



中裕燃氣控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

Stock Code 股份代號: 3633



2019

Annual Report 年報



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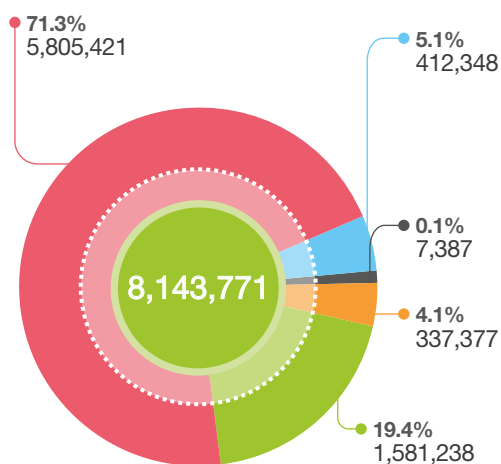
FINANCIAL AND OPERATIONAL HIGHLIGHTS

For the year ended 31st December,

	2019 HK\$'000	2018 HK\$'000	changes %
Turnover	8,143,771	7,627,088	6.8%
Gross profit	1,909,920	2,221,873	(14.0)%
(Gross margin)	(23.5%)	(29.1%)	(5.6)%
Profit attributable to owners of the Company	430,121	620,684	(30.7)%
Adjusted profit attributable to owners of the Company (excluding the net foreign exchange loss and share option expenses)	722,485	1,001,436	(27.9)%
EBITDA	1,813,582	2,107,648	(14.0)%
Basic earnings per share (HK cents)	16.93	24.52	(31.0)%
Proposed final dividend (HK cents)	5.00	7.00	(28.6)%
Unit of natural gas sold ('000 m ³)	1,943,564	1,615,646	20.3%
New piped gas connections made (residential households under "coal-to-gas" projects)	217,674	445,324	(51.1)%
New piped gas connections made (residential households under non "coal-to-gas" projects)	230,622	223,253	3.3%

2019

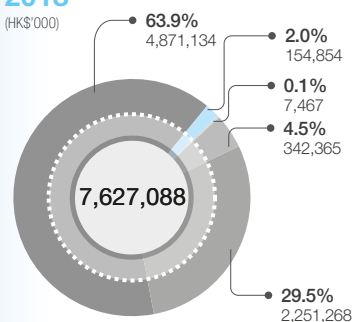
(HK\$'000)



- Sales of gas
- Revenue from gas pipeline construction
- Operation of CNG/LNG vehicle filling stations
- Sales of liquefied petroleum gas
- Sales of stoves and other services

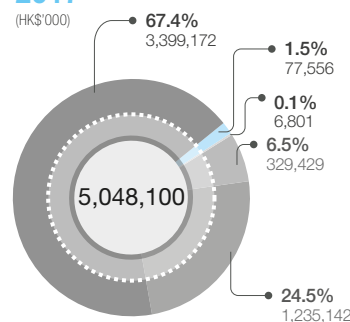
2018

(HK\$'000)



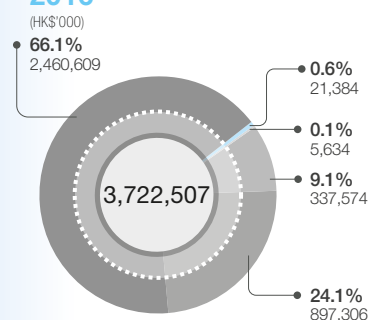
2017

(HK\$'000)



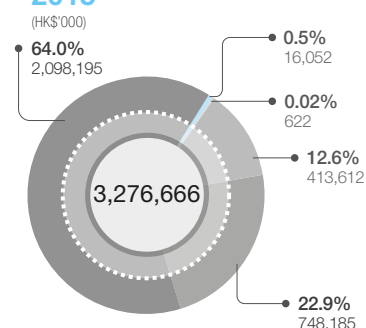
2016

(HK\$'000)



