyle has accumulated an extensive and stable customer base as a result of our multi-pronged promotion strategies as well as its convenience and efficiency.



The Group's customer service platform offers online self-service for customers to manage their gas accounts anytime, anywhere.

Virtual Customer Centre (VCC) Platform

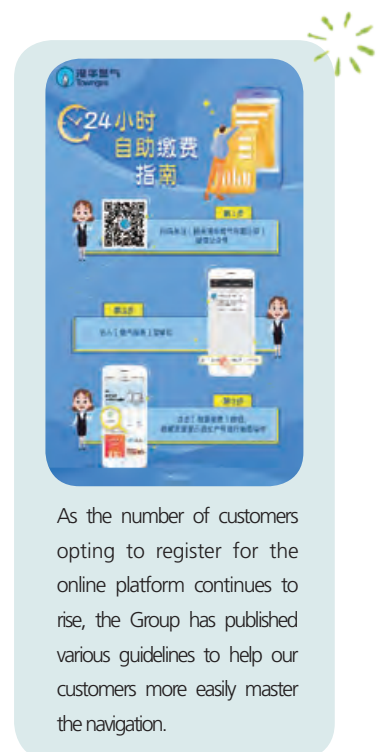
The upgrade of our VCC platform in 2017 as well as the addition of 18 project companies has resulted in a great improvement in our efficiency as well as a reduction in operation costs. In 2018, the number of project companies making use of this VCC platform continued to rise, with 18 additional enterprises offering this platform.

By the end of 2018, the platform had over 5 million users and more than 1.3 million registered users. Online payments and credit refill transactions made by customers on the platform amounted to over RMB250 million. This figure not only marks the high level of traffic on the platform, it also denotes a growing trend as the platform increasingly becomes a major channel for our customers to manage their gas services.

Towngas Lifestyle Membership Scheme

We first introduced the Towngas Lifestyle Membership Scheme last year. Designed exclusively for Towngas Lifestyle customers, it was launched to strengthen our connection with them through both activities and point redemptions. In 2018, the total number of Towngas Lifestyle members reached over 3.5 million. In 2019, we will focus on enriching the content of the scheme. A major initiative will be the launch of a bonus points system under a harmonious family theme so that membership will not be limited to parents only, which helps to boost parent-child interaction through our Towngas Lifestyle platform.

At the same time, we will adopt the new digital trend to use big data to construct an analytic platform that builds on our customers' online and offline information. We will then enhance our system using this information based on customers' identities and behavioural preferences to better understand consumer habits and preferences.



As the number of customers opting to register for the online platform continues to rise, the Group has published various guidelines to help our customers more easily master the navigation.

Mia Cucina

As people's quality of life improves, the kitchen is no longer just a small corner for cooking. It now plays an important role, providing a household space that demonstrates and complements individual lifestyles and quality standards of living. Our kitchen cabinet brand Mia Cucina was specifically designed to meet the needs of such discerning customers. Providing total kitchen solutions ranging from the design of cabinets to top-of-the-line gas appliances, the brand's concept is to tailor-make kitchen solutions to suit the different needs of each household. Reflecting this philosophy, the brand is named Mia Cucina, meaning "My Kitchen" in Italian.

To allow every household to make the most of their kitchen space, Mia Cucina provides one-stop services, from on-site consultation and measurement, design and improvement, to the ordering and installation of cabinets and appliances. As we pay special attention to the quality of our kitchen cabinets, all our products are made with top quality European materials. Similarly, all accessories are carefully selected to improve function as well as to provide greater flexibility and convenience to users.

Looking forward, we are planning to introduce a series of professional gas appliances of the best quality and durability within the industry. We will also seek to work with real estate developers to provide a complete series of kitchen cabinets and gas appliances in newly constructed, modern and well-decorated apartments.



Mia Cucina cabinets fuse modern aesthetics with simple designs to make its mark in the middle-class and discerning market. The Group will launch more collaborations with property developers to offer one-stop product sales, design, sourcing and installation services to new buildings.

Review of Operations

Safety and Risk Management

Building on our stringent safety practices, we have implemented the “Safe Practice Underlies All Practice” motto and concept. Production safety and environmental protection are strongly emphasised and we are committed to implementing positive and innovative measures while ensuring that our safety indicators remain the leading industry standard. In 2018, we conducted 12 general manager safety inspections and two crosschecks among general managers to enhance safety and risk management performance, while also reducing operational risks for our project companies.

We held our first “Safety Year” campaign in 2008 and, over the years, have implemented the principle of “Safety First” into every aspect of our operations and services. In 2018, the Company’s Chairman and Executive Director, Mr. Alfred Chan Wing-kin and Executive Director and Chief Executive Officer, Mr. Peter Wong Wai-ye, led members of the Safety Committee and the rest of the management team in a massive safety inspection exercise under the theme “Boosting Safety Confidence” in the provinces of Anhui and Jiangxi as well as southwestern China. Safety conditions in every aspect of our business, from residential gas to construction and energy production sites, were inspected to nip any danger in the bud.



Under the leadership of Mr. Peter Wong Wai-ye, Executive Director and Chief Executive Officer of Towngas China, the Group’s Safety Committee members and relevant regional general managers have launched annual safety checks for cross-area in-depth investigation.



In support of China’s “Safe Production Month” initiative, the Group has held the Safety Walk and invited our project companies from across the country to take part, including the Maanshan Bowang Hong Kong & China Gas Co., Ltd. team pictured here.

In mid-2018, in response to the nationwide “Safe Production Month” initiative, our project companies across the country gathered together to hold our second “Safety Walk” under the Group’s “Walk Thousands of Miles, Boost Confidence and Promote Three Courtesies” umbrella theme. With 114 of our public utility companies in mainland China as well as our parent company, HKCG, taking part, a total of almost 12,000 people joined in this exercise. Some of our companies also invited the local authorities, family members of employees and business partners to join in, further promoting our safety culture to the rest of the community.



Engineering Quality Management

Towngas China works closely with local governments to ensure gas supply safety and reliability. A major effort is the active replacement of grey cast iron pipelines with polyethylene (PE) pipelines, which offer better performance and greater resistance to corrosion. By the end of 2018, we had completed the renovation of 2,642 kilometres of pipelines in our network, with a total of 91 kilometres being completed during the year. The cumulative renovation rate stands at 98.1 per cent, with only 50 kilometres of pipelines left to be replaced.

When planning and constructing high-pressure pipelines, we conduct a series of advance assessments. These include geological and environmental evaluation as well as soil and water conservation, on the construction sites and the vicinity, to ensure that the general environment is suitable for construction. Also committed to workers' occupational safety and health, a range of engineering equipment developed and modified by HKCG staff were introduced during the year. This equipment not only decreases the risk of injury for our engineering technicians during construction, but also reduces the physical strain on employees carrying out their duties.

During the year, we took a pioneering role once again when we introduced the use of professionally trained dogs to detect gas leakages in the northeastern regions. This innovative move, a first in the region, will help to reduce the potential risk of gas accidents as it leverages the dogs' keen sense of smell. We will be training more dogs to carry out this work to serve other business regions in the future.



In order to enhance occupational safety, the Group has launched a new robotic arm that can shoulder 20 kg. Workers can attach the jackhammer onto it to alleviate pressure.



The Group introduced innovative tools designed by our colleagues throughout 2018, including the pictured electric and pneumatic mud suction dredger that cleans up sand and stones to reduce the necessary time for emergency maintenance.



Review of Operations



Human Resources

In an environment where businesses scramble to seek and keep talent, Towngas China continues to implement a people-oriented development strategy. In addition to formulating and improving training to meet the needs of our employees at all levels, we also provide competitive employee welfare benefits to retain and motivate our talent. As such, we are pleased to report that the staff turnover rate during the year was at a low of about 3 per cent.

We have always regarded our people as the most valuable asset of the Group. We believe that unleashing their inherent potential promotes the parallel growth of both ourselves and our employees. We thus launched the Talent Ladder Scheme which seeks out outstanding employees every year and places them in a training programme which covers basic as well as middle and high management levels to provide a continuous supply of management talent for the Group's long-term development. In addition to participating in various key development projects, the selected employees will also gain the opportunity to be assigned to different positions after the completion of their training. By the end of 2018, 64 scheme members had worked in a total of 124 positions, broadening their knowledge and experience for our long-term development.



The education centre coorganised by the Group and the University of Science and Technology Liaoning has begun operations and confirmed collaborations on production, teaching and research. Ms. Kit Fan Kit-yee, HKCG's Head of Corporate Human Resources (left) has unveiled the centre together with Mr. Zhang Zhiqiang, Principal of the University of Science and Technology Liaoning.



Through the Talent Ladder Scheme, the Group has recruited entry-level as well as middle to senior managerial talent for theory, practicum and outreach training.

The annually held "Superior Quality Service" (SQS) scheme further encourages everyone from different departments to work together to maximise their creativity and propose improvements across our operations, procedures and practices. Our Research and Development of New Gas Flowmeter Temperature Detector, which won first prize in 2018, serves as a prime example. This newly designed temperature detector reduces the temperature deviation sometimes seen in our more traditional equipment, thus improving the accuracy of gas usage measurements. As at the end of 2018, thousands of employees have participated in SQS, resulting in proposals for thousands of improvement plans. Costs saved by these proposals are expected to amount to hundreds of millions of RMB for the Group.





Corporate Social Responsibility

We attach great importance to corporate social responsibility and are also committed to becoming a green business pioneer. As a public utility, we not only supply safe and reliable energy to customers, but also provide caring and competent services. At the same time, we make every effort to contribute to the environment and strive to give back to the community through the implementation of various community-focused projects. We also advocate low-carbon living, driving this message home through various environmental protection activities and themes. In view of this dedicated commitment, our charity projects have won wide recognition from the community and we have also received positive feedback from employees' families, partners and social welfare organisations.

Gentle Breeze Movement

In 2013, we launched the "Gentle Breeze Movement" programme, embracing every household like a wafting breeze. More than mere suppliers of clean energy, we seek to help the disadvantaged and improve their quality of life. In 2018, the Gentle Breeze Movement carried out activities in Baotou city in the Inner Mongolia autonomous region and Changting county in Fujian province. These included renovating classroom buildings and the dormitories of local schools, as well as donating libraries and school supplies to local campuses.

Since the inception of the "Gentle Breeze Movement" six years ago, HKCG and the Group have donated more than RMB3.5 million in total, aiding 37 schools located in Jiangxi, Anhui, Jiangsu, Shandong, Guizhou, Liaoning and Sichuan provinces in the improvement of their teaching environment.



On 30 May 2018, the Towngas "Gentle Breeze Movement" team arrived at the Xincheng Primary School, Guyang county, Baotou city, Inner Mongolia autonomous region and brought with them brand-new teaching materials. Through refurbishing the dormitories and building the Towngas China Charity Library, the team helped improve the students' learning environment.



Review of Operations

Firefly Project

A seventh Firefly Centre was established in 2018 at Yumaihong Primary School in Luliang county, Yunnan province. We donated a multi-media classroom equipped with brand-new computers, desks and chairs, and other facilities to enhance the learning environment. Since becoming a partner of the "Shanghai Soong Ching Ling Foundation – BEA Charity Fund" in 2009, we have established seven Firefly Centres in Sichuan, Shandong, Zhejiang, Anhui and Yunnan provinces through the Firefly Project, providing assistance to resource-deprived regions and promoting the comprehensive development of the next generation.



The Group joined hands with the Shanghai Soong Ching Ling Foundation – BEA Charity Fund to provide students and teachers with brand-new computers, desks, chairs and learning equipment.

Towngas China Environmentalism

With a focus on innovation and environmental-friendliness, we host activities every year with a view to encouraging our employees to protect and improve their environment. During the year, we launched the "Low-Carbon Life" programme together with four different initiatives – "Towngas China Plantation Day", "Earth Hour", "Tips on Clothing, Food, Living and Travel", and "Call for Low-Carbon Innovation". Nearly 80 project companies worked together to spread the message of a healthy low-carbon lifestyle and strengthen the sense of responsibility in their respective communities and the general public to maintain a balanced ecology and protect the environment.



Staff from Tongxiang city, Zhejiang province took part in the "Low-Carbon Life" activities organised by the Group, during which they used cycling as a means of transportation in a bid to contribute towards building a carbon-free city.

Rice Dumplings for the Community

We continued to hold our popular charity event "Rice Dumplings for the Community" in 2018. More than 60 of our project companies and some 1,100 Towngas China volunteers took part in the event, helping to prepare over 30,000 rice dumplings for the underprivileged across the country.



Long-Term Development Strategy

With an annual gross domestic product growth of 6.6 per cent, the Chinese market witnessed moderate to high growth in 2018. This market expectation-meeting economic development along with the positive impact of the country's environmental-protection policies and the high prices of alternative energy resulted in double-digit growth in natural gas consumption in 2018 as well as the year before, giving our businesses a major boost.

At Towngas China, we make every effort to align ourselves with national environmental-protection policies. As a pioneer and substantial investor in distributed energy for commercial and industrial use and "coal-to-gas" conversion projects, our forward-looking development strategy has started to bear fruit, laying solid foundations for our sustainable and onward growth in the commercial and industrial sectors. We will continue to embrace every opportunity to identify future environmentally friendly projects that will provide both investors and shareholders with value-added returns in their best interest.

Riding on the valuable experience of our parent company, HKCG, which has been running a public utility business for over 150 years, the Group has ventured into developing gas markets in mainland China, while successfully accumulating a huge residential customer base through our safe and stable gas supply. Going forward, we will continue to focus on innovative ideas, particularly in the fields of research and development for quality ancillary gas products and other gas-related extended businesses, to offer one-stop gas solutions to our customers. Furthermore, as the era of big data arrives, we will make better use of electronic platforms such as online customer centres to strengthen our ties with both our customers and our stakeholders.

Awards and Accolades

In 2018, Mr. Alfred Chan Wing-kin, Chairman and Executive Director of the Company, was once again named one of "The 100 Best-Performing CEOs in the World" by Harvard Business Review in recognition of his leadership, the Group's accomplishments and contributions to environmental, social and governance issues both in Hong Kong and mainland China. Mr. Chan is the first corporate management personnel in Hong Kong to have received the distinguished accolade for the past four years consecutively.

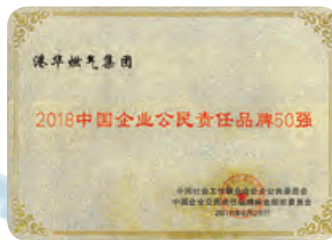


Major corporate social responsibility awards received by the Group during the year include:



Green Exemplar Award of the 7th China Charity Festival

Organising Committee of the 7th China Charity Festival



Top 50 Responsible Brands in Corporate Citizenship in China 2018

Corporate Citizenship Committee of China Association of Social Workers, CCTV, Tencent Charity Foundation



Best CSR Brand

Organising Committee of the CSR China Education Awards



Outstanding Charity Project of Corporate Citizens in China 2018 (Gentle Breeze Movement)

Corporate Citizenship Committee of China Association of Social Workers, Organising Committee of the Annual Conference of Outstanding Corporate Citizens



Five-Star Outstanding Corporate Citizen in China 2018

Corporate Citizenship Committee of China Association of Social Workers, Organising Committee of the Annual Conference of Outstanding Corporate Citizens

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 63 to 66.

Business Environment

In 2018, the global economy continued to strengthen despite heightened risk in the business environment. Key risks to economic growth include the build-up of trade tensions among major economies, increasing geopolitical tensions, greater uncertainty about the direction in which monetary policy adjustments in the developed economies are headed, and high and rising levels of debt in both developed and developing countries. Any of these factors have the potential to affect recent improvements in the global economy.

In mainland China, the economy grew 6.6 per cent in 2018, lower than the 6.9 per cent in 2017. Driven by the strict environmental regulations and enforcement of the government's coal-to-gas policy, natural gas consumption grew significantly in 2018.

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

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

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 broaden our access to LNG, we are continuing to evaluate the feasibility of developing LNG receiving and regasification terminal in the coastal regions which will enable us to have access to a range of competitive LNG supplies directly from the international market and help minimise supply risks. Besides, LNG storage facilities are in place to facilitate more efficient gas inventory management and reduce supply bottlenecks during high-demand periods.

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

Distribution Network Safety

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

Towngas China conducts regular reviews of all operating procedures to mitigate these risks, and implements targeted strategies for addressing them. Our Total Quality Management (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.