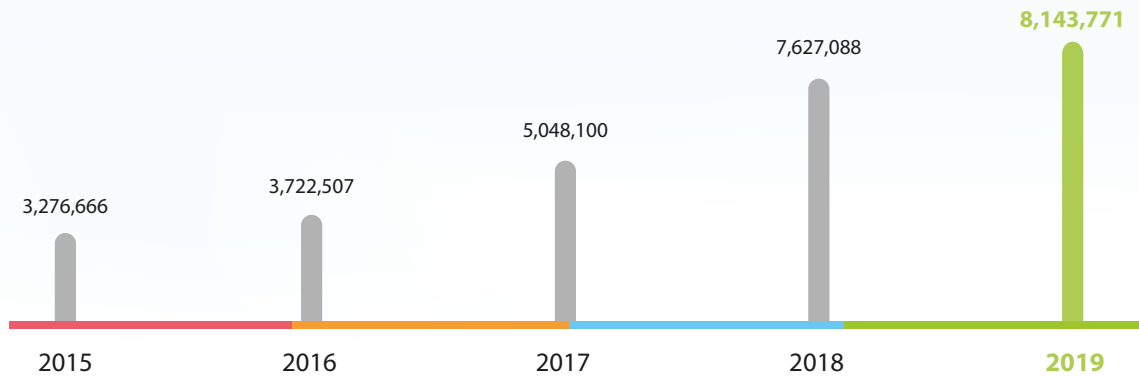
2015

(HK\$'000)

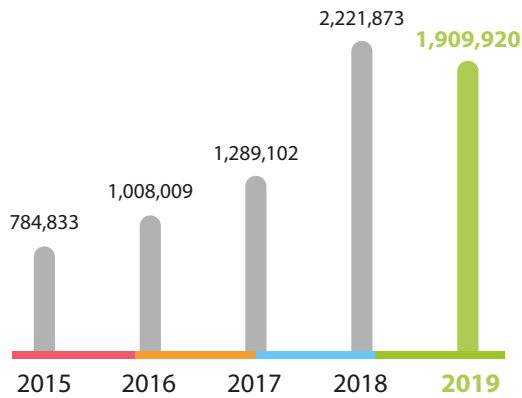


FINANCIAL AND OPERATIONAL HIGHLIGHTS

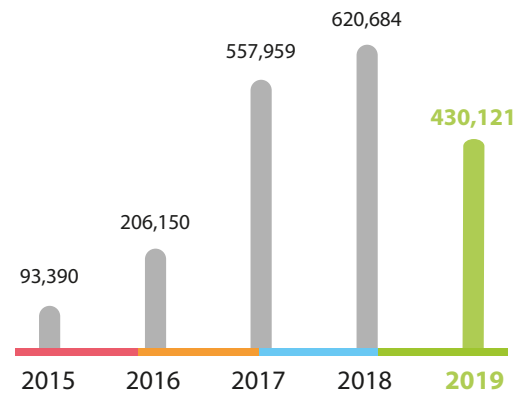
● Turnover (HK\$'000)



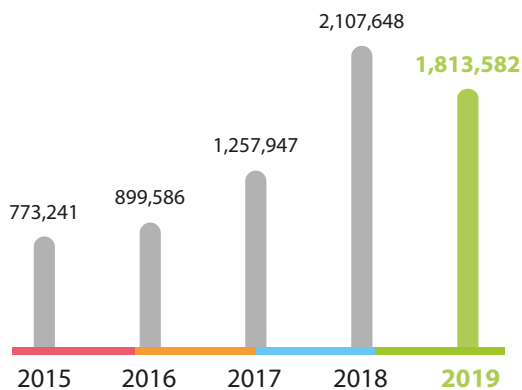
● Gross Profit (HK\$'000)



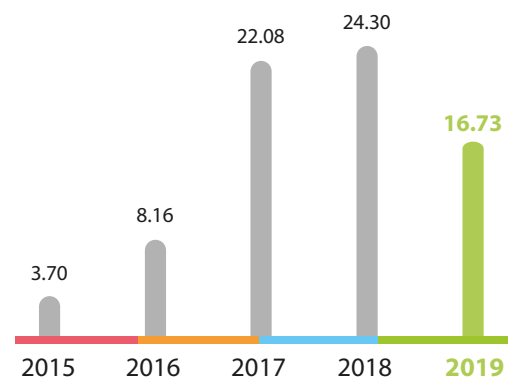
● Profit attributable to owners of the Company (HK\$'000)



● EBITDA (HK\$'000)



● Earning per share – Diluted (HK cents)



CORPORATE INFORMATION

Executive Directors

Mr. Wang Wenliang (*Chairman*)
Mr. Lui Siu Keung (*Chief Executive Officer*)
Mr. Lu Zhaoheng
Mr. Li Yan (*appointed with effect from 25th February, 2019*)
Mr. Jia Kun (*appointed with effect from 25th February, 2019*)

Non-executive Director

Mr. Xu Yongxuan (*Vice Chairman*)

Independent Non-executive Directors

Mr. Li Chunyan
Dr. Luo Yongtai
Ms. Liu Yu Jie

Company Secretary

Mr. Lui Siu Keung

Authorised Representatives

Mr. Wang Wenliang
Mr. Lui Siu Keung

Audit Committee

Mr. Li Chunyan (*Chairman*)
Dr. Luo Yongtai
Ms. Liu Yu Jie

Remuneration Committee

Mr. Li Chunyan (*Chairman*)
Dr. Luo Yongtai
Ms. Liu Yu Jie

Nomination Committee

Mr. Li Chunyan (*Chairman*)
Dr. Luo Yongtai
Ms. Liu Yu Jie

Hong Kong Legal Advisors

Reed Smith Richards Butler

Auditor

Deloitte Touche Tohmatsu

Corporate Website

www.zhongyugas.com

Stock Code

3633

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business in Hong Kong

Units 04-06, 28th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Principal Share Registrar and Transfer Office

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Branch Share Registrar and Transfer Office in Hong Kong

Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers

The Hong Kong & Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Hang Seng Bank Limited
Standard Chartered Bank
Chiyu Banking Corporation Limited
Dah Sing Bank, Limited
Far Eastern International Bank
Taishin International Bank

CHAIRMAN'S STATEMENT



To our valued shareholders,

The year 2019 was a crucial year for the country to achieve the first Centenary Goal of building a prosperous society. The energy revolution of China entered into the acceleration phase, focusing more on quality and stock consumption, and optimizing the capacity to increase in production. With the further introduction of relevant policies such as the Notice on the Implementation of the Three-year Action Plan of Winning the Blue Sky War, the Measures on the Supervision and Administration of Fair Opening of Oil and Gas Pipeline Facilities, and the Opinion of Promoting the High-quality Development of Power, the Group's target to fight pollution was clear and the Group continued the momentum in pollution prevention and treatment. The in-depth adjustment of energy structure and the steady promotion of the use of various clean energy as substitution continued to be the focus of our energy transformation work in 2019.

To conform to market development trend, in the past 17 years, Zhongyu Gas Holdings Limited (the "Company", together

with its subsidiaries, collectively referred to as the "Group") has benefited from the trend of energy transformation and favorable policies and developed into an integrated energy service provider. Our businesses include gas pipeline construction and connection, sales of gas, operation of compressed natural gas or liquefied natural gas ("CNG/LNG") vehicles filling stations, value-added services (sales of stoves and related equipment), and other decentralized energy. The performance in 2019 maintained a stable development, with indicators such as gas sales revenue, gas sales volume and number of users growing steadily. The Group's development and milestones have been recognised and supported by the capital market. The Group was successively awarded the Hong Kong Listed Company Award of Excellence in the Main Board and the Best Infrastructure and Public Utilities Stock Company Award. In early 2019, the Group was selected as a constituent of the Hang Seng Composite Index and Hang Seng Stock Connect Hong Kong Index. In order to show our appreciation to the shareholders and investors for their

long-term support, the board of directors proposed a final dividend of HK5 cents per share to share the Company's accomplishments with shareholders.

In the year of 2019, the Group supported the national village revitalization strategy and continuously promoted the "coal-to-gas" projects in the countryside, actively fulfilling its social responsibility. The number of new piped gas connections made for residential households in 2019 was 217,674 under the Group's "coal-to-gas" projects. Together with industrial and commercial customers and regular residential projects, 451,149 new customers were gained in 2019, and our accumulated number of pipeline gas customers increased to more than 3,500,000, laying a solid foundation for future growth. In 2019, the Group had 69 gas projects, covering 9 provinces (including autonomous regions and municipalities). In 2019, 8 gas projects were newly added, including 6 acquired projects and 2 empty space projects. In addition to the gas sales, the Group vigorously developed its value-added business in 2019 and sold diversified ancillary products such as gas appliances, insurance and bellows under its own retail brand "Zhongyu Phoenix". Turnover from sales of stoves and other services throughout the year increased by 166.3% year-on-year.