Ethics and Integrity

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

Health and Safety

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

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

Board of Directors



James
Kwan Yuk-choi

Martin
Kee Wai-ngai

Alfred
Chan Wing-kin

Peter
Wong Wai-yee

Moses
Cheng Mo-chi

John
Ho Hon-ming

Brian David
Li Man-bun

Mr. Alfred Chan Wing-kin, *B.B.S., Hon.F.E.I., Hon.F.I.I.U.S., C.Eng., F.H.K.I.E., F.I.Mech.E., F.I.G.E.M., M.Sc.(Eng), B.Sc.(Eng)*, aged 68, 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. In addition, he is a Member of the Board of Stewards of The Education University of Hong Kong Foundation. Mr. Chan received the Executive Award under the DHL/SCMP Hong Kong Business Awards 2005, the Director of the Year Awards – Listed Companies (SEHK – Hang Seng Index Constituents) Executive Directors from The Hong Kong Institute of Directors in 2006, the Leadership Award in Gas Industry Award 2015 from the Institution of Gas Engineers & Managers and the Energy and Utilities Alliance of the United Kingdom, “The CEO of the Year 2017” Award from China Newsweek in 2017 and was named consecutively as one of “The 100 Best-Performing CEOs in the World” by Harvard Business Review from 2015 to 2018. He was awarded an Honorary Fellowship by The Hong Kong Institute of Education (now known as The Education University of Hong Kong) in 2016. Mr. Chan, a Chartered Engineer, is also Honorary Fellow of the Energy Institute of the United Kingdom, Fellow of The Hong Kong Institution of Engineers; Fellow of The Institution of Mechanical Engineers, Fellow of the Institution of Gas Engineers & Managers of the United Kingdom and Honorary Fellow of International Institute of Utility Specialists.

Mr. Peter Wong Wai-ye, *C.P.A.(CANADA), C.M.A., C.P.A.(H.K.), A.C.I.S., A.C.S., F.I.G.E.M., F.H.K.I.o.D., M.B.A.*, aged 67, has been an Executive Director and the Chief Executive Officer of the Company since March 2007. Mr. Wong is also an Executive Director and Chief Operating Officer of the Utilities Business of HKCG (a listed public company and the controlling shareholder of the Company). Mr. Wong also holds directorships in various subsidiaries of HKCG. He is 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 is a Member of the Mainland Business Advisory Committee of the Hong Kong Trade Development Council. Mr. Wong was named consecutively as one of "The Best CEO of Chinese Listed Companies" by Forbes in 2012 and 2013. He is a chartered professional accountant of Canada, a certified public accountant of Hong Kong and a chartered company secretary both in Hong Kong and the United Kingdom. Mr. Wong is a Fellow of the Institution of Gas Engineers & Managers of the United Kingdom. He completed the Advanced Management Program from Harvard Business School in the United States. Mr. Wong was formerly a director of the Certified Management Accountants Society of British Columbia, Canada and the president of its Hong Kong branch. 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 42 years of experience in corporate finance, management and international working experience.

Mr. John Ho Hon-ming, *F.C.A., F.C.P.A., F.H.K.I.o.D., B.A.(Hons.)*, aged 62, 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, a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Hong Kong Institute of Directors. Mr. Ho graduated from the University of Manchester in the United Kingdom with an honorable Bachelor of Arts degree in Economics and Social Studies (Accounting and Finance). He completed the Advanced Management Program from Harvard Business School in the United States, the Senior Executive Program offered by Harvard Business School, Tsinghua University School of Economics and Management and China Europe International Business School, and the Chief Executive Program from Singapore Institute of Management. Mr. Ho has over 40 years of experience in accounting, corporate finance and investments.

Mr. Martin Kee Wai-ngai, *C.Eng., M.I.G.E.M., M.B.A., B.Sc.(Eng)*, aged 52, 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.

Board of Directors

Dr. Moses Cheng Mo-chi, *GBM, GBS, OBE, JP*, aged 69, has been an Independent Non-Executive Director of the Company since May 2007 and is the Chairman of the Remuneration Committee and a member of the Board Audit and Risk Committee and the Nomination Committee of the Company. He is also an independent non-executive director of HKCG (a listed public company and the controlling shareholder of the Company). Dr. Cheng is a practising solicitor and the consultant of Messrs. P.C. Woo & Co. after serving as its senior partner from 1994 to 2015. Dr. Cheng was a member of the Legislative Council of Hong Kong. He is the founder chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. Dr. Cheng is now also serving as Chairman of the Insurance Authority. 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. Brian David Li Man-bun, *JP, FCA, MBA, MA (Cantab)*, aged 44, 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 Member of the Chief Executive’s Council of Advisers on Innovation & Strategic Development of the Government of the Hong Kong Special Administrative Region, a Council Member of the Hong Kong Trade Development Council, a Director of the Financial Services Development Council, Chairman of the Traffic Accident Victims Assistance Advisory Committee, a member of the Aviation Development and Three-runway System Advisory Committee, a member of the Hong Kong-Europe Business Council and a member of the Hongkong-Japan Business Co-operation Committee. He is also a Vice Chairman of the Asian Financial Cooperation Association and a member of the Financial Consulting Committee for Authority of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen. Mr. Li is a Fellow of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in English and Wales. He is also a Full Member of the Treasury Markets Association. Mr. Li holds an MBA degree from Stanford University as well as a BA degree from the University of Cambridge.

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

Notes:

1. The interests of Directors of the Company, if any, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as at 31 December 2018 are disclosed in the section headed "Directors' Interests or Short Positions in Shares, Underlying Shares and Debentures" in the "Report of the Directors" of this Annual Report.
2. Save as disclosed in the Directors' respective biographical details under the "Board of Directors" section, the Directors (a) have not held any directorships in other listed public companies, whether in Hong Kong or overseas, during the last three years; and (b) do not have any other relationships with any Directors, senior management or substantial or controlling shareholders of the Company.
3. The current amounts of Directors' fees have been recommended by the Remuneration Committee and approved by the Board with reference to market rates, directors' workload and required commitment. The details of the emoluments of the Directors on a named basis are disclosed in Note 13 to the consolidated financial statements.
4. The current term of office of Dr. Moses Cheng Mo-chi and Mr. Brian David Li Man-bun, each an Independent Non-Executive Director, shall expire on 22 May 2019. The term of office of Mr. James Kwan Yuk-choi, an Independent Non-Executive Director, shall expire on 2 June 2019. The Company had on 19 March 2019 entered into a letter of appointment with each of Dr. Moses Cheng Mo-chi and Mr. James Kwan Yuk-choi for a term of 3 years commencing on 21 May 2019. It is proposed to re-elect Mr. Brian Li Man-bun as an Independent Non-Executive Director for a term of 3 years commencing on the date of the Company's annual general meeting (the "AGM") in 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 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 2018.

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 45 to the consolidated financial statements.

Results and Final Dividend

The results of the Group for the year ended 31 December 2018 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 (2017: HK fifteen cents per share) to shareholders whose names are on the register of members of the Company on Wednesday, 29 May 2019.

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 Wednesday, 5 June 2019. Subject to approval by shareholders at the AGM to be held on Tuesday, 21 May 2019 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 Thursday, 4 July 2019. The register of members of the Company will be closed from Monday, 27 May 2019 to Wednesday, 29 May 2019 (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 4 July 2019 to the shareholders whose names appear on the register of members of the Company on 29 May 2019.

Business Review

The business review of the Group for the year ended 31 December 2018 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 2018 (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 53 to 68 as well as the standalone 2018 Sustainability 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 123 to 136.

Also, the financial risk management objectives and policies of the Group can be found in Note 6 to the consolidated financial statements on pages 126 to 136. 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 2018 amounted to HK\$3,010 million (2017: HK\$3,762 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 2018 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 17 to the consolidated financial statements.

Report of the Directors

Share Capital

During the year, the Company declared a final dividend of HK fifteen cents per share for the year ended 31 December 2017 in cash (with scrip option) during the year. A total of 41,338,347 shares of the Company, fully paid, were issued and allotted in scrip form at HK\$7.436 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 35 to the consolidated financial statements.

Directors

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

Executive Directors

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

Independent Non-Executive Directors

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

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

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

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

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

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

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

As at 31 December 2018, 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

Name of Company	Name of Director	Capacity	Interest in shares			Aggregate interest	Approximate percentage of the number of issued shares of the Company or its associated corporation as at 31.12.2018
			Personal interest	Family interest	Corporate interest		
Towngas China Company Limited	Alfred Chan Wing-kin	Beneficial owner	3,782,569	–	–	3,782,569	0.13%
	Peter Wong Wai-yee	Beneficial owner	3,075,000	–	–	3,075,000	0.11%
	John Ho Hon-ming	Beneficial owner	1,061,168	–	–	1,061,168	0.04%
	James Kwan Yuk-choi	Beneficial owner	2,265,000	–	–	2,265,000	0.08%
HKCG	Alfred Chan Wing-kin	Interest held jointly with spouse	293,361	–	–	293,361	0.00%
	John Ho Hon-ming	Beneficial owner	45,939	–	–	45,939	0.00%
	James Kwan Yuk-choi	Beneficial owner and interest of spouse	103,561	117,335	–	220,896	0.00%

Save as stated above, as at 31 December 2018, there were no other interests or short positions of the Directors and the chief executive in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Report of the Directors

Arrangements to Purchase Shares or Debentures

At no time during the year was the Company, its holding company, fellow subsidiaries or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of 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. Alfred Chan Wing-kin, the Chairman of the Company, is the Managing Director of HKCG; and Mr. Peter Wong Wai-yee, an Executive Director and the Chief Executive Officer of the Company, is an Executive Director of HKCG.

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

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

Report of the Directors

Substantial Shareholders

As at 31 December 2018, 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 Shares as at 31.12.2018
Lee Shau-kee	Interest of controlled corporations	1,895,264,270 <i>(Note 1)</i>	67.45%
Rimmer (Cayman) Limited ("Rimmer")	Trustee	1,895,264,270 <i>(Note 2)</i>	67.45%
Riddick (Cayman) Limited ("Riddick")	Trustee	1,895,264,270 <i>(Note 2)</i>	67.45%
Hopkins (Cayman) Limited ("Hopkins")	Interest of controlled corporations	1,895,264,270 <i>(Note 2)</i>	67.45%
Henderson Development Limited ("HD")	Interest of controlled corporations	1,895,264,270 <i>(Note 2)</i>	67.45%
Henderson Land Development Company Limited ("HLD")	Interest of controlled corporations	1,895,264,270 <i>(Note 2)</i>	67.45%
Faxson Investment Limited ("Faxson")	Interest of controlled corporations	1,895,264,270 <i>(Note 2)</i>	67.45%
HKCG	Interest of controlled corporations	1,895,264,270 <i>(Note 3)</i>	67.45%
Towngas International Company Limited ("TICL")	Interest of controlled corporation	1,732,005,573 <i>(Note 3)</i>	61.64%
Hong Kong & China Gas (China) Limited ("HK&CG (China)")	Beneficial owner	1,732,005,573 <i>(Note 3)</i>	61.64%
Towngas Investment Company Limited ("TICL-HK")	Interest of controlled corporations	163,258,697 <i>(Note 3)</i>	5.81%
Planwise Properties Limited ("Planwise")	Beneficial owner	160,527,180 <i>(Note 3)</i>	5.71%
Commonwealth Bank of Australia ("Commonwealth Bank")	Interest of controlled corporations	193,747,684 <i>(Note 4)</i>	6.89%

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 1,895,264,270 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 1,895,264,270 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 1,732,005,573 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 163,258,697 Shares, which included (i) the 160,527,180 Shares held by Planwise; and (ii) the 2,731,517 Shares held by Superfun by virtue of Part XV of the SFO.
4. Commonwealth Bank was taken to be interested in these 193,747,684 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 2018, 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 2018, 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 2018, 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.

Report of the Directors

Connected Transactions

Set out below is the information in relation to the connected transactions (all being continuing connected transactions) that existed during the year ended 31 December 2018 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 40 to the consolidated financial statements, as appropriate, in accordance with Rule 14A.56 of the Main Board Listing Rules. 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, gas meters and measuring tools by members of the Group from members of the HKCG Group (the "Pipeline Materials Purchase Transactions"),

each for a term commencing from 1 January 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 and 24 August 2018, the Company had revised and further revised the annual cap amounts in respect of the Gas Purchase Transactions for the financial years ending 31 December 2017 and 2018 respectively.

Connected Transactions *(Continued)*

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

As the 2015 Gas Purchase Master Agreement and the 2015 Pipeline Materials Purchase Master Agreement were to expire on 31 December 2018, on 5 December 2018, the Company and HKCG entered into two new master agreements respectively, namely:

- (1) an agreement relating to the Gas Purchase Transactions (the “2018 Gas Purchase Master Agreement”); and
- (2) an agreement relating to the Pipeline Materials Purchase Transactions (the “2018 Pipeline Materials Purchase Master Agreement”, and together with the 2018 Gas Purchase Master Agreement collectively referred to as the “2018 CCT Master Agreements”),

each for a term commencing from 1 January 2019 to 31 December 2021 (both days inclusive). Particulars of the 2018 CCT Master Agreements were disclosed in the announcement of the Company dated 5 December 2018.

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 and the 2018 CCT Master Agreements constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules which were subject to the reporting, announcement and annual review requirements but were exempted from the independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Gas Purchase Transactions and Pipeline Materials Purchase Transactions were subject to annual cap amounts of RMB150,000,000 (approximately HK\$177,725,000) and RMB160,000,000 (approximately HK\$189,573,000) respectively for the year ended 31 December 2018. The actual respective amounts of the Gas Purchase Transactions and Pipeline Materials Purchase Transactions for the year ended 31 December 2018 were RMB138,642,000 (approximately HK\$164,268,000) and RMB141,128,000 (approximately HK\$167,213,000) 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 2018 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.

Report of the Directors

Connected Transactions *(Continued)*

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

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

As 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 RMB7,262,000 (approximately HK\$8,604,000) and RMB38,000,000 (approximately HK\$45,024,000) respectively for the year ended 31 December 2018. The actual respective amounts of the Project Management Transactions and System Software, Cloud Computing System and Safety Inspection Supporting Services Transactions for the year ended 31 December 2018 were RMB6,131,000 (approximately HK\$7,264,000) and RMB2,004,000 (approximately HK\$2,374,000) 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 2018 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 40 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 2018 are set out in Note 32 to the consolidated financial statements.

Donations

During the year, the Group made charitable and other donations amounting to approximately HK\$870,000.

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.

Report of the Directors

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 2018.

Emolument Policy

As at 31 December 2018, the Group had 22,241 employees. Approximately 99% of the Group's employees are located in the PRC. Employee remuneration is based on individual performance, job nature and the relevant responsibilities involved. The Group provides on-the-job training as well as optimal benefits packages for employees, which include medical welfare, retirement plans, year-end bonuses and other incentives. The Group encourages employees to adopt a work-life balance, whilst improving the work environment for employees on a continuing basis so that they can realise their full potential and contribute to the Group.

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

Corporate Governance

The Company had complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules during the year ended 31 December 2018.

Details of the corporate governance of the Group are set out in the "Corporate Governance Report" on pages 53 to 68 of this Annual Report.

Auditor

The consolidated financial statements of the Company for the year ended 31 December 2018 have been audited by Messrs. Deloitte Touche Tohmatsu ("Deloitte"). A resolution will be submitted to the forthcoming AGM of the Company to re-appoint Deloitte as the auditor of the Company.

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

John Ho Hon-ming
Executive Director and Company Secretary

Hong Kong, 19 March 2019

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

The Company has complied with the code provisions as set out in the CG Code throughout the year ended 31 December 2018.

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

Board of Directors

Board Composition

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

Executive Directors

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

Independent Non-Executive Directors

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

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

Corporate Governance Report

Board of Directors *(Continued)*

Board Composition *(Continued)*

The Company has arranged appropriate directors' and officers' liabilities insurance coverage for 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 2018.

The current term of office of Dr. Moses Cheng Mo-chi and Mr. Brian David Li Man-bun, each an Independent Non-Executive Director, shall expire on 22 May 2019. The term of office of Mr. James Kwan Yuk-choi, an Independent Non-Executive Director, shall expire on 2 June 2019. The Company had on 19 March 2019 entered into a letter of appointment with each of Dr. Moses Cheng Mo-chi and Mr. James Kwan Yuk-choi for a term of 3 years commencing on 21 May 2019. It is proposed to re-elect Mr. Brian Li Man-bun as an Independent Non-Executive Director for a term of 3 years commencing on the date of the 2019 AGM. Their respective terms of office are subject to the Listing Rules and the provisions of the Company's memorandum and the Articles in force from time to time, including but not limited to, the requirements for retirement, rotation and vacation of office of directors as set forth in the Articles.