PROSPECTS

Due to the trade tension, the escalation of geopolitical tension and the COVID-19 outbreak, the slowdown in global economic growth will continue in 2020. The economy of the PRC has entered into the era of "high growth in quality", transiting from a development model relying on a high level of input and consumption of resources in the past, to one featuring the enhancement of quality and efficiency. With the strengthening of the reform of the national energy system, the new "X+1+X" oil and gas market system with a supply of upstream oil and gas resources by multiple entities through multiple channels, a unified and efficient midstream pipeline network, and a fully competitive downstream sales market has been established in the natural gas market, meaning that the market-oriented reform of the domestic oil and gas industry has entered into a key stage. While the market has been vitalized, companies will at the same time encounter more intense competition. These series of changes posed challenges but also presented opportunities to the Group.

In 2020, the Group will continue to steadily expand and increase in market share in the existing market, integrate with the newly-acquired projects, create stronger synergies, actively expand our business to other potential areas, strengthen the development of value-added services, and accelerate the all-around development of all businesses. The Group greatly promoted the use of natural gas as a clean energy. Meanwhile, it actively cooperated with the government to promote environmental protection and the development of modern urbanization, achieving steady growth in new customers, expanding its natural gas trading business, and strengthening the protection of gas sources. At the same time, the Group actively worked on mergers and acquisitions, focusing on projects with potential to grow in the future which are located close to gas sources and in areas with a strong local demand for energy, adopting a two-pronged approach to increase revenue both internally and externally.

With the gradual deepening of the reformation of the oil and gas industry, the market is opened for more competition. In order to meet the personalized energy demand and differentiated service demand of users, the Group will actively embrace the digital transformation era of urban gas, modify its products and services, and developed into a personalized, intelligent, and service-oriented transformation and upgrading. For residential users, the Group will continue to develop its value-added business in 2020 by making good use of technologies such as terminal data collection and cloud computing to increase the involvement of our own retail brand "Zhongyu Phoenix" in the customers' daily life, to provide them with safe and efficient stove equipment and diverse and personalized services, increase customer loyalty and raise people's awareness of the Group's brand image.

In terms of industrial and commercial customers, the Group will vigorously promote smart energy projects to address multiple needs of enterprises and local governments in environment protection and emission reduction, energy efficiency improvement, household energy consumption reduction and energy structure optimization. The Group has successfully built a diversified business chain of project development, operation management and engineering technology services. It will improve our products and services

by applying technologies such as measurement techniques and artificial intelligence, so as to better meet business demands of its customers, develop large enterprises and industrial parks with large energy demands and accelerate business growth.

The China Oil & Gas Piping Network Corporation was established for the construction and dispatch and operation of the national oil and gas pipeline network to form a national network, which can dispatch all interconnected pipe networks in a unified manner to guarantee supply under emergency circumstances. This will improve the operation safety and pipeline operation capacity of the oil and gas pipeline network and further promote the supply of upstream oil and gas resources by different market players through multiple channels and the competition in downstream sales market of the oil and gas industry, which allows the natural gas market to be more open and flexible. The Group will also make full use of the opportunities brought by the reform of the national pipeline to explore the feasibility of participating in regional pipeline construction and open up new sources of income.

As always, the Group regards safety, quality, efficiency and effectiveness as its core values, especially safety. Whether it is business management or daily work, safety is necessary to support the long-term development of the Group. The Group strengthened its audit and supervision work, further increased its efforts in supervising various businesses comprehensively, strengthened the prevention and control of various operational risks, and stimulated the endogenous driving force of the subsidiaries with the compliant operation to promote the steady development of the Group.

In the coming year, the Group will adhere to the operating principle of “market-driven, customer-oriented, and economic efficiency-centered”, and strive to become the most valuable integrated energy service provider, and drive the development of the Group to the next level unremittingly.

APPRECIATION

In the beginning of 2020, the prevention and control of novel coronavirus infection evoked emotions at the hearts of everyone in China and around the world. I would like to take this opportunity to thank our staff sincerely for their dedication during the epidemic and being responsible to make every effort to safeguard a safe and stable supply of city gas. I would also like to thank all member companies of the Group for their spontaneous donations of materials to the frontline workers helping with epidemic prevention in the community and helping each other, implementing our corporate social responsibility. Last but not least, I would like to thank all the shareholders and customers of the Group for their long-term support and trust. We believe we can get through extraordinary times and achieve steady progress by working and joining hands together.