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

Board of Directors *(Continued)*

Functions of the Board

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

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

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

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

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

Corporate Governance Functions

The Board is responsible for performing corporate governance duties including:

- (a) developing and reviewing the Company's policies and practices on corporate governance;
- (b) reviewing and monitoring the training and continuous professional development of Directors and senior management;
- (c) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- (e) reviewing the Company's compliance with Appendix 14 to the Listing Rules and disclosure in this Corporate Governance Report.

Corporate Governance Report

Board of Directors *(Continued)*

Directors' Training and Continuous Professional Development

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

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

According to the records maintained by the Company, the Directors received the following training for the year ended 31 December 2018:

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

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

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

Board of Directors *(Continued)*

Board Meetings

The Board held four regular Board meetings during the year ended 31 December 2018 at approximately quarterly intervals. Due notices and board papers were given to all Directors prior to each meeting in accordance with the Articles and the CG Code. Details of individual attendance of each of the Directors are set out below:

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

Chairman and Chief Executive Officer

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

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

Corporate Governance Report

Board of Directors *(Continued)*

Responsibilities of the Directors

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

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

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

Board Committees

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

Remuneration Committee

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

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

Board Committees *(Continued)*

Remuneration Committee *(Continued)*

During the year ended 31 December 2018, the Remuneration Committee:

- reviewed the remunerations of the senior management of the Company for 2018;
- reviewed the Executive Directors' remuneration; and
- reviewed the Directors' fees for 2018.

The Remuneration Committee held one meeting during the year ended 31 December 2018 with individual attendance as follows:

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

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

Board Audit and Risk Committee

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

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

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

Corporate Governance Report

Board Committees *(Continued)*

Board Audit and Risk Committee *(Continued)*

During the year ended 31 December 2018, the Board Audit and Risk Committee:

- reviewed the financial statements for the year ended 31 December 2017 and for the six months ended 30 June 2018;
- reviewed the amendments to its terms of reference;
- established and adopted the Anti-Fraud Policy;
- made recommendations on the re-appointment of the external auditor;
- reviewed the effectiveness of the risk management and internal control systems;
- reviewed the external auditor's findings; and
- reviewed the Group's continuing connected transactions for the year ended 31 December 2017 pursuant to the Listing Rules.

The Board Audit and Risk Committee held two meetings during the year ended 31 December 2018 with individual attendance as follows:

Members of the Board Audit and Risk Committee	Attendance/Number of Meetings
Mr. Brian David Li Man-bun	2/2
Dr. Moses Cheng Mo-chi	1/2
Mr. James Kwan Yuk-choi	2/2

Nomination Committee

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

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

Board Committees *(Continued)*

Nomination Committee *(Continued)*

Set out below is a summary of the Board Diversity Policy adopted by the Board:

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

During the year ended 31 December 2018, the Nomination Committee:

- recommended the nomination of Directors for re-election at the 2018 AGM;
- reviewed the independence of Independent Non-Executive Directors; and
- reviewed the structure, size, composition (including the skills, knowledge and experience) and diversity of the Board.

The Nomination Committee, having reviewed the Board's composition, nominated Mr. Alfred Chan Wing-kin, Mr. Martin Kee Wai-ngai and Mr. James Kwan Yuk-choi to the Board for it to recommend to the Shareholders for re-election at the annual general meeting of the Company held on 1 June 2018. The nominations were made in accordance with the Nomination Policy and the selection criteria (including without limitation skills, knowledge and experience), having regard for the diversity of perspectives as listed out in the Board Diversity Policy.

The Nomination Committee held one meeting during the year ended 31 December 2018 with individual attendance as follows:

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

Corporate Governance Report

Model Code

The Company had adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. All Directors who held office as at 31 December 2018, 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 2018.

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 2018. Deloitte also reviewed the 2018 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 2018 amounted to HK\$7.4 million.

Non-audit service fees charged by Deloitte during 2018 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 2018	710,000
(2) Filing of tax returns of the Company and its subsidiaries for the year of assessment 2017/2018	113,600
(3) Annual review on continuing connected transactions for the year ended 31 December 2018	83,000
Total	906,600

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 and an Anti-Fraud Policy which provide guidance on the ethical behaviour when handling issues such as bribery and corruption, conflicts of interest, insider dealing, acceptance of gift and entertainment and fair dealing. The Board adopted a Whistleblowing Policy which provides reporting channels and guidance for employees and other parties who deal with the Group (e.g. contractors and suppliers, etc.) to report possible improprieties in matters of financial reporting or other matters. The Whistleblowing Policy and the Anti-Fraud Policy are available on the Company's website.

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

Corporate Governance Report

Risk Management and Internal Control *(Continued)*

Internal Control *(Continued)*

During the year ended 31 December 2018, the Board, through the Board Audit and Risk Committee, has conducted a bi-annual review of the overall effectiveness of the Group's internal control systems over financial, operational and compliance controls, risk management process, information systems security, scope and quality of the management's monitoring of risks and internal control systems, the effectiveness of financial reporting and compliance with the Listing Rules.

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

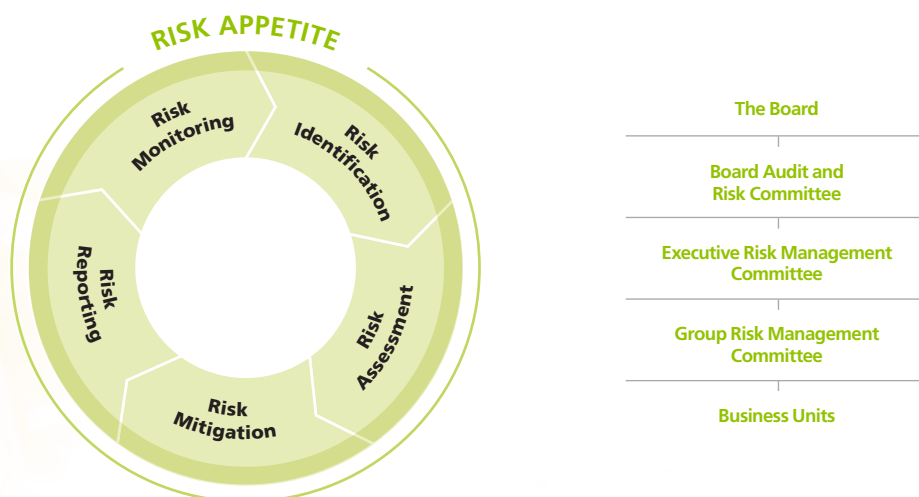
Risk Management

Risk Management Framework

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

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

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



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.

Corporate Governance Report

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 ERMIC 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. John Ho Hon-ming. 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 maintaining a timely and accurate communication with the shareholders.

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

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

At the 2018 AGM held on 1 June 2018, 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 2018 AGM to answer questions from the Company's shareholders.

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

Details of individual attendance at general meeting of the Company of each of the Directors during the year ended 31 December 2018 are set out below:

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

Corporate Governance Report

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 188, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Independent Auditor's Report

Key Audit Matters *(Continued)*

Key audit matter

Recognition of gas connection income

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

As disclosed in note 7 to the consolidated financial statements, the Group recognised revenue of approximately HK\$2,032 million from gas connection during the year ended 31 December 2018. Management judgments and estimation involved in the recognition of revenue from gas connection, which relates to contracts for construction of gas connection facilities, in accordance with HKFRS 15 "Revenue from Contracts with Customers" include identifying performance obligations, timing of revenue recognition (a point in time or over time), and progress towards complete satisfaction of the relevant performance obligation being satisfied over time measured based on output method. The accounting policies and estimation uncertainty in relation to recognition of gas connection income are set out in notes 3 and 4 respectively to the consolidated financial statements.

How our audit addressed the key audit matter

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

- Understanding and testing the key controls relating to the approval of construction contracts for gas connection and monitoring of stage of completion;
- Discussing with management with respect to the basis for recognising revenue of gas connection;
- Evaluating the terms set out in the relevant contracts, on a sample basis, to assess whether the revenue recognition is accounted for in accordance with HKFRS 15;
- Evaluating the extent of progress of gas connection by examining the contracts, invoices, completion reports and other supporting documents on a sample basis, and considering the historical accuracy of the Group's percentage of completion estimates based on the value of the services transferred to the customers to date through identifying if there are any significant subsequent adjustments on the same contracts across different years; and
- Verifying completion of selected contracts through evidencing delivery of completed contracts.

Key Audit Matters *(Continued)*

Key audit matter *(Continued)*

Impairment assessment of goodwill

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

At 31 December 2018, the Group has goodwill of approximately HK\$5,522 million relating to CGUs principally engaged in the sales and distribution of piped gas in the People’s Republic of China (the “PRC”). The directors of the Company considered no impairment loss is necessary as at 31 December 2018. Details are disclosed in note 20 to the consolidated financial statements.

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

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

Our procedures in relation to impairment assessment of goodwill included:

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

Independent Auditor's Report

Other Information

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

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

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

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

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

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

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

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 HKSA's 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 HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

Independent Auditor's Report

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

19 March 2019

Consolidated Income Statement

For the year ended 31 December 2018

	NOTES	2018 HK\$'000	2017 HK\$'000
Revenue	7 & 8	11,787,002	8,759,783
Total operating expenses	9	(10,189,627)	(7,470,483)
		1,597,375	1,289,300
Other (losses) gains, net	10	(59,524)	257,363
Share of results of associates		323,076	341,922
Share of results of joint ventures		346,641	291,394
Finance costs	11	(315,438)	(262,325)
Profit before taxation	12	1,892,130	1,917,654
Taxation	14	(478,981)	(405,373)
Profit for the year		1,413,149	1,512,281
Profit for the year attributable to:			
Shareholders of the Company		1,224,274	1,365,385
Non-controlling interests		188,875	146,896
		1,413,149	1,512,281
Proposed final dividend of HK fifteen cents (2017: HK fifteen cents) per ordinary share	15	421,504	415,303
Earnings per share		HK cents	HK cents
– Basic	16	43.89	49.87

Consolidated Statement of Comprehensive Income

For The Year Ended 31 December 2018

	2018 HK\$'000	2017 HK\$'000
Profit for the year	1,413,149	1,512,281
Other comprehensive (expense) income		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Exchange differences arising on translation to presentation currency	(954,982)	1,113,010
Fair value change on investments in equity instruments at fair value through other comprehensive income	78,565	–
Income tax relating to items that will not be reclassified to profit or loss	(19,641)	–
<i>Items that may be reclassified subsequently to profit or loss</i>		
Fair value change on available-for-sale investment	–	(25,994)
Cash flow hedge:		
Fair value change on derivative instrument designated as cash flow hedge recorded in hedge reserve	(15,061)	–
Reclassification of fair value change on derivative instrument designated as cash flow hedge to profit or loss	(1,216)	–
	(912,335)	1,087,016
Total comprehensive income for the year	500,814	2,599,297
Total comprehensive income for the year attributable to:		
Shareholders of the Company	436,688	2,394,997
Non-controlling interests	64,126	204,300
Total comprehensive income for the year	500,814	2,599,297

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	2018 HK\$'000	2017 HK\$'000
Non-current assets			
Property, plant and equipment	17	15,914,048	15,059,560
Leasehold land	18	638,502	613,218
Intangible assets	19	492,669	523,472
Goodwill	20	5,522,253	5,824,172
Interests in associates	21	4,009,196	3,935,115
Interests in joint ventures	22	2,520,858	2,407,197
Loan to an associate	21	11,159	–
Loans to joint ventures	22	39,854	24,024
Equity instruments at fair value through other comprehensive income	23	381,449	–
Available-for-sale investments	24	–	225,415
		29,529,988	28,612,173
Current assets			
Inventories	25	575,250	636,619
Leasehold land	18	25,629	27,450
Loan to an associate	21	–	11,772
Loans to joint ventures	22	240,451	286,298
Loan to a non-controlling shareholder	26	–	17,417
Trade and other receivables, deposits and prepayments	27	1,833,228	1,393,144
Amounts due from non-controlling shareholders	28	105,168	63,847
Other financial assets	29	37,180	–
Time deposits over three months	27	56,225	120,790
Bank balances and cash	27	1,611,487	1,605,300
		4,484,618	4,162,637
Current liabilities			
Trade and other payables and accrued charges	30	2,079,926	5,173,019
Contract liabilities	31	3,043,956	–
Amounts due to non-controlling shareholders	28	96,629	115,546
Taxation		862,740	800,443
Borrowings – amount due within one year	32	2,783,581	3,707,803
Loans from joint ventures	33	24,642	49,172
Other financial liabilities	29	114,865	76,172
		9,006,339	9,922,155
Net current liabilities		(4,521,721)	(5,759,518)
Total assets less current liabilities		25,008,267	22,852,655

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	2018 HK\$'000	2017 HK\$'000
Non-current liabilities			
Borrowings – amount due after one year	32	6,720,751	5,071,862
Deferred taxation	34	495,900	454,100
Other financial liabilities	29	22,300	128,877
		7,238,951	5,654,839
Net assets		17,769,316	17,197,816
Capital and reserves			
Share capital	35	281,003	276,869
Reserves	36	15,948,194	15,568,164
Equity attributable to shareholders of the Company		16,229,197	15,845,033
Non-controlling interests		1,540,119	1,352,783
Total equity		17,769,316	17,197,816

The consolidated financial statements on pages 75 to 188 were approved and authorised for issue by the Board of Directors (“the Board”) on 19 March 2019 and are signed on its behalf by:

Alfred Chan Wing-kin
DIRECTOR

Brian David Li Man-bun
DIRECTOR

Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2018

	Attributable to shareholders of the Company								Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Hedge reserve HK\$'000	General reserves HK\$'000 (note 36)	Investment revaluation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000		
At 1 January 2017	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 (note 35)	5,709	270,368	–	–	–	–	–	276,077	–	276,077
Transfer	–	–	–	–	28,734	–	(28,734)	–	–	–
Additions relating to acquisition of businesses	–	–	–	–	–	–	–	–	25,948	25,948
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	57,141	57,141
Dividends paid to shareholders of the Company (note 15)	–	(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
Adjustments (note 2)	–	–	–	–	–	99,299	(15,799)	83,500	(452)	83,048
At 1 January 2018 (restated)	276,869	6,226,762	1,060,747	–	247,280	99,224	8,017,651	15,928,533	1,352,331	17,280,864
Exchange differences arising on translation to presentation currency	–	–	(830,233)	–	–	–	–	(830,233)	(124,749)	(954,982)
Fair value change on investments in equity instruments at fair value through other comprehensive income	–	–	–	–	–	78,565	–	78,565	–	78,565
Income tax relating to items that will not be reclassified to profit or loss	–	–	–	–	–	(19,641)	–	(19,641)	–	(19,641)
Fair value change on derivative instrument designated as cash flow hedge recorded in hedge reserve	–	–	–	(15,061)	–	–	–	(15,061)	–	(15,061)
Reclassification of fair value change on derivative instrument designated as cash flow hedge to profit or loss	–	–	–	(1,216)	–	–	–	(1,216)	–	(1,216)
Profit for the year	–	–	–	–	–	–	1,224,274	1,224,274	188,875	1,413,149
Total comprehensive income for the year	–	–	(830,233)	(16,277)	–	58,924	1,224,274	436,688	64,126	500,814
Issue of shares upon scrip dividend scheme (note 35)	4,134	303,258	–	–	–	–	–	307,392	–	307,392
Transfer	–	–	–	–	54,928	–	(54,928)	–	–	–
Acquisition of additional interest of a subsidiary	–	–	–	–	–	–	(28,113)	(28,113)	(898)	(29,011)
Additions relating to acquisition of business (note 37)	–	–	–	–	–	–	–	–	46,551	46,551
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	169,209	169,209
Dividends paid to shareholders of the Company (note 15)	–	(415,303)	–	–	–	–	–	(415,303)	–	(415,303)
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	(91,200)	(91,200)
	4,134	(112,045)	–	–	54,928	–	(83,041)	(136,024)	123,662	(12,362)
At 31 December 2018	281,003	6,114,717	230,514	(16,277)	302,208	158,148	9,158,884	16,229,197	1,540,119	17,769,316

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2018

	2018 HK\$'000	2017 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	1,892,130	1,917,654
Adjustments for:		
Interest income	(17,823)	(24,155)
Interest expenses	309,660	257,036
Share of results of associates	(323,076)	(341,922)
Share of results of joint ventures	(346,641)	(291,394)
Dividend income from		
– equity instruments at fair value through other comprehensive income	(52,227)	–
– available-for-sale investments	–	(91,156)
Amortisation of intangible assets	19,400	18,822
Release of leasehold land	19,945	19,957
Depreciation of property, plant and equipment	568,944	501,712
Impairment loss of trade receivables, net of reversal	14,220	19,802
Gain on disposal of property, plant and equipment	(20,998)	(5,376)
(Gain) loss on disposal of leasehold land	(41,183)	322
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	(13,304)	364,376
Exchange loss (gain)	231,484	(231,254)
Operating cash flows before movements in working capital	2,240,531	1,881,265
Decrease (increase) in inventories	28,239	(106,125)
Increase in trade receivables	(221,958)	(26,748)
Increase in other receivables, deposits and prepayments	(231,575)	(104,216)
Increase in trade payables	106,741	50,159
Increase in contract liabilities	91,176	–
Increase in other payables and accrued charges	4,681	389,837
(Decrease) increase in amounts due to non-controlling shareholders	(57,547)	26,240
Cash generated from operations	1,960,288	2,110,412
Interest paid	(326,908)	(276,375)
Taxation paid	(349,657)	(319,198)
NET CASH GENERATED FROM OPERATING ACTIVITIES	1,283,723	1,514,839

	NOTE	2018 HK\$'000	2017 HK\$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(2,311,695)	(1,823,847)
Purchase of intangible assets		(15,372)	–
Acquisition of business (net of cash and cash equivalents acquired)	37	(47,655)	(54,151)
Consideration paid for acquisition of businesses acquired in prior periods		(22,099)	(11,087)
Capital injection to associates		(68,322)	(297,446)
Capital injection to a joint venture		–	(47,106)
Decrease in time deposits over three months		58,279	124,015
Purchase of leasehold land		(103,071)	(39,415)
Loan to an associate		–	(11,772)
Loans to joint ventures		–	(216,966)
Repayment of loan to a non-controlling shareholder		17,417	–
Dividends received from joint ventures		90,324	107,328
Dividends received from associates		126,602	139,905
Repayment of loan to a joint venture		13,827	52,966
Dividend income from			
– equity instruments at fair value through other comprehensive income		52,227	–
– available-for-sale investments		–	91,156
Proceeds from disposal of property, plant and equipment		91,997	21,506
Interest received		17,823	24,155
Proceeds from disposal of leasehold land		63,449	5,207
Proceeds from disposal of associates		–	29,619
Net settlement of other financial assets/liabilities		(114,060)	25,861
NET CASH USED IN INVESTING ACTIVITIES		(2,150,329)	(1,880,072)
FINANCING ACTIVITIES			
Repayments of bank and other loans		(5,374,537)	(4,284,091)
Dividends paid to shareholders of the Company		(107,911)	(49,315)
Dividends paid to non-controlling shareholders of subsidiaries		(91,200)	(99,438)
New bank and other loans raised		6,394,786	4,846,372
Capital contribution from non-controlling shareholders of subsidiaries		169,209	57,141
Loans from joint ventures		3,306	49,172
Repayment of loans from joint ventures		(26,167)	–
NET CASH GENERATED FROM FINANCING ACTIVITIES		967,486	519,841

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2018

	2018 HK\$'000	2017 HK\$'000
NET INCREASE IN CASH AND CASH EQUIVALENTS	100,880	154,608
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,605,300	1,351,072
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(94,693)	99,620
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH	1,611,487	1,605,300

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1. General and Basis of Preparation

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

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

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

In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets by approximately HK\$4,522 million as at 31 December 2018. The Group's liabilities as at 31 December 2018 included borrowings of approximately HK\$2,784 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\$5,360 million. When considering the Group's ability to continue as a going concern, the Directors considered that the Group's borrowings of approximately HK\$2,784 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

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

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts

Except as described below, the application of the new and 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.

HKFRS 15 “Revenue from Contracts with Customers”

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard, if any, recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Sales of piped gas (mainly natural gas) and gas related household appliances
- Construction of gas pipeline networks under gas connection contracts

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

HKFRS 15 “Revenue from Contracts with Customers” (Continued)

Information about the Group’s accounting policies resulting from application of HKFRS 15 and the performance obligations are disclosed in notes 3 and 7 respectively.

Summary of effects arising from initial application of HKFRS 15

The application of HKFRS 15 has no significant impact on the timing and amounts of revenue in the current year and retained earnings at 1 January 2018.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at 31 December 2017 HK\$’000	Reclassification HK\$’000	Carrying amounts under HKFRS15 at 1 January 2018* HK\$’000
Current liabilities				
Trade and other payables and accrued charges	(a)	5,173,019	(3,092,720)	2,080,299
Contract liabilities	(a)	–	3,092,720	3,092,720

* The amounts in this column are before the adjustments from the application of HKFRS 9.

Note:

(a) As at 1 January 2018, receipt in advance of HK\$3,092,720,000 previously included in trade and other payables and accrued charges were reclassified to contract liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

HKFRS 15 “Revenue from Contracts with Customers” (Continued)

Summary of effects arising from initial application of HKFRS 15 (Continued)

The following table summarises the impacts of applying HKFRS 15 on the Group’s consolidated statement of financial position as at 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported	Adjustments	Amounts without application of HKFRS 15
	HK\$’000	HK\$’000	HK\$’000
Current liabilities			
Trade and other payables and accrued charges	2,079,926	3,043,956	5,123,882
Contract liabilities	3,043,956	(3,043,956)	–

HKFRS 9 “Financial Instruments”

In the current year, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses (“ECL”) for financial assets and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

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

HKFRS 9 “Financial Instruments” (Continued)

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 “Financial Instruments: Recognition and Measurement”.

In addition, the Group has applied the hedge accounting requirements of HKFRS 9 prospectively. Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Notes	Available-for-sale investments HK\$'000	Equity instruments at fair value through other comprehensive income (“FVTOCI”) HK\$'000	Trade and other receivables, deposits and prepayments HK\$'000	Interests in associates HK\$'000	Interests in joint ventures HK\$'000	Deferred taxation HK\$'000	Investment revaluation reserve HK\$'000	Retained earnings HK\$'000	Non-controlling interests HK\$'000
Closing balance at 31 December 2017 – HKAS 39		225,415	–	1,393,144	3,935,115	2,407,197	454,100	(75)	8,033,450	1,352,783
Effect arising from initial application of HKFRS 9:										
Reclassification										
From available-for-sale investments	(a)	(225,415)	225,415	–	–	–	–	–	–	–
Remeasurement										
Impairment under ECL model	(b & c)	–	–	(5,641)	(4,110)	(7,910)	(1,410)	–	(15,799)	(452)
From cost less impairment to fair value	(a & c)	–	97,444	–	26,216	–	24,361	99,299	–	–
Opening balance at 1 January 2018		–	322,859	1,387,503	3,957,221	2,399,287	477,051	99,224	8,017,651	1,352,331

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

HKFRS 9 “Financial Instruments” (Continued)

Summary of effects arising from initial application of HKFRS 9 (Continued)

Notes:

(a) Available-for-sale investments

The Group elected to present in other comprehensive income for the fair value changes of all its equity investments previously classified as available-for-sale, of which HK\$160,485,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future.

At the date of initial application of HKFRS 9, HK\$225,415,000 were reclassified from available-for-sale investments to equity instruments at FVTOCI, of which HK\$160,485,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. The fair value gains of HK\$97,444,000 relating to those unquoted equity investments previously carried at cost less impairment were adjusted to equity instruments at FVTOCI and investment revaluation reserve as at 1 January 2018, and the corresponding deferred tax impact of HK\$24,361,000 was adjusted to deferred taxation and investment revaluation reserve as at 1 January 2018. The fair value losses of HK\$75,000 relating to the Group’s investment previously carried at fair value continued to accumulate in investment revaluation reserve.

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables.

Loss allowances for other financial assets at amortised cost mainly comprise of time deposits over three months, bank balances, loans to joint ventures, an associate and a non-controlling shareholder and other receivables and deposits, are measured on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of HK\$5,641,000 has been recognised against retained earnings and the trade receivables. As at 31 December 2017, the loss allowance for trade receivables amounted to HK\$118,933,000 under HKAS 39. With the aforesaid additional credit loss allowance of HK\$5,641,000, the loss allowance for trade receivables as at 1 January 2018 amounted to HK\$124,574,000 under HKFRS 9.

(c) Interests in associates/joint ventures

The initial application of HKFRS 9 resulted in a net increase in interests in associates of HK\$22,106,000 (which is arising from the impacts relating to additional loss allowance for trade receivables under ECL model amounting to HK\$4,110,000 and fair value gains net of deferred taxation of HK\$26,216,000 relating to associates’ unquoted equity investments previously measured at cost less impairment under HKAS 39) with corresponding adjustments to retained earnings and investment revaluation reserve by debit of HK\$4,110,000 and credit of HK\$26,216,000 respectively.

The initial application of HKFRS 9 resulted in a decrease in the interests in joint ventures of HK\$7,910,000 (which is arising from the impact relating to additional loss allowance for trade receivables under ECL model amounting to HK\$7,910,000) with corresponding adjustment to retained earnings by debit of HK\$7,910,000.

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

Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group’s accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited) HK\$’000	HKFRS 15 HK\$’000	HKFRS 9 HK\$’000	1 January 2018 (Restated) HK\$’000
Non-current assets				
Interests in associates	3,935,115	–	22,106	3,957,221
Interests in joint ventures	2,407,197	–	(7,910)	2,399,287
Available-for-sale investments	225,415	–	(225,415)	–
Equity instruments at fair value through other comprehensive income	–	–	322,859	322,859
Current asset				
Trade and other receivables, deposits and prepayments	1,393,144	–	(5,641)	1,387,503
Current liabilities				
Trade and other payables and accrued charges	5,173,019	(3,092,720)	–	2,080,299
Contract liabilities	–	3,092,720	–	3,092,720
Non-current liability				
Deferred taxation	454,100	–	22,951	477,051
Equity attributable to shareholders of the Company	15,845,033	–	83,500	15,928,533
Non-controlling interests	1,352,783	–	(452)	1,352,331

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ³
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKAS 1 and HKAS 8	Definition of Material ²
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendments to HKFRS 3	Definition of a Business ⁴
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2019.

² Effective for annual periods beginning on or after 1 January 2020.

³ Effective for annual periods beginning on or after 1 January 2021.

⁴ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

⁵ Effective for annual periods beginning on or after a date to be determined.

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

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. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

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

HKFRS 16 “Leases” *(Continued)*

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

Other than certain requirements which are also applicable to lessor, 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 2018, the Group has non-cancellable operating lease commitments of HK\$103,313,000 as disclosed in note 41. 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.

In addition, the Group currently considers refundable rental deposits paid and refundable rental deposits received as rights and obligations 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. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments. However, the Group anticipates such adjustments may not be significant to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

HKFRS 16 “Leases” (Continued)

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 “Determining whether an Arrangement contains a Lease” and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application, if any, to opening retained earnings without restating comparative information.

Amendments to HKAS 1 and HKAS 8 “Definition of Material”

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group’s annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Amendments to HKFRS 3 “Definition of a Business”

The amendments clarify the definition of a business and provide additional guidance with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. Furthermore, an optional concentration test is introduced to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments will be mandatorily effective to the Group prospectively for acquisition transactions completed on or after 1 January 2020.

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.

3. Significant Accounting Policies *(Continued)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies *(Continued)*

Basis of consolidation *(Continued)*

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

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

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

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

3. Significant Accounting Policies *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies *(Continued)*

Business combinations *(Continued)*

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net 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 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. 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.

3. Significant Accounting Policies *(Continued)*

Business combinations *(Continued)*

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 or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9/HKAS 39 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

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 retrospectively 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).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies *(Continued)*

Goodwill *(Continued)*

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described below.

Investments in associates and joint ventures

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

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

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 Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised 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 HKFRS 9/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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies *(Continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transition in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

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

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

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

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

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

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

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

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

3. Significant Accounting Policies *(Continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transition in note 2) *(Continued)*

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

Output Method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

Performance obligations for contracts with customers

Sales and distribution of piped gas and related products

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

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

Gas connection

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

Revenue recognition (prior to 1 January 2018)

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 sales and distribution of piped gas 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies *(Continued)*

Revenue recognition (prior to 1 January 2018) *(Continued)*

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).

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.

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 and other 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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.

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.

The recoverable amount of tangible and intangible assets are estimated individually, 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.

3. Significant Accounting Policies *(Continued)*

Impairment (other than goodwill) *(Continued)*

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.

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transition in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except derivatives designated in cash flow hedging relationships and except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

A financial asset is 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.

In addition, the Group may irrevocably designate a financial asset that is required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transition in note 2) (Continued)

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset (which comprises the gross carrying amount less any impairment allowance) from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the investment revaluation reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other (losses) gains, net" line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL except for derivatives designated as cash flow hedges.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other (losses) gains, net" line item.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transition in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (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). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

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

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

Significant increase in credit risk

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

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transition in accordance with note 2) (Continued)

Significant increase in credit risk *(Continued)*

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transition in accordance with note 2) (Continued)

Credit-impaired financial assets

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

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

Write-off policy

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

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transition in accordance with note 2) (Continued)

Measurement and recognition of ECL *(Continued)*

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

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

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

Except for investments in debt instruments/receivables that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the investment revaluation reserve without reducing the carrying amount of these debt instruments/receivables.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

The Group's financial assets are mainly classified into one of the following categories, financial assets at 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.

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 FVTPL or (iii) contingent consideration that may be received by an acquirer as part of a business combination to which HKFRS 3 applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

Financial assets at FVTPL (Continued)

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 excludes any dividend or interest earned on the financial assets and is included in the "other (losses) 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).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

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 FVTPL, loans and receivables or held-to-maturity investments.

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).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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.

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.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

On derecognition of an available-for-sale debt/equity investments, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or 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.

Financial liabilities

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9/HKAS 39 permits the entire combined contract to be designated as at FVTPL.

Upon application of HKFRS 9, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Financial liabilities at FVTPL (Continued)

Prior to application of HKFRS 9 on 1 January 2018, financial liabilities designated at FVTPL are stated at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liability and is included in the "other (losses) gains, net" line item.

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.

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 and other 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Hedge accounting

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

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

Assessment of hedging relationship and effectiveness (under HKFRS 9 since 1 January 2018)

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Cash flow hedges

The effective portion of changes in the fair value of derivatives that is designated and qualifies as cash flow hedges is recognised in other comprehensive income and accumulated in the hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Discontinuation of hedge accounting (under HKFRS 9 since 1 January 2018)

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

For cash flow hedge, any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transactions is ultimately recognised in profit or loss or the hedged item otherwise affects profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Derecognition/substantial modification of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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

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

Non-substantial modifications of financial liabilities (under HKFRS 9 since 1 January 2018)

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

Non-substantial modifications of financial liabilities (before application of HKFRS 9 on 1 January 2018)

For non-substantial modifications of financial liabilities that do not result in derecognition, at the point of modification, the carrying amount of the relevant financial liabilities is revised for directly attributable transaction costs and any consideration paid to or received from the counterparty. The effective interest rate is then adjusted to amortise the difference between the revised carrying amount and the expected cash flows over the life of the modified instrument.

3. Significant Accounting Policies *(Continued)*

Taxation

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

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

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies *(Continued)*

Taxation *(Continued)*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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.

Leases

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).

3. Significant Accounting Policies *(Continued)*

Borrowing costs

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

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

Retirement benefits costs

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

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

Critical judgements in applying accounting policies

Control over an entity

As at 31 December 2018, 唐山港能投智慧能源有限公司 (“Tangshan Energy”) was accounted for as a subsidiary by the Group. The Group has only held 49% equity interest in Tangshan Energy. The directors of the Company assessed whether or not the Group has control over Tangshan Energy based on whether the Group has practical ability to direct the relevant activities of the entity unilaterally. In making the judgement, management considered the Group’s voting power in making decisions over the relevant activities of Tangshan Energy at different times throughout its life, such as the approval of the operation plan and budget, appointing, remunerating and terminating the key management personnel. After assessment, management concluded that the Group has sufficiently dominant voting interest to direct the relevant activities of Tangshan Energy and therefore the Group has control over it.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

Key sources of estimation uncertainty

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

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

Impairment assessment of goodwill

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 with significant inputs including growth rates and expected changes to selling prices and direct costs, 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 2018, the carrying amount of goodwill is HK\$5,522,253,000 (2017: HK\$5,824,172,000). Details of the recoverable amount calculation are disclosed in note 20.

Income taxes

As at 31 December 2018, 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\$748,306,000 (2017: HK\$708,374,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future assessable profits or taxable temporary differences will be available in the future. In cases where the actual future assessable profits or taxable temporary differences generated are more than expected, a material recognition of deferred tax asset may arise, which would be recognised in the consolidated income statement for the period in which such recognition takes place.