Wang Wenliang

Chairman

Hong Kong

30th March, 2020

CEO MESSAGE



To our valued shareholders,

On behalf of the board of directors and fellow staff, I am pleased to present our annual results for the year ended 31st December, 2019 (the “Year”).

2019 definitely marked a significant year of change for the natural gas industry. Continuous efforts of the PRC government were made to promote natural gas as one of the main energy sources, including the construction of the China-Russia East-Route Natural Gas Pipeline, the establishment of China Oil & Gas Piping Network Corporation in Beijing at the end of 2019, not to mention the promotion of “coal-to-gas” conversion (煤改氣), the “Three-Year Action Plan for Winning the Blue Sky War” (打贏藍天保衛戰三年行動計劃) and other

environmental pollution controls continued to be contributing drivers for the development of natural gas industry, bringing business opportunities to the Group. As of 31st December, 2019, the Group had 69 exclusive gas projects in 9 provinces and served approximately 16,627 industrial and commercial customers as well as 3,485,127 residential households. The total unit of natural gas sold also increased by 20.3% year-on-year (“yoy”) to 1,943,564,000 m³ in 2019, achieving a set of record-high results, and reached a 3-year compound annual growth rate of 25.4%. Our own retail house brand, “Zhongyu Phoenix” (中裕鳳凰), also brought the value-added business to its new height, with a surged increase of 166.3% in turnover from the sales of stoves and other services.

RESULTS

During the Year, the Group recorded a turnover of HK\$8,143.8 million, representing a growth of 6.8% yoy (2018: HK\$7,627.1 million). The growth in turnover was mainly driven by the increase in both sales volume of piped gas and average selling price of natural gas. However, due to slowdown of new gas pipeline construction and connection which segment enjoys the highest gross margin, the overall gross profit of the Group decreased from HK\$2,221.9 million in 2018 to HK\$1,909.9 million, with gross profit margin of 23.5% (2018: 29.1%). Profit attributable to owners of the Company dropped by 30.7% to HK\$430.1 million as compared to HK\$620.7 million in 2018. Basic earnings per share and net assets per share amounted to HK16.93 cents and HK\$1.81 respectively (2018: HK24.52 cents; HK\$1.55).

BUSINESS REVIEW

According to the latest data released by the National Bureau of Statistics of China, China's economic growth in 2019 was 6.1%. The apparent natural gas consumption of the PRC in 2019 amounted to approximately 302.5 billion m³, representing an increase of 9% yoy according to the National Development and Reform Commission of the People's Republic of China. The demand for natural gas still managed to grow at a fast pace amid the economic slowdown in the PRC. Such favorable operating environment allowed the Group to achieve a few milestones during the Year.

The Group's three major business segments, namely the sales of gas, gas pipeline construction and connection, and the sales of stoves and other services, contributed 71.3%, 19.4% and 5.1% of the Group's turnover in 2019, respectively.

The sales of gas continued to be the largest contributor of the Group in 2019, achieving HK\$5,805,421,000 in sales with 19.2% yoy growth. The business was mainly fueled by the increase in the number of overall customers. This is testament to the success of the Group's client diversification strategy between residential, industrial and commercial customers. Industrial and commercial users, especially those strong market players with high gas usage, will continue to be the Group's core focus in this segment.

Following the Group's efforts in the past years, the penetration of gas connection in its covered area has reached a relatively high level. Accordingly, the Group has been more selective and cautious in acquiring new customers for gas connection to maintain a good level of profitability, cash flow and account receivables. For the Year, the total number of new piped gas connections amounted to 451,149 customers. As the Group continued to expand its coverage, the Group's total existing intermediate and main pipelines increased from 14,928 km to 23,318 km, representing a 56.2% increase in length.