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

Upon application of HKFRS 9 on 1 January 2018, measurement of unquoted equity investments is subject to fair value measurement under HKFRS 9 rather than measurement of cost less impairment under HKAS 39 and impairment assessment of financial assets is subject to the ECL model rather than incurred loss model under HKAS 39. These assessments and measurements are sensitive to changes in estimates. Details are disclosed in note 6.

5. Capital Risk Management

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

The capital structure of the Group consists of debts, which includes borrowings and loans from joint ventures disclosed in notes 32 and 33 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").

The Gearing Ratio at the reporting date was as follows:

	2018	2017
	HK\$'000	HK\$'000
Debt ⁽ⁱ⁾	9,528,974	8,828,837
Time deposits over three months	(56,225)	(120,790)
Bank balances and cash	(1,611,487)	(1,605,300)
Net debt	7,861,262	7,102,747
Equity ⁽ⁱⁱ⁾	16,229,197	15,845,033
Net debt to equity ratio	48.4%	44.8%
Gearing Ratio ⁽ⁱⁱⁱ⁾	32.6%	31.0%

⁽ⁱ⁾ Debt is defined as long-term and short-term borrowings and loans from joint ventures, as detailed in notes 32 and 33 respectively.

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

⁽ⁱⁱⁱ⁾ Being the proportion of net debt of HK\$7,861,262,000 (2017: HK\$7,102,747,000) to equity attributable to shareholders of the Company plus net debt of HK\$24,090,459,000 (2017: HK\$22,947,780,000).

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For the year ended 31 December 2018

6. Financial Instruments

Categories of financial instruments

	2018 HK\$'000	2017 HK\$'000
Financial assets		
Financial assets at amortised cost	2,935,824	–
Equity instruments at fair value through other comprehensive income	381,449	–
Derivative financial instruments	37,180	–
Loans and receivables (including cash and cash equivalents)	–	2,839,797
Available-for-sale investments	–	225,415
Financial liabilities		
Amortised cost	11,407,251	10,607,558
Derivative financial instruments	137,165	205,049

Financial risk management objectives and policies

The Group's major financial instruments include equity instruments at fair value through other comprehensive income (2017: 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 27 and 32.

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Currency risk *(Continued)*

The Group entered into cross currency interest rate swap contracts, cross currency swap contracts and foreign currency forward contracts with certain financial institutions to reduce or hedge its exposure to currency fluctuation risk. Other than the cross currency interest rate swap contract which is designated as effective hedging instrument for a variable-rate bank borrowing denominated in USD with hedge accounting used (see note 29 for details), these derivative financial instruments are not accounted under hedge accounting. The Group reviewed the continuing effectiveness of the designated hedging instruments at least at the end of each reporting period. The Group mainly uses regression analysis and comparison of change in fair value of the hedging instrument and the hedged item for assessing the hedge effectiveness. As the Group's foreign currency risk is hedged, no sensitivity analysis for the hedging instrument and the hedged item has been prepared accordingly.

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

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 3% (2017: 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% (2017: 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% (2017: 3%) against USD and HKD. For a 3% (2017: 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.

	2018	2017
	HK\$'000	HK\$'000
Profit before taxation for the year	108,505	95,600

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Currency risk *(Continued)*

Sensitivity analysis *(Continued)*

The following details the Group's sensitivity based on the exposure to the Group's cross currency swap contracts, cross currency interest rate swap contracts and foreign currency forward contracts outstanding at the end of the reporting period. The sensitivity to foreign currency risk has been determined based on management's assessment of the reasonably possible change in exchange rate of USD and HKD against RMB. If the exchange rate of USD and HKD against RMB is 3% (2017: 3%) higher/lower while all other input variables of the valuation models are held constant, the Group's profit before taxation for the year ended 31 December 2018 would increase/decrease by HK\$117,899,000 (2017: HK\$90,366,000) and the Group's hedge reserve would increase/decrease by HK\$1,458,000 (2017: nil) 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 the derivative financial instruments as disclosed above is as follows:

If the exchange rate of RMB against USD and HKD is 3% (2017: 3%) higher/lower, the Group's profit before taxation for the year would decrease/increase by HK\$9,394,000 (2017: increase/decrease by HK\$5,234,000) and the Group's hedge reserve would decrease/increase by HK\$1,458,000 (2017: nil).

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank and other borrowings, fixed-rate short-term 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's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("HIBOR") arising from the Group's HKD bank loans and the fluctuation of basic borrowing rate announced by the People's Bank of China arising from the Group's RMB bank loans.

The Group entered into cross currency interest rate swaps to reduce or hedge against its exposures to the interest rate on the variable-rate bank borrowings. Other than the cross currency interest rate swap contract which is designated as effective hedging instrument for a variable-rate bank borrowing as detailed above, these derivative financial instruments are not accounted under hedge accounting. As the Group's interest rate risk is hedged, no sensitivity analysis for the hedging instrument and hedged item has been prepared accordingly.

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Interest rate risk *(Continued)*

The management continues to monitor interest rate exposure and will consider hedging other significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments (excluding derivative financial instruments) at the end of the reporting period. 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 (2017: 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 (2017: 25 basis points) higher/lower and all other variables were held constant, the Group's profit before taxation for the year ended 31 December 2018 would decrease/increase by HK\$12,743,000 (2017: HK\$11,941,000). 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.

The following details the Group's sensitivity based on the exposure to the Group's cross currency interest rate swap contracts outstanding at the end of the reporting period. A 25 basis points (2017: 25 basis points) increase or decrease represents management's assessment of the reasonably possible change in forward interest rates.

If forward interest rates had been 25 basis points (2017: 25 basis points) higher/lower and all other variables were held constant, the Group's profit before taxation for the year ended 31 December 2018 would increase/decrease by HK\$3,151,000 (2017: nil) and the Group's hedge reserve would increase/decrease by HK\$3,751,000 (2017: nil) as a result of the change in fair value of these financial derivatives.

The aggregate sensitivity to interest rate risk for financial instruments (including the derivative financial instruments) as disclosed above is as follows:

If interest rates (as detailed above) had been 25 basis points (2017: 25 basis points) higher/lower, the Group's profit before taxation for the year would decrease/increase by HK\$9,592,000 (2017: HK\$11,941,000) and the Group's hedge reserve would increase/decrease by HK\$3,751,000 (2017: nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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 a listed equity security measured at FVTOCI (2017: available-for-sale investment). In addition, the Group also invested in certain unquoted equity securities for long term strategic purposes which had been designated as FVTOCI (2017: available-for-sale investments measured at cost less impairment). The Group currently does not have a hedging policy in relation to the price risk. However, the management will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risk at the reporting date, excluding available-for-sale investments measured at cost less impairment for the year ended 31 December 2017. Sensitivity analysis for the unquoted equity securities with fair value measurement categorised within Level 3 were disclosed in the fair value measurement section of this note.

If the prices of the respective listed equity security with fair value measurement categorised within Level 1 had been 3% higher/lower, the Group's investment revaluation reserve would increase/decrease by HK\$1,312,000 (2017: HK\$1,948,000) as a result of the changes in fair value of the investments.

Credit risk and impairment assessment

As at 31 December 2018, the Group's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, is arising from the carrying amounts of the Group's financial assets (excluding equity instruments at fair value through other comprehensive income) as stated in the consolidated statement of financial position.

Trade receivables

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances based on provision matrix. In this regard, the Directors consider that the Group's credit risk is effectively managed.

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

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Trade receivables *(Continued)*

Provision matrix – debtors' aging

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its operation because these customers consist of a large number of customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Based on the Group's assessment of historical credit loss experience of the existing debtors and all available forward-looking information, including but not limited to the expected economic conditions in the PRC and expected subsequent settlements, the Group does not consider that default occurs for those contractual payments that are more than 90 days past due. The Group used estimated loss rates ranging from 0% to 30% for trade receivables not credit impaired based on aging for classes with different credit risk characteristics and exposures, and the estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2018, the Group provided HK\$14,220,000 impairment allowance for trade receivables based on the provision matrix.

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

	Lifetime ECL (not credit- impaired) HK\$'000	Lifetime ECL (credit- impaired)* HK\$'000	Total HK\$'000
As at 31 December 2017 under HKAS 39	–	118,933	118,933
Adjustment upon application of HKFRS 9	5,641	–	5,641
As at 1 January 2018 – as restated	5,641	118,933	124,574
Exchange realignment	(319)	(6,717)	(7,036)
Impairment losses recognised	14,220	–	14,220
As at 31 December 2018	19,542	112,216	131,758

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

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

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For the year ended 31 December 2018

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Time deposits over three months and bank balances

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

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

The credit risk of loans to joint ventures, loan to an associate, loan to a non-controlling shareholder and amounts due from non-controlling shareholders are concentrated in four (2017: three) joint ventures, one (2017: one) associate, nil (2017: one) non-controlling shareholder and five (2017: three) non-controlling shareholders respectively. However, the management, having considered the financial background and good creditability of the joint ventures, associate and non-controlling shareholders, believes the credit risk is minimal. Management will closely monitor the financial position of each counterparty to ensure overdue debts are recovered in a timely manner.

Other receivables

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

Liquidity risk

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

The Group relies on bank and other borrowings as a significant source of liquidity. As at date of approval for issuance of the consolidated financial statements, the Group had available unutilised bank loan facilities of HK\$5,360 million (2017: HK\$2,916 million). As stated in note 1, the Directors have considered the Group's liquidity and going concern in light of the fact that the Group's current liabilities exceed its current assets by approximately HK\$4,522 million (at 31 December 2017: HK\$5,760 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.

6. Financial Instruments (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

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

	Weighted average effective interest rate	Repayable on demand or less than 1 month HK\$'000	1 – 3 months HK\$'000	3 months to 1 year HK\$'000	1 – 5 years HK\$'000	5+ years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2018 HK\$'000
2018								
Trade payables	–	337,726	290,647	411,321	160,561	48,138	1,248,393	1,248,393
Other payables	–	533,255	–	–	–	–	533,255	533,255
Amounts due to non-controlling shareholders	–	96,629	–	–	–	–	96,629	96,629
Loans from joint ventures	2.78%	24,699	–	–	–	–	24,699	24,642
Bank loans	3.30%	1,320,310	843,587	864,857	7,580,729	12,151	10,621,634	9,466,400
Other loans	1.35%	1,644	84	22,374	6,757	9,336	40,195	37,932
		2,314,263	1,134,318	1,298,552	7,748,047	69,625	12,564,805	11,407,251
Derivatives – gross settlement								
Cross currency interest rate swap								
– inflow		–	(6,530)	(19,214)	(837,518)	–	(863,262)	N/A
– outflow		–	8,662	26,467	852,561	–	887,690	N/A
		–	2,132	7,253	15,043	–	24,428	22,300
Derivatives – gross settlement								
Cross currency swaps								
– inflow		(1,061,639)	(210,452)	(1,725,508)	–	–	(2,997,599)	N/A
– outflow		1,024,384	233,268	1,752,394	–	–	3,010,046	N/A
		(37,255)	22,816	26,886	–	–	12,447	13,428
Foreign currency forward contracts								
– inflow		–	(907,193)	(200,000)	–	–	(1,107,193)	N/A
– outflow		–	958,213	214,414	–	–	1,172,627	N/A
		–	51,020	14,414	–	–	65,434	64,257

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For the year ended 31 December 2018

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

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		Fair value hierarchy	Valuation techniques and key inputs
	31.12.2018	31.12.2017		
1) Listed equity investment classified as available-for-sale investment in the consolidated statement of financial position	Asset	Asset	Level 1	Quoted market price
	Nil	HK\$64,930,000		
2) Listed equity investment classified as FVTOCI in the consolidated statement of financial position	Asset	Asset	Level 1	Quoted market price
HK\$43,741,000	Nil			
3) Cross currency swaps and cross currency interest rate swaps classified as other financial assets/liabilities in the consolidated statement of financial position	Assets	Assets	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.
	HK\$37,180,000	Nil		
	Liabilities	Liabilities		
HK\$72,908,000	HK\$38,733,000			
4) Foreign currency forward contracts classified as other financial assets/liabilities in the consolidated statement of financial position	Liabilities	Liabilities	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.
HK\$64,257,000	HK\$166,316,000			

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For the year ended 31 December 2018

6. Financial Instruments *(Continued)*

Fair value measurements *(Continued)*

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

Financial assets/liabilities	Fair value as at		Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
	31.12.2018	31.12.2017			
Unquoted equity investments	Assets HK\$337,708,000	N/A	Level 3	Market comparable approach	Market multiples ranging from 1.0 to 1.6 and discount for lack of marketability ranging from 0% to 30% (note)

Note: The higher the market multiples, the higher the fair value, and vice versa. The higher the discount, the lower the fair value, and vice versa.

Reconciliation of Level 3 fair value measurements of financial assets

	HK\$'000
Balance at 1 January 2018*	257,929
Currency realignment	(17,318)
Fair value change recognised to other comprehensive income	97,097
Balance at 31 December 2018	337,708

* The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated.

Fair value measurements and valuation processes

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

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, 2 and 3 during the year.

7. Revenue

The Group's revenue from contracts with customers was all generated in the PRC and has been disaggregated as (i) sales and distribution of piped gas and related products of HK\$9,754,895,000 and (ii) gas connection of HK\$2,032,107,000 for the year ended 31 December 2018, as disclosed in note 8.

As at 31 December 2018, the amounts of transaction price allocated to the remaining performance obligations of gas connection (unsatisfied or partially unsatisfied) are expected to be recognised as revenue within one year and over one year are HK\$1,287,440,000 and HK\$1,651,946,000 respectively, and the Group's contract liabilities of HK\$756,526,000 relating to sales and distribution of piped gas and related products, in which the respective performance obligations have not been satisfied, are expected to be recognised as revenue within one year.

8. Segment Information

Operating segments

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

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

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

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

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

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For the year ended 31 December 2018

8. Segment Information *(Continued)*

Operating segments *(Continued)*

Segments results represent the profit before taxation earned by each segment, excluding finance costs, share of results of associates, share of results of joint ventures, other (losses) 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.

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 2018			
REVENUE			
External	9,754,895	2,032,107	11,787,002
Segment results	874,492	885,923	1,760,415
Other losses, net			(59,524)
Unallocated corporate expenses			(163,040)
Share of results of associates			323,076
Share of results of joint ventures			346,641
Finance costs			(315,438)
Profit before taxation			1,892,130
Taxation			(478,981)
Profit for the year			1,413,149

8. Segment Information *(Continued)*

Operating segments *(Continued)*

	Sales and distribution of piped gas and related products HK\$'000	Gas connection HK\$'000	Consolidated HK\$'000
For the year ended 31 December 2017			
REVENUE			
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

Segment results included depreciation and amortisation of HK\$608,289,000 (2017: HK\$540,491,000), 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 2018 and 2017.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

9. Total Operating Expenses

	2018 HK\$'000	2017 HK\$'000
Gas fuel, stores and materials used	8,098,571	5,552,365
Staff costs	969,123	913,713
Depreciation, amortisation and release of leasehold land	608,289	540,491
Other expenses	513,644	463,914
	10,189,627	7,470,483

10. Other (Losses) Gains, Net

Other (losses) gains, net mainly comprise of:

	2018 HK\$'000	2017 HK\$'000
Dividend income from		
– equity instruments at fair value through other comprehensive income	52,227	–
– available-for-sale investments	–	91,156
Interest income	17,823	24,155
Exchange (loss) gain	(231,484)	231,254
Gain on disposal of associates	–	23,769
Gain on deemed partial disposal of interest in an associate	–	209,390
Change in fair value of other financial assets and liabilities	13,304	(364,376)
Gain on disposal of property, plant and equipment	20,998	5,376
Gain (loss) on disposal of leasehold land	41,183	(322)

11. Finance Costs

	2018 HK\$'000	2017 HK\$'000
Interest on:		
– bank and other borrowings wholly repayable within five years	326,321	275,861
– bank and other borrowings not wholly repayable within five years	587	514
Bank charges	5,778	5,289
	332,686	281,664
Less: amounts capitalised	(17,248)	(19,339)
	315,438	262,325

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate 2.93% (2017: 2.76%) to expenditure on qualifying assets.