The value-added services provided under "Zhongyu Phoenix" have been an effective channel for the Group to capitalize the full potential of its large pool of residential customers, differentiate itself with customized solutions, as well as increase customer stickiness. During the Year, the Group has placed additional resources to strengthen its retail brand by expanding product portfolio and promote greater brand recognition. This segment's turnover recorded a 166.3% yoy increase, from HK\$154.9 million in 2018 to HK\$412.3 million in 2019. The growth was driven by the good market reception of the Group's increased variety of product and services offerings, including sales of gas stoves, gas cooking appliances, wall hung boilers and insurance services. The Group sees enormous potentials to explore the market leveraging on the existing residential customer portfolio.

The Group has been actively expanding over the years. In 2019, the Group has successfully obtained the exclusive concession rights of 8 new gas projects in Henan, Hebei and Heilongjiang. Together with the Group's existing presence, these acquisitions further enhanced the Group's foothold in those provinces. The new projects are also expected to create greater synergies with nearby operations and make financial contributions to the Group.

By seizing opportunities arising from the government's determination to control air pollution and the deepening of energy reform in the PRC, the Group also strived to expand its natural gas sales and accelerated its development of smart energy and decentralized energy businesses based on customers' diversified energy needs, in particular industrial users with heavy energy consumption. During the Year, the Group signed a number of new projects and completed construction of certain decentralized energy projects, including charging piles for electric vehicles. The Group believes that smart energy and decentralized energy business not only would diversify the Group's revenue sources, but would also be an important business module of its integrated energy service.

PROSPECTS

At the beginning of 2020, in the face of the spread of novel coronavirus epidemic, epidemic prevention measures were adopted throughout the country, such as extending Chinese New Year holiday, strictly controlling road traffic, delaying the resumption of work in factories, suspending businesses and closing tourist attractions, and adopting community closed management. This has had a serious impact on the domestic manufacturing production, industrial and

commercial activities and consumption. As an integrated energy service provider, the Group's business has inevitably been under pressure in a certain extent. During the outbreak, the Group has taken all feasible measures to ensure the health and safety of our employees and made every effort to reduce the impact of the epidemic. As the epidemic has been coming under control throughout the country, work and production have been gradually resumed in provinces and cities. We believe that the impact of the novel coronavirus epidemic is temporary and remain optimistic about the long-term prospects of the gas industry.

In the long run, the PRC government remains determined to speed up the restructuring of the national energy structure, build a clean, low-carbon and efficient energy system through promoting the use of clean energy for heating and imposing restrictions on the use of coal.

The establishment of China Oil & Gas Piping Network Corporation in Beijing in late 2019 forms an "X+1+X" structure in the natural gas industry. With vigorous and continuous advancement in the reform of national energy system, the setup of the China Oil & Gas Piping Network Corporation is expected to promote multi-entities and multi-channel supply of upstream oil and gas resources, a unified pipeline network in the midstream, and to open up flexible and efficient downstream market. Coupled with the completion and ventilation of the first phase of The China-Russia natural gas pipeline, it is expected that China's natural gas demand will continue to grow in the next few years with abundant supply and more affordable costs. In view of this, the Group will capture these opportunities by implementing the following key strategies in the coming year:

(i) To continue to expand the scale of its piped gas business and achieve greater economies of scale

The strong demand for natural gas from industrial, commercial and residential users is expected to persist in 2020. The Group will deepen its penetration in covered areas and focus on exploring M&A targets with proximity to gas sources, healthy financials, and potential to create good synergy with existing businesses to bring in more values.

(ii) To actively develop new markets and seek new sources of income

In order to meet the increasing demand for personalized energy solutions and diversified services, it is necessary for the Group to be innovative in providing value-added solutions. For the residential market, the Group will continue to enrich its gas related services and products under “Zhongyu Phoenix”, strengthen its retail sales channels, make good use of online sales platforms, and thus increasing the stickiness of its residential users and capitalizing the large customer base. In terms of industrial and commercial markets, the Group will vigorously promote smart energy solutions to enterprises and local governments to address their increasing needs in achieving environmental-friendly operations, emission reduction, enhancement of energy efficiency, as well as optimization of energy structure in the community.

Riding on the ongoing reform of the national energy system, the Group will keep a close eye on the opportunities arising in the supply chain and will react promptly and strive to becoming one of the most valuable and competitive integrated smart energy service providers in the PRC.

APPRECIATION

Last but not least, I would like to take this opportunity to extend my gratitude to the board of directors, the management and all of our staff for their dedication and commitment, as well as our business partners, customers and shareholders for their continuous support for the Group during the Year.