12. Profit Before Taxation

	2018 HK\$'000	2017 HK\$'000
Profit before taxation has been arrived at after charging (crediting):		
Directors' remuneration (note 13)	16,256	13,751
Other staff costs	873,954	827,853
Retirement benefit scheme contributions (excluding directors)	78,913	72,109
Total staff costs	969,123	913,713
Impairment loss of trade receivables, net of reversal	14,220	19,802
Amortisation of intangible assets	19,400	18,822
Release of leasehold land	19,945	19,957
Auditor's remuneration	12,243	11,481
Cost of inventories sold	8,754,478	6,146,570
Depreciation of property, plant and equipment	568,944	501,712
Operating lease rentals in respect of land and buildings	36,198	31,541
Gain on disposal of property, plant and equipment	(20,998)	(5,376)
(Gain) loss on disposal of leasehold land	(41,183)	322

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

13. Directors' and Employees' Emoluments

The emoluments paid or payable to each of the 7 (2017: 7) directors were as follows:

	Year ended 31 December 2018							Total HK\$'000
	Alfred Chan Wing-kin HK\$'000	Moses Cheng Mo-chi HK\$'000	James Kwan Yuk-choi HK\$'000	Martin Kee Wai-ngai HK\$'000 (Note f)	John Ho Hon-ming HK\$'000 (Note e)	Brian David Li Man-bun HK\$'000	Peter Wong Wai-yee HK\$'000 (Note d)	
Directors' fees (Note a)	200	500	500	200	200	500	200	2,300
Other emoluments (Note b)								
Salaries and other benefits	-	-	-	1,128	1,167	-	1,249	3,544
Retirement benefit scheme contributions	-	-	-	113	117	-	125	355
Performance and discretionary bonus (Note c)	-	-	-	2,560	2,740	-	4,757	10,057
Total emoluments	200	500	500	4,001	4,224	500	6,331	16,256

	Year ended 31 December 2017							Total HK\$'000
	Alfred Chan Wing-kin HK\$'000	Moses Cheng Mo-chi HK\$'000	James Kwan Yuk-choi HK\$'000	Martin Kee Wai-ngai HK\$'000	John Ho Hon-ming HK\$'000 (Note e)	Brian David Li Man-bun HK\$'000	Peter Wong Wai-yee HK\$'000 (Note d)	
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

Notes:

- The directors' fees were mainly for their services as directors of the Company and its subsidiaries.
- The other emoluments were mainly for their services in connection with the management of the affairs of the Company and the Group.
- 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.
- Mr. Peter Wong Wai-yee is also the Chief Executive Officer of the Company and his emoluments disclosed above include those for services rendered by him as Chief Executive Officer.
- Mr. John Ho Hon-ming is also the Company Secretary of the Company and his emoluments disclosed above include those for services rendered by him as Company Secretary.
- Mr. Martin Kee Wai-ngai is also the Chief Operating Officer of the Company and his emoluments disclosed above include those for services rendered by him as Chief Operating Officer.
- No other service contracts were entered into by any directors with the Company.

13. Directors' and Employees' Emoluments (Continued)

Employees' emoluments:

For the year ended 31 December 2018, the five highest paid individuals of the Group included three (2017: three) directors of the Company, details of their emoluments are included above. The emoluments of the remaining two (2017: two) highest paid individuals are as follows:

	2018 HK\$'000	2017 HK\$'000
Salaries and other benefits	2,853	2,723
Performance related incentive payments	2,243	1,892
Contribution to retirement benefit scheme	233	225
	5,329	4,840

The emoluments were within the following bands:

	Number of employees	
	2018	2017
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,000,001 to HK\$2,500,000	1	–
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$3,000,001 to HK\$3,500,000	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 2018.

14. Taxation

	2018 HK\$'000	2017 HK\$'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
– current year	446,262	373,461
Deferred taxation (note 34)		
– taxation charge for the year	32,719	31,912
	478,981	405,373

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

14. Taxation (Continued)

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

The EIT rates applicable for the Group's PRC subsidiaries ranged from 15% to 25% (2017: 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:

	2018 HK\$'000	2017 HK\$'000
Profit before taxation	1,892,130	1,917,654
Tax at the applicable rate of 25% (2017: 25%) (note)	473,033	479,414
Tax effect of expenses that are not deductible for tax purposes	170,626	196,123
Tax effect of income that are not taxable for tax purposes	(26,057)	(122,176)
Effect of different tax rates of subsidiaries operating in different regions	(40,729)	(46,181)
Tax effect of share of results of associates	(80,769)	(85,481)
Tax effect of share of results of joint ventures	(86,660)	(72,849)
Tax effect of utilisation of tax losses not previously recognised	(13,421)	(17,155)
Tax effect of tax losses not recognised	39,231	44,398
Withholding tax on undistributed profits	43,727	29,280
Tax charge for the year	478,981	405,373

Note: The tax rate of 25% represents EIT which is applicable to most of the Group's operations in the PRC for the year 2018 (2017: 25%).

15. Dividends

During the year, a final dividend in respect of the year ended 31 December 2017 of HK\$415,303,000 (2017: HK\$325,392,000 in respect of the year ended 31 December 2016) was recognised as distribution, being HK fifteen cents per ordinary share (2017: HK twelve cents per ordinary share).

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2018 of HK fifteen cents (2017: HK fifteen cents) per ordinary share has been proposed by the Board and is subject to approval by the shareholders in the forthcoming annual general meeting.

16. Earnings Per Share

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

	2018	2017
	HK\$'000	HK\$'000
Earnings for the purpose of basic earnings per share, being profit for the year attributable to shareholders of the Company	1,224,274	1,365,385
	Number of shares	
	2018	2017
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,789,529	2,737,878

No diluted earnings per share for both 2018 and 2017 were presented as there were no potential ordinary shares in issue for both 2018 and 2017.

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For the year ended 31 December 2018

17. Property, Plant and Equipment

	Buildings HK\$'000	Gas and other pipelines HK\$'000	Plant and equipment and others HK\$'000	Construction in progress HK\$'000	Total HK\$'000
COST					
At 1 January 2017	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
Currency realignment	(108,278)	(734,793)	(93,829)	(105,610)	(1,042,510)
Additions	76,656	700,967	160,012	1,391,308	2,328,943
Additions from acquisition of business	–	–	909	12,635	13,544
Disposals	(23,560)	(48,867)	(77,132)	–	(149,559)
Transfer	163,949	1,131,580	50,992	(1,346,521)	–
At 31 December 2018	1,961,364	13,772,798	1,701,624	1,922,575	19,358,361
DEPRECIATION					
At 1 January 2017	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
Currency realignment	(23,155)	(121,530)	(49,769)	–	(194,454)
Provided for the year	73,821	344,701	150,422	–	568,944
Eliminated on disposals	(10,874)	(10,151)	(57,535)	–	(78,560)
At 31 December 2018	371,932	2,236,579	835,802	–	3,444,313
CARRYING VALUES					
At 31 December 2018	1,589,432	11,536,219	865,822	1,922,575	15,914,048
At 31 December 2017	1,520,457	10,700,352	867,988	1,970,763	15,059,560

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 2018 and 2017.

18. Leasehold Land

	2018	2017
	HK\$'000	HK\$'000
Balance at the beginning of the year	640,668	577,449
Currency realignment	(37,397)	43,112
Additions	103,071	39,415
Addition relating to acquisition of business	–	6,178
Disposals	(22,266)	(5,529)
Charge for the year	(19,945)	(19,957)
Balance at the end of the year	664,131	640,668
Analysis for reporting purpose:		
Non-current portion	638,502	613,218
Current portion	25,629	27,450
	664,131	640,668

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

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19. Intangible Assets

	HK\$'000
COST	
At 1 January 2017	610,520
Currency realignment	45,899
At 31 December 2017	656,419
Currency realignment	(33,758)
Addition	15,372
At 31 December 2018	638,033
AMORTISATION	
At 1 January 2017	105,021
Currency realignment	9,104
Provided for the year	18,822
At 31 December 2017	132,947
Currency realignment	(6,983)
Provided for the year	19,400
At 31 December 2018	145,364
CARRYING VALUES	
At 31 December 2018	492,669
At 31 December 2017	523,472

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.

20. Goodwill

	HK\$'000
At 1 January 2017	5,349,340
Currency realignment	406,426
Addition relating to acquisition of business	68,406
At 31 December 2017	5,824,172
Currency realignment	(303,187)
Additions relating to acquisition of business (note 37)	1,268
At 31 December 2018	5,522,253

20. Goodwill (Continued)

Goodwill acquired in a business combination is allocated to cash generating units (“CGUs”) that are expected to benefit from that business combination. The management considers each investment holding company operating in specific locations together with its respective subsidiaries (together referred to as the “Sub-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:

	2018 HK\$'000	2017 HK\$'000
Sub-group headed by:		
Hong Kong & China Gas (Qingdao) Limited	325,927	343,818
Hong Kong & China Gas (Zibo) Limited	350,543	369,786
Hong Kong & China Gas (Yantai) Limited	236,747	249,743
Hong Kong & China Gas (Weifang) Limited	136,224	143,702
Hong Kong & China Gas (Weihai) Limited	271,201	286,088
Hong Kong & China Gas (Taian) Limited	239,943	253,114
Hong Kong & China Gas (Maanshan) Limited	284,801	300,435
Hong Kong & China Gas (Anqing) Limited	269,942	284,761
Mianyang Hong Kong & China Gas Co., Ltd.	290,189	306,118
成都新都港華燃氣有限公司	220,547	232,654
Towngas (BVI) Holdings Limited (“Towngas BVI”)*	404,248	426,439
阜新新邱港華燃氣有限公司	128,402	135,451
Ji Nan Ping Yin Hong Kong & China Gas Co., Ltd.	123,163	129,924
Shenyang business	105,221	110,997
綿竹港華燃氣有限公司	104,447	110,181
潮州楓溪港華燃氣有限公司	149,016	157,196
Boxing Hong Kong & China Gas Co., Ltd	88,682	93,551
Dafeng Hong Kong and China Gas Company Limited	249,576	263,276
廣西中威管道燃氣發展集團有限責任公司	127,973	135,451
Baotou Hong Kong & China Gas Company Limited	163,581	172,561
Xingyi Hong Kong & China Gas Company Limited	102,923	108,573
Others	1,148,957	1,210,353
	5,522,253	5,824,172

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

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20. Goodwill (Continued)

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% (2017: 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% (2017: 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 2018 (2017: nil).

21. Interests in Associates/Loan to an Associate

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

	2018 HK\$'000	2017 HK\$'000
Cost of investments in associates	2,123,234	2,167,627
Share of post-acquisition profits and other comprehensive income, net of dividends received	1,885,962	1,767,488
	4,009,196	3,935,115
Fair value of listed investments	5,220,882	8,697,257
Loan to an associate		
– Non-current portion	11,159	–
– Current portion	–	11,772
	11,159	11,772

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

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

Name of associate	Place of establishment and operation	Percentage of equity interest attributable to the Group and voting power attributable to the Group		Principal activities
		2018	2017	
Anhui Province Wenery Towngas Natural Gas Company Limited	PRC – Sino-foreign equity joint venture	49.0%	49.0%	Midstream
Changchun Gas Co., Ltd.*	PRC – Company limited by shares	28.2%	28.2%	Provision of natural gas and related services and gas pipeline construction
Dalian DETA Hong Kong and China Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	40.0%	40.0%	Provision of natural gas and related services and gas pipeline construction
Foshan Gas Group Co., Ltd.**	PRC – Company limited by shares	38.7%	38.7%	Provision of natural gas and related services and gas pipeline construction
撫州市撫北天然氣有限公司	PRC – Limited liability company	40.0%	40.0%	Provision of natural gas and related services and gas pipeline construction
臨朐港華燃氣有限公司	PRC – Sino-foreign equity joint venture	42.4%	42.4%	Provision of natural gas and related services and gas pipeline construction
四川能投分布式能源有限公司	PRC – Sino-foreign equity joint venture	25.0%	25.0%	Provision of natural gas distributed energy
Shandong Jihua Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	49.0%	49.0%	Provision of natural gas and related services and gas pipeline construction
石家莊華博燃氣有限公司	PRC – Sino-foreign equity joint venture	45.0%	45.0%	Provision of natural gas and related services and gas pipeline construction
Zhuojia Public Engineering (Maanshan) Co., Ltd.	PRC – Sino-foreign equity joint venture	37.5%	37.5%	Provision of gas pipe assembly
Zibo Lubo Gas Company Limited	PRC – Sino-foreign equity joint venture	27.0%	27.0%	Provision of natural gas and related services and gas pipeline construction

* Its shares are listed on the Shanghai Stock Exchange.

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

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

Aggregate information of associates that are not individually material

	2018 HK\$'000	2017 HK\$'000
The Group's share of profit and total comprehensive income	323,076	341,922
Aggregate carrying amount of the Group's interests in these associates	4,009,196	3,935,115

During the year, the maturity of the loan to an associate with principal amount of RMB9,800,000 bearing interest at a fixed rate of 4.75% per annum was extended from December 2018 to December 2020.

22. Interests in Joint Ventures/Loans to Joint Ventures

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

	2018 HK\$'000	2017 HK\$'000
Cost of investments in joint ventures	1,162,065	1,232,675
Share of post-acquisition profits and other comprehensive income, net of dividends received	1,358,793	1,174,522
	2,520,858	2,407,197
Loans to joint ventures		
– Non-current portion	39,854	24,024
– Current portion	240,451	286,298
	280,305	310,322

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

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

Name of entity	Place of establishment and operation	Proportion of nominal value of registered capital held by the Group		Principal activities
		2018	2017	
Anqing Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	50.0%	50.0%	Provision for natural gas and related services and gas pipeline construction
重慶港華燃氣有限公司	PRC – Limited liability company	50.0%	50.0%	Provision of natural gas and related services and gas pipeline construction
Hangzhou Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	50.0%	50.0%	Provision of natural gas and related services and gas pipeline construction
Maanshan Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	50.0%	50.0%	Provision of natural gas and related services and gas pipeline construction
泰安市泰港燃氣有限公司	PRC – Sino-foreign equity joint venture	49.0%	49.0%	Midstream
Taian Taishan Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	49.0%	49.0%	Provision of natural gas and related services and gas pipeline construction
Weifang Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	50.0%	50.0%	Provision of natural gas and related services and gas pipeline construction
Weihai Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	50.0%	50.0%	Provision of natural gas and related services and gas pipeline construction
Wuhu Hong Kong & China Gas Company Limited	PRC – Sino-foreign equity joint venture	50.0%	50.0%	Provision of natural gas and related services and gas pipeline construction
Zibo Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	50.0%	50.0%	Provision of natural gas and related services and gas pipeline construction

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22. Interests in Joint Ventures/Loans to Joint Ventures (Continued)

Aggregate information of joint ventures that are not individually material

	2018 HK\$'000	2017 HK\$'000
The Group's share of profit and total comprehensive income	346,641	291,394
Aggregate carrying amount of the Group's interests in these joint ventures	2,520,858	2,407,197

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

Principal amount		Maturity date	Coupon interest rate	Effective interest rate	Carrying amount	
2018	2017				2018 HK\$'000	2017 HK\$'000
RMB35,000,000	RMB35,000,000	July 2020 (2017: Repayable on demand)	4.75%	4.75%	39,854	42,042
-	RMB2,180,000	Nil (2017: Repayable on demand)	5.88%	5.88%	-	2,618
RMB10,000,000	RMB10,000,000	November 2019 (2017: November 2018)	4.35%	4.35%	11,387	12,012
RMB10,000,000	RMB20,000,000	October 2019 (2017: October 2018)	4.35%	4.35%	11,387	24,024
RMB10,000,000	RMB10,000,000	September 2019 (2017: September 2018)	4.35%	4.35%	11,387	12,012
RMB10,000,000	RMB10,000,000	August 2019 (2017: August 2019)	4.75%	4.75%	11,387	12,012
RMB10,000,000	RMB10,000,000	August 2019 (2017: August 2019)	4.75%	4.75%	11,387	12,012
RMB10,000,000	RMB10,000,000	June 2019 (2017: June 2018)	4.35%	4.35%	11,387	12,012
RMB151,164,000	RMB151,164,000	Repayable on demand (2017: Repayable on demand)	-	-	172,129	181,578
					280,305	310,322

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

23. Equity Instruments at Fair Value Through Other Comprehensive Income

	2018 HK\$'000
Listed shares in the PRC	43,741
Unlisted shares in the PRC	337,708
	381,449

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

24. Available-For-Sale Investments

	2017 HK\$'000
Listed shares in the PRC, at fair value	64,930
Unlisted shares in the PRC, at cost	160,485
	225,415

At 31 December 2017, investments in unlisted equity securities issued by private entities established in the PRC were 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.

25. Inventories

	2018 HK\$'000	2017 HK\$'000
Finished goods	126,858	120,860
Materials and consumables	448,392	515,759
	575,250	636,619

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26. Loan to a Non-Controlling Shareholder

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

Principal amount		Maturity date	Coupon	Effective	Carrying amount	
2018	2017		interest rate	interest rate	2018	2017
					HK\$'000	HK\$'000
-	RMB14,500,000	Nil (2017: March 2018)	6%	6%	-	17,417

The principal and interest were received on respective payment due dates during the year.

27. Trade and Other Receivables, Deposits and Prepayments/Time Deposits Over Three Months And Bank Balances and Cash

	2018	2017
	HK\$'000	HK\$'000
Trade receivables (net of allowance for credit losses)	871,480	710,349
Prepayments	597,090	461,746
Other receivables and deposits	364,658	221,049
	1,833,228	1,393,144

Trade receivables

Included in the balance of trade and other receivables, deposits and prepayments are trade receivables with gross carrying amount of HK\$1,003,238,000 (2017: HK\$829,282,000) and allowance for credit losses of HK\$131,758,000 (2017: HK\$118,933,000). 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:

	2018	2017
	HK\$'000	HK\$'000
0 to 90 days	747,436	551,597
91 to 180 days	44,553	45,781
Over 180 days	79,491	112,971
	871,480	710,349

27. Trade and Other Receivables, Deposits and Prepayments/Time Deposits Over Three Months And Bank Balances and Cash

(Continued)

Trade receivables *(Continued)*

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$3,117,000 which are past due as at the reporting date. Out of the past due balances, HK\$2,264,000 has been past due 90 days or more and is not considered as in default based on the Group's assessment of historical credit loss experience of the existing debtors and all available forward-looking information, including but not limited to the expected economic conditions in the PRC and expected subsequent settlements. The Group does not hold any collateral over these balances.

Details of the impairment assessment of trade receivables for the year ended 31 December 2018 are set out in note 6.

As at 31 December 2017, included in the Group's trade receivables were debtors with aggregate carrying amount of HK\$11,741,000 which had been past due at the end of the reporting period for which the Group had not provided for impairment loss. The Group did not hold any collateral over these balances but the management expected they were recoverable with reference to satisfactory settlement records.

Aging of trade receivables which were past due but not impaired was as follows:

	31 December 2017 HK\$'000
0 to 90 days	4,932
91 to 180 days	2,144
Over 180 days	4,665
Total	11,741

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

	2017 HK\$'000
Balance at the beginning of the year	99,131
Impairment losses recognised on receivables	19,802
Balance at the end of the year	118,933

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27. Trade and Other Receivables, Deposits and Prepayments/Time Deposits Over Three Months And Bank Balances and Cash (Continued)

Trade receivables (Continued)

The allowance for doubtful debts was composed entirely of individually impaired receivables which represented amounts that had been long overdue and recoverability had been considered remote.

The Group had 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 were 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 2.93% (2017: 0.00% to 3.50%) 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.

	2018 HK\$'000	2017 HK\$'000
United States Dollar	20,043	28,236
Hong Kong Dollar	6,637	7,571

28. Amounts Due From/To Non-Controlling Shareholders

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

29. Other Financial Assets/Liabilities

	2018 HK\$'000	2017 HK\$'000
Other financial assets		
<i>Derivatives (not under hedge accounting)</i>		
Cross currency interest rate swaps under current assets	37,180	–
Other financial liabilities		
<i>Derivatives (not under hedge accounting)</i>		
Foreign currency forward contracts under current liabilities	64,257	76,172
Cross currency swaps and cross currency interest rate swaps under current liabilities	50,608	–
	114,865	76,172
Foreign currency forward contracts under non-current liabilities	–	90,144
Cross currency swaps under non-current liabilities	–	38,733
	–	128,877
<i>Derivatives (under hedge accounting)</i>		
Cash flow hedge – cross currency interest rate swap contract under non-current liabilities	22,300	–
	137,165	205,049

The classification of the measure of the derivative financial instruments at 31 December 2018 and 2017 using the fair value hierarchy is Level 2. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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29. Other Financial Assets/Liabilities (Continued)

Derivatives (not under hedge accounting)

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

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

During the year, change in fair value of the foreign currency forward contracts, cross currency swaps and cross currency interest rate swaps amounting to gain of HK\$13,304,000 (2017: loss of HK\$364,376,000) has been recognised to profit or loss.

29. Other Financial Assets/Liabilities (Continued)

Cash flow hedge

During the year ended 31 December 2018, the Group entered into a cross currency interest rate swap contract with total notional amount of USD100,000,000 with Westpac Banking Corporation to minimise the exposure to fluctuations in foreign currency exchange rates and interest rates of the USD bank loan with principal amount of USD100,000,000. The critical terms of the cross currency interest rate swap and the corresponding USD bank loan are closely aligned and the Directors considered that the cross currency interest rate swap was a highly effective hedging instrument and qualified as cash flow hedge. During the year, the fair value change of HK15,061,000 on derivative instrument designated as cash flow hedge was recorded in hedge reserve, and reclassification of fair value change of HK\$1,216,000 on derivative instrument designated as cash flow hedge was made to charge to finance costs of HK\$63,000 and credit to exchange differences of HK1,279,000 in profit or loss.

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

Notional amount	Maturity	Exchange rate	Interest rate		Exchange frequency		Total hedged item
			Receive	Pay	Receive	Pay	
Cross currency interest rate swap							
USD100,000,000	2021	USD1 to RMB6.8685	LIBOR+0.53%	4.43%	Quarterly from initial date until maturity date	Quarterly from initial date until maturity date	Bank loan principal and interest payments

30. Trade and Other Payables and Accrued Charges

	2018 HK\$'000	2017 HK\$'000
Trade payables	1,248,393	1,197,993
Receipt in advance	–	3,092,720
Consideration payable for acquisitions of businesses	75,019	100,591
Other payables and accruals	755,590	780,852
Amount due to the ultimate holding company (note)	924	863
	2,079,926	5,173,019

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

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30. Trade and Other Payables and Accrued Charges (Continued)

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

	2018 HK\$'000	2017 HK\$'000
0 to 90 days	819,120	775,346
91 to 180 days	127,950	139,989
181 to 360 days	128,181	137,281
Over 360 days	173,142	145,377
	1,248,393	1,197,993

31. Contract Liabilities

	31 December 2018 HK\$'000	1 January 2018* HK\$'000
Sales and distribution of piped gas and related products	756,526	639,612
Gas connection	2,287,430	2,453,108
	3,043,956	3,092,720

* The amounts in this column are after the adjustments from the application of HKFRS 15.

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in prior periods.

	Sales and distribution of piped gas and related products HK\$'000	Gas connection HK\$'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	639,612	1,140,695

31. Contract Liabilities *(Continued)*

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

Sales and distribution of piped gas and related products

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

Gas connection

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

32. Borrowings

	2018 HK\$'000	2017 HK\$'000
Bank loans – unsecured	9,466,400	8,739,164
Other loans – unsecured	37,932	40,501
	9,504,332	8,779,665
Carrying amount repayable:		
On demand or within one year	2,783,581	3,707,803
More than one year but not exceeding two years	1,168,312	2,804,347
More than two years but not exceeding five years	5,533,998	2,246,573
More than five years	18,441	20,942
	9,504,332	8,779,665
Less: Amount due within one year shown under current liabilities	(2,783,581)	(3,707,803)
Amount due after one year	6,720,751	5,071,862

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32. Borrowings (Continued)

The bank and other loans mainly comprise of:

	Effective interest rate	Carrying amount	
		2018 HK\$'000	2017 HK\$'000
Floating-rate loans:			
Unsecured HKD bank loans	2.23% (2017: 1.60%)	3,627,482	2,700,267
Unsecured RMB bank loans	4.70% (2017: 4.58%)	1,469,859	1,568,402
Unsecured USD bank loans	2.80% (2017: 1.80%)	783,200	507,910
Fixed rate loans*:			
Unsecured RMB bank loans	4.05% (2017: 3.92%)	3,585,859	3,962,585
Unsecured RMB other loans	1.50% (2017: 2.69%)	21,907	23,109
Unsecured other loans	1.15% (2017: 1.12%)	16,025	17,392
Total bank loans and other loans		9,504,332	8,779,665

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

33. Loans From Joint Ventures

At the year ended date, loans from joint ventures were denominated in RMB with the carrying amount of HK\$24,642,000 (2017: HK\$49,172,000). The loans carrying interest at a fixed rate of 2.78% (2017: 2.57%) per annum are unsecured and wholly repayable on demand.

34. Deferred Taxation

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

	Accelerated tax depreciation HK\$'000	Intangible assets HK\$'000	Undistributed profits of joint ventures/ associates/ subsidiaries HK\$'000	ECL provision/ fair value revaluation of equity instruments at FVTOCI HK\$'000	Total HK\$'000
At 1 January 2017	66,064	134,391	208,071	–	408,526
Currency realignment	5,302	9,998	16,233	–	31,533
Charge (credit) to profit or loss	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
Adjustments (note 2)	–	–	–	22,951	22,951
At 1 January 2018 (restated)	78,637	139,750	235,713	22,951	477,051
Currency realignment	(3,984)	(7,082)	(13,674)	(1,425)	(26,165)
(Credit) charge to profit or loss	(2,692)	(4,761)	43,727	(3,555)	32,719
Charge to other comprehensive income	–	–	–	19,641	19,641
Withholding tax paid	–	–	(7,346)	–	(7,346)
At 31 December 2018	71,961	127,907	258,420	37,612	495,900

At the end of the reporting period, the Group has unused tax losses of HK\$748,306,000 (2017: HK\$708,374,000) 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 2023.

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35. Share Capital

	Number of shares	HK\$'000
At 31 December 2018		
– Authorised:		
Shares of HK\$0.10 each	5,000,000,000	500,000
– Issued and fully paid:		
Shares of HK\$0.10 each	2,810,027,892	281,003

Details of the authorised share capital is as follows:

	Number of shares	HK\$'000
At 1 January 2017, 31 December 2017 and 2018	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 2017	2,711,601,763	271,160
Issue of shares upon scrip dividend scheme (note a)	57,087,782	5,709
At 31 December 2017	2,768,689,545	276,869
Issue of shares upon scrip dividend scheme (note b)	41,338,347	4,134
At 31 December 2018	2,810,027,892	281,003

Notes:

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

All the shares which were issued during the years ended 31 December 2017 and 2018 rank pari passu with the then existing shares in all respects.

36. 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.

37. Acquisition of A Business

During the year ended 31 December 2018, the Group acquired the following business which is principally engaged in the operation of 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:			
徐州工業園區中港熱力有限公司 ("Xuzhou")	January 2018	51%	49,719

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

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

Purchase consideration	49,719
Non-controlling interests	46,551
Acquiree's fair value of net identifiable assets acquired (see below)	(95,002)
Goodwill arising on acquisition	1,268

The non-controlling interests recognised at the acquisition dates in respect of the acquisition in 2018 were measured by reference to the proportionate share of fair values of the acquirees' net assets at the acquisition dates and amounted to HK\$46,551,000.

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37. Acquisition of A Business *(Continued)*

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

Acquirees' fair values at acquisition dates:

	Xuzhou HK\$'000
Net assets acquired:	
Property, plant and equipment	13,544
Prepayments	86,909
Bank balances and cash	2,064
Other payables and accrued charges	(7,515)
	95,002

Net cash outflow arising on acquisition:

	Xuzhou HK\$'000
Purchase consideration	49,719
Bank balances and cash acquired	(2,064)
	47,655

Goodwill arose from the above acquisition because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforce of the business.

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

During the year, acquired business contributed HK\$56,921,000 to the Group's revenue and incurred profit of HK\$3,616,000 for the period between the dates of acquisition and the end of the reporting period, respectively.

Had the above acquisition been effected at the beginning of the reporting period, the total amount of revenue of the Group for the year ended 31 December 2018 would have been HK\$11,787,002,000, and the amount of the profit for the year would have been HK\$1,413,149,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the reporting period, nor is it intended to be a projection of future results.

38. Major Non-Cash Transactions

The Group issued additional shares as scrip dividends during the year ended 31 December 2018 as set out in note 35(b) (2017: note 35(a)).

39. 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	Loans from joint ventures	Dividend payable	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2018	8,779,665	49,172	–	8,828,837
Financing cash flows	693,341	(22,861)	(199,111)	471,369
Exchange differences	(278,271)	(1,669)	–	(279,940)
Interest expenses	309,597	–	–	309,597
Dividend declaration				
– shareholders of the Company	–	–	415,303	415,303
– non-controlling shareholders	–	–	91,200	91,200
Issue of shares upon scrip dividend scheme	–	–	(307,392)	(307,392)
At 31 December 2018	9,504,332	24,642	–	9,528,974
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: The amounts reclassified from hedge reserve are excluded in the reconciliation.

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40. 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	2018 HK\$'000	2017 HK\$'000
瀋陽三全工程監理諮詢有限公司 (note a)	Project management services	7,264	7,839
HongKong and China Technology (Wuhan) Company Limited (note a)	System software and supporting services	8,529	7,124
Shanxi ECO Coalbed Methane Co., Ltd. (note a)	Purchase of coalbed methane	1,784	3,739
Anhui Province Natural Gas Development Co. Ltd. (note b)	Purchase of compressed natural gas	75,384	85,050
山東港華培訓學院 (note a)	Training services	3,115	3,220
卓度計量技術(深圳)有限公司 (note a)	Purchase of gas meters	20,250	17,031
卓通管道系統(中山)有限公司 (note a)	Purchase of pipeline construction materials and tools	127,676	118,902
珠海卓銳高科信息技術有限公司 (note a)	Provision of system software, cloud computing system and safety inspection supporting services	2,374	1,406
Chaozhou Hong Kong and China Gas Company Limited (note a)	Processing service charges of natural gas	1,672	1,083

40. Related Party Transactions (Continued)

Name of related party	Nature of transaction	2018 HK\$'000	2017 HK\$'000
Maanshan Hong Kong and China Gas Company Limited (note c)	Purchase of natural gas	57,602	42,833
南京港華棲霞燃氣有限公司 (note b)	Purchase of liquefied natural gas	—	3,687
清遠卓佳公用工程材料有限公司 (note b)	Purchase of pipeline construction materials and tools	13,804	7,905
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	93,022	52,070
常州東利港華氣體有限公司 (note b)	Purchase of natural gas	57,818	7,631
豐縣港華燃氣有限公司 (note a)	Sale of natural gas	—	4,491
Zhuojia Public Engineering (Maanshan) Co., Ltd. (note b)	Processing of pipeline materials	9,426	5,661
Xuzhou Hong Kong and China Gas Company Limited (note a)	Purchase of natural gas	7,928	1,719
江蘇海企港華燃氣股份有限公司 (note b)	Purchase of pipeline construction materials and tools	2,741	2,135

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For the year ended 31 December 2018

40. Related Party Transactions (Continued)

Name of related party	Nature of transaction	2018 HK\$'000	2017 HK\$'000
Guangzhou Hong Kong and China Gas Company Limited (note a)	Sale of natural gas	35,028	–
徐州港華能源科技有限公司 (note a)	Purchase of natural gas	2,757	–
四川空港燃氣有限公司 (note d)	Sale of natural gas	17,247	–
四川空港燃氣有限公司 (note d)	Sale of fixed assets	32,244	–
GH-Fashion Corporation Limited (note b)	Purchase of pipeline construction materials and tools	1,779	757

Notes:

- (a) HKCG has controlling interests in these companies.
- (b) HKCG has significant influences in these companies.
- (c) The Group jointly controlled this company with an independent third party.
- (d) The Group has significant influences in this company.

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

41. 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:

	2018 HK\$'000	2017 HK\$'000
Within one year	25,330	24,414
In the second to fifth year inclusive	58,207	67,560
Over five years	19,776	22,153
	103,313	114,127

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

42. Commitments

	2018 HK\$'000	2017 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– acquisition of property, plant and equipment	262,281	180,941
– acquisition of businesses	18,219	19,219
– acquisition of an associate	–	86,486

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43. 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 2018 amounted to HK\$78,918,000 (2017: HK\$72,005,000).

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 2018, the Group made retirement benefit scheme contributions amounting to HK\$350,000 (2017: HK\$476,000).

44. Statement of Financial Position and Reserves of the Company

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

	2018 HK\$'000	2017 HK\$'000
Non-current assets		
Property, plant and equipment	32	30
Investments in subsidiaries	2,192,215	2,316,990
	2,192,247	2,317,020
Current assets		
Amounts due from subsidiaries	10,836,721	10,983,034
Bank balances and cash	39,661	40,836
	10,876,382	11,023,870
Current liabilities		
Other payables and accrued charges	57,087	72,201
Amounts due to subsidiaries	1,258,301	1,219,747
Amounts due to the ultimate holding company	247	198
Borrowings – amount due within one year	1,935,778	3,144,547
Other financial liabilities	6,325	41,042
	3,257,738	4,477,735
Net current assets	7,618,644	6,546,135
Total assets less current liabilities	9,810,891	8,863,155
Non-current liabilities		
Loan from a subsidiary	4,984,844	4,815,097
Borrowings – amount due after one year	1,513,200	–
Other financial liabilities	22,300	8,936
	6,520,344	4,824,033
Net assets	3,290,547	4,039,122
Capital and reserves		
Share capital	281,003	276,869
Reserves	3,009,544	3,762,253
	3,290,547	4,039,122

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44. 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 2017	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
Loss and other comprehensive expense for the year	–	–	(640,664)	(640,664)
Issue of shares upon scrip dividend scheme	4,134	303,258	–	307,392
Dividends paid to shareholders	–	(415,303)	–	(415,303)
At 31 December 2018	281,003	6,114,717	(3,105,173)	3,290,547

* Others represent hedge reserve, exchange reserve and accumulated losses.

(c) Amounts due from/to subsidiaries

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

45. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2018 and 2017 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
			2018	2017	
Directly-owned subsidiaries					
Hong Kong & China Gas (Anqing) Limited	BVI – Limited liability company/HK	US\$1	100.0%	100.0%	Investment holding
Hong Kong & China Gas (Maanshan) Limited	BVI – Limited liability company/HK	US\$1	100.0%	100.0%	Investment holding
Hong Kong & China Gas (Qingdao) Limited	BVI – Limited liability company/HK	US\$1	100.0%	100.0%	Investment holding
Hong Kong & China Gas (Taian) Limited	BVI – Limited liability company/HK	US\$1	100.0%	100.0%	Investment holding
Hong Kong & China Gas (Weifang) Limited	BVI – Limited liability company/HK	US\$1	100.0%	100.0%	Investment holding
Hong Kong & China Gas (Weihai) Limited	BVI – Limited liability company/HK	US\$1	100.0%	100.0%	Investment holding
Hong Kong & China Gas (Yantai) Limited	BVI – Limited liability company/HK	US\$1	100.0%	100.0%	Investment holding
Hong Kong & China Gas (Zibo) Limited	BVI – Limited liability company/HK	US\$1	100.0%	100.0%	Investment holding
TCCL (Finance) Limited	HK – Limited liability company	HK\$1	100.0%	100.0%	Financing
Towngas China Group Limited	BVI – Limited liability company/HK	US\$12,821	100.0%	100.0%	Investment holding
Towngas China Holdings Limited	HK – Limited liability company	HK\$100	100.0%	100.0%	Investment holding

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45. 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
			2018	2017	
Indirectly-owned subsidiaries					
An Shan Hong Kong and China Gas Company Limited	PRC – Wholly foreign-owned enterprise	US\$15,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Baotou Hong Kong & China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB20,000,000	85.0%	85.0%	Provision of natural gas and related services and gas pipeline construction
Beipiao Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB56,000,000	80.0%	80.0%	Provision of natural gas and related services and gas pipeline construction
Ben Xi Hongkong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB335,000,000	80.0%	80.0%	Provision of natural gas and related services and gas pipeline construction
Boxing Hong Kong & China Gas Co., Ltd	PRC – Sino-foreign equity joint venture	RMB40,000,000	65.0%	65.0%	Provision of natural gas and related services and gas pipeline construction
Cang Xi Hong Kong and China Gas Company Limited	PRC – Wholly foreign-owned enterprise	RMB20,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Cangxian Hong Kong & China Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB10,000,000	90.0%	90.0%	Provision of natural gas and related services and gas pipeline construction
Changting Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB22,000,000	90.0%	90.0%	Provision of natural gas and related services and gas pipeline construction

45. 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
			2018	2017	
Indirectly-owned subsidiaries (Continued)					
Chao Sheng Investments Limited	HK – Limited liability company	HK\$100	100.0%	100.0%	Investment holding
Chaoyang Hongkong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	US\$10,791,838	90.0%	90.0%	Provision of natural gas and related services and gas pipeline construction
潮州楓溪港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB60,000,000	60.0%	60.0%	Provision of natural gas and related services and gas pipeline construction
Chi Ping Hongkong and China Gas Co. Ltd.	PRC – Sino-foreign equity joint venture	RMB40,000,000	85.0%	85.0%	Provision of natural gas and related services and gas pipeline construction
Chizhou Hong Kong and China Gas Company Ltd	PRC – Wholly foreign-owned enterprise	RMB20,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Dafeng Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB80,000,000	51.0%	51.0%	Provision of natural gas and related services and gas pipeline construction
Dalian Changxing Hong Kong and China Gas Co. Ltd.	PRC – Wholly foreign-owned enterprise	US\$14,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Dalian Lvshun Hong Kong and China Gas Co. Ltd.	PRC – Wholly foreign-owned enterprise	US\$15,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
大連瓦房店港華燃氣有限公司 (Formerly 大連瓦房店金宇港華燃氣有限公司)*	PRC – Sino-foreign equity joint venture	RMB40,000,000	60.0%	60.0%	Provision of natural gas and related services and gas pipeline construction
Da Yi Hong Kong and China Gas Company Limited	PRC – Limited liability company	RMB20,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction

* The company name was changed in January 2019

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45. 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
			2018	2017	
Indirectly-owned subsidiaries (Continued)					
Feicheng Hong Kong and China Gas Company Limited	PRC – Wholly foreign-owned enterprise	RMB32,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Fuxin Hongkong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB77,200,000	90.0%	90.0%	Provision of natural gas and related services and gas pipeline construction
阜新大力燃氣有限責任公司	PRC – Wholly foreign-owned enterprise	RMB13,900,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
阜新邱港華燃氣有限公司	PRC – Wholly foreign-owned enterprise	RMB34,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Gao Chun Hong Kong and China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	US\$7,500,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Gongzhuling Hong Kong and China Gas Company Limited	PRC – Wholly foreign-owned enterprise	RMB88,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
廣西中威管道燃氣發展集團有限責任公司	PRC – Wholly foreign-owned enterprise	RMB30,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Guilin Hong Kong & China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB30,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Heilongjiang Hong Kong & China Lianfu New Energy Company Limited	PRC – Sino-foreign equity joint venture	RMB13,000,000	55.0%	55.0%	Vehicle gas refilling stations

45. 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
			2018	2017	
Indirectly-owned subsidiaries (Continued)					
Hong Kong and China Gas (Dalian) Limited	HK – Limited liability company	HK\$100	100.0%	100.0%	Investment holding
Hong Kong & China Gas (Hangzhou) Limited	BVI – Limited liability company/HK	US\$1	100.0%	100.0%	Investment holding
Hong Kong & China Gas (Huzhou) Limited	BVI – Limited liability company/HK	US\$1	100.0%	100.0%	Investment holding
Hong Kong & China Gas (Tongxiang) Limited	BVI – Limited liability company/HK	US\$1	100.0%	100.0%	Investment holding
Hong Kong & China Gas (Yingkou) Limited	BVI – Limited liability company/HK	US\$1	100.0%	100.0%	Investment holding
Hong Kong and China Gas (Zhumadian) Limited	HK – Limited liability company	HK\$100	100.0%	100.0%	Investment holding
Huang Shan Hong Kong & China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB40,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Huangshan Huizhou Hong Kong & China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	US\$2,100,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Huang Shan Taiping Hong Kong & China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	US\$3,500,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Huzhou Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	US\$10,500,000	98.9%	98.9%	Provision of natural gas and related services and gas pipeline construction
Ji Jiang Hong Kong & China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB20,000,000	70.0%	70.0%	Provision of natural gas and related services and gas pipeline construction

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45. 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
			2018	2017	
Indirectly-owned subsidiaries (Continued)					
Jianping Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB58,000,000	80.0%	80.0%	Provision of natural gas and related services and gas pipeline construction
簡陽港華燃氣有限公司	PRC – Limited liability company	RMB150,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Ji Nan Ping Yin Hong Kong & China Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB200,000,000 (2017: RMB100,000,000)	82.2%	82.2%	Provision of natural gas and related services and gas pipeline construction
九江港華燃氣有限公司	PRC – Limited liability company	RMB10,000,000	60.0%	60.0%	Provision of natural gas and related services and gas pipeline construction
Kazuo Hong Kong & China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	US\$6,400,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Laiyang Hong Kong and China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	US\$11,520,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Lezhi Hong Kong and China Gas Company Limited	PRC – Wholly foreign-owned enterprise	RMB30,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Longkou Hongkong and China Gas Company Limited	PRC – Wholly foreign-owned enterprise	US\$7,070,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Luliang Hong Kong & China Gas Company Limited	PRC – Wholly foreign-owned enterprise	RMB52,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Maanshan Bowang Hong Kong & China Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	US\$10,000,000	75.1%	75.1%	Provision of natural gas and related services and gas pipeline construction

45. 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
			2018	2017	
Indirectly-owned subsidiaries <i>(Continued)</i>					
Maanshan Jiangbei Hong Kong and China Towngas Company Limited	PRC – Wholly foreign-owned enterprise	US\$10,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Mengcun Hong Kong & China Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB10,000,000	90.0%	90.0%	Provision of natural gas and related services and gas pipeline construction
Miayang Heqing Towngas Co., Ltd	PRC – Sino-foreign equity joint venture	RMB10,000,000	80.0%	80.0%	Provision of natural gas and related services and gas pipeline construction
Miayang Hong Kong & China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB90,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Mianzhu Hong Kong and China Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB30,000,000	80.0%	80.0%	Provision of natural gas and related services and gas pipeline construction
Mianzhu Yuquan Hong Kong and China Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB5,000,000	80.0%	80.0%	Provision of natural gas and related services and gas pipeline construction
Miluo Hong Kong and China Gas Co. Ltd	PRC – Sino-foreign equity joint venture	RMB50,000,000	70.0%	70.0%	Provision of natural gas and related services and gas pipeline construction
Mei Shan Peng Shan Hong Kong and China Gas Company Limited (Formerly Peng Shan Hong Kong and China Gas Company Limited)	PRC – Sino-foreign equity joint venture	RMB20,000,000	70.0%	70.0%	Provision of natural gas and related services and gas pipeline construction
Peng Xi Hong Kong and China Gas Company Limited	PRC – Limited liability company	RMB20,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction

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45. 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
			2018	2017	
Indirectly-owned subsidiaries (Continued)					
平昌港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000	90.0%	90.0%	Provision of natural gas and related services and gas pipeline construction
Qingdao Dong Yi Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB30,000,000	60.0%	60.0%	Provision of natural gas and related services and gas pipeline construction
Qingdao Zhongji Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB73,500,000	90.0%	90.0%	Provision of natural gas and related services and gas pipeline construction
清遠港華燃氣有限公司	PRC – Limited liability company	RMB50,000,000	80.0%	80.0%	Provision of natural gas and related services and gas pipeline construction
Qinhuangdao Hong Kong & China Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB15,000,000	51.0%	51.0%	Provision of natural gas and related services and gas pipeline construction
齊齊哈爾港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB128,561,800	61.7%	61.7%	Provision of natural gas and related services and gas pipeline construction
Qiqihar Xingqixiang Gas Company Limited	PRC – Wholly foreign-owned enterprise	RMB60,000,000	100.0%	100.0%	Vehicle gas refilling stations
韶關港華燃氣有限公司	PRC – Limited liability company	RMB20,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Shenyang Hong Kong & China Gas Company Limited	PRC – Wholly foreign-owned enterprise	US\$24,532,434	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction

45. 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
			2018	2017	
Indirectly-owned subsidiaries (Continued)					
Siping Hong Kong & China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB45,000,000	80.0%	80.0%	Provision of natural gas and related services and gas pipeline construction
松陽港華燃氣有限公司	PRC – Limited liability company	RMB80,000,000	51.4%	51.4%	Provision of natural gas and related services and gas pipeline construction
唐山港能投智慧能源有限公司	PRC – Sino-foreign equity joint venture	RMB80,000,000	49.0%	–	Provision of natural gas distributed energy
Tie Ling Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB232,960,000	80.0%	80.0%	Provision of natural gas and related services and gas pipeline construction
Tongshan Hong Kong and China Gas Co. Ltd	PRC – Wholly foreign-owned enterprise	RMB124,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Tongxiang Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	US\$7,000,000	76.0%	76.0%	Provision of natural gas and related services and gas pipeline construction
Towngas (BVI) Holdings Limited	BVI – Limited liability company/HK	US\$1	100.0%	100.0%	Investment holding
Towngas China Energy Investment Limited	HK– Limited liability company	HK\$100	100.0%	100.0%	Investment holding
Towngas China Energy Investment Limited (Formerly Towngas China Energy Investment (Shenzhen) Limited)*	PRC – Wholly foreign-owned enterprise	RMB250,000,000 (2017: RMB100,000,000)	100.0%	100.0%	Investment holding
Towngas China (Fengxi) Limited	HK – Limited liability company	HK\$100	100.0%	100.0%	Investment holding

* The company name was changed in January 2019

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45. 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
			2018	2017	
Indirectly-owned subsidiaries (Continued)					
Towngas China (Zhengpugang) Limited	HK – Limited liability company	HK\$100	100.0%	100.0%	Investment holding
Towngas Investments Limited	PRC – Wholly foreign-owned enterprise	US\$200,000,000	100.0%	100.0%	Investment holding
Towngas Natural Gas Sales Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB50,000,000	100.0%	–	Procurement of natural gas sources
威遠港華燃氣有限公司	PRC – Limited liability company	RMB30,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Wuhu Jiangbei Hong Kong & China Gas Company Limited	PRC – Wholly foreign-owned enterprise	RMB200,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Wuning Hong Kong & China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB40,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Wulian Hong Kong & China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB20,000,000	70.0%	70.0%	Provision of natural gas and related services and gas pipeline construction
成都新都港華燃氣有限公司	PRC – Limited liability company	RMB30,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Xin Jin Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB40,000,000 (2017: RMB20,000,000)	60.0%	60.0%	Provision of natural gas and related services and gas pipeline construction
Xingyi Hong Kong & China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB50,000,000	70.0%	70.0%	Provision of natural gas and related services and gas pipeline construction

45. 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
			2018	2017	
Indirectly-owned subsidiaries <i>(Continued)</i>					
修水港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB30,000,000	80.0%	80.0%	Provision of natural gas and related services and gas pipeline construction
Yang Jiang Hong Kong and China Gas Company Limited	PRC – Wholly foreign-owned enterprise	RMB50,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Yan Shan Hong Kong & China Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB10,000,000	90.0%	90.0%	Provision of natural gas and related services and gas pipeline construction
Yangxin Hong Kong & China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB18,000,000	51.0%	51.0%	Provision of natural gas and related services and gas pipeline construction
Yifeng Hongkong and China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB32,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Yingkou Hong Kong and China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	US\$9,400,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Yue Chi Hong Kong and China Gas Company Limited	PRC – Sino-foreign equity joint venture	RMB30,000,000	90.0%	90.0%	Provision of natural gas and related services and gas pipeline construction
Zhao Yuan Hong Kong & China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB22,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
Zhong Jiang Hong Kong and China Gas Company Limited	PRC – Wholly foreign-owned enterprise	RMB30,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction

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45. 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
			2018	2017	
Indirectly-owned subsidiaries (Continued)					
Zhongxiang Hong Kong & China Gas Co., Ltd.	PRC – Wholly foreign-owned enterprise	RMB42,000,000	100.0%	100.0%	Provision of natural gas and related services and gas pipeline construction
資陽港華燃氣有限公司	PRC – Limited liability company	RMB30,000,000	90.0%	90.0%	Provision of natural gas and related services and gas pipeline construction
內蒙古港億天然氣有限公司	PRC – Sino-foreign equity joint venture	RMB80,000,000	85.0%	85.0%	Midstream

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

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

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

Independent Non-Executive Directors

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

Authorised Representatives

Alfred Chan Wing-kin
John Ho Hon-ming

Company Secretary

John Ho Hon-ming

Board Audit and Risk Committee

Brian David Li Man-bun (*Chairman*)
Moses Cheng Mo-chi
James Kwan Yuk-choi

Remuneration Committee

Moses Cheng Mo-chi (*Chairman*)
Brian David Li Man-bun
James Kwan Yuk-choi
Alfred Chan Wing-kin

Nomination Committee

Alfred Chan Wing-kin (*Chairman*)
Moses Cheng Mo-chi
Brian David Li Man-bun
James Kwan Yuk-choi

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
The Hongkong and Shanghai Banking
Corporation Limited