Lui Siu Keung, Daniel
Chief Executive Officer

30th March, 2020

OPERATIONAL STATISTICS

As at 31 December 2019								
Province	Operational location	Connectable Population	Connectable Residential Households	Accumulated Connected Residential Households	Accumulated Connected Industrial Customers	Accumulated Connected Commercial Customers	Length of Existing Intermediate and Main Pipelines (km)	Number of CNG/LNG Vehicle Filling Stations
Henan	Jiaozuo City	1,491,000	426,000	337,722	134	1,248	1,650	8
	Qinyang City	391,900	111,971	79,861	66	215	715	1
	Wuzhi County	613,000	175,143	69,841	40	214	875	1
	Xiuwu County	207,000	59,143	37,656	76	174	593	4
	Luohe City	1,818,000	519,429	407,668	147	1,451	1,114	4
	Light Food Industrial Park in Luohe Economic Development District	-	-	-	10	-	-	-
	Luohe Shaoling District	-	-	-	18	-	-	-
	Luohe Songjiang Industrial Zone	-	-	-	15	-	-	-
	Luohe Houxie Village Industrial Zone	-	-	-	-	-	-	-
	Luohe West Industrial Zone	-	-	-	-	-	-	-
	Venture Centre in Luohe Economic Development District	-	-	-	15	-	-	-
	Xiping County	32,800	9,371	-	-	-	-	-
	Jiyuan City	908,800	259,657	187,008	228	1,450	1,270	4
	Sanmenxia City	499,000	142,571	128,015	64	660	1,505	4
	Shanxian County	53,000	15,143	-	-	-	-	-
	Sanmenxia Industrial Park	-	-	-	7	-	-	-
	Lingbao City	190,500	54,429	25,118	28	155	296	-
	Yanshi City	271,500	77,571	59,715	187	226	641	2
	Yongcheng City	758,000	216,571	173,306	38	477	644	4
	Yongcheng Industrial Zone	35,000	10,000	-	1	-	-	-
	Xinmi City	476,600	136,171	110,075	97	468	818	5
	Huiguo Town, Gongyi City	21,000	6,000	4,789	54	23	115	-
	Yuanyang County	230,000	65,714	7,662	3	2	81	-
	Hui County	43,300	12,371	2,549	1	-	-	-
Wen County	468,000	133,714	58,674	127	277	522	-	
Mengzhou	450,000	128,571	76,969	230	333	405	-	
Puyang Industrial Zone	350	100	87	60	4	87	-	
Puyang Administrative Region	356,000	101,714	58,843	27	150	2,322	-	
Hebei	Yutian County	284,800	81,371	77,428	18	243	263	-
	Yutian Town and Caitingqiao Town, Yutian County	105,200	30,057	-	-	-	46	-
	Sanshuitou Town, Yangjiatao Town, Hongqiao Town and Guojiatun Town of Yutian County	214,400	46,971	25,966	18	5	54	-
	Changli County	239,070	68,306	58,286	59	191	328	-
	Weixian County	149,100	42,683	36,384	6	68	186	-
	Weixian Economic Development Zone	3,000	940	-	-	-	-	-
	Xiahuayuan District	92,862	26,532	26,460	-	115	116	-
	Chengan County	388,864	111,104	42,246	10	43	238	-
	Gaocheng	12,000	3,429	592	-	-	6	-

OPERATIONAL STATISTICS

As at 31 December 2019								
Province	Operational location	Connectable Population	Connectable Residential Households	Accumulated Connected Residential Households	Accumulated Connected Industrial Customers	Accumulated Connected Commercial Customers	Length of Existing Intermediate and Main Pipelines (km)	Number of CNG/LNG Vehicle Filling Stations
	Wuqiao County	263,516	75,290	28,545	35	89	234	-
	Ningjin County	380,000	108,571	55,581	82	271	389	-
	Linzhang County	248,800	71,086	68,486	30	114	470	-
	Zaoqiang County	200,000	57,143	28,646	5	107	206	-
	Longyao County	23,907	6,831	6,293	-	74	39	-
	Xingtang County	86,551	24,729	15,438	1	42	129	-
	City district of Gucheng	314,350	89,814	35,219	24	283	470	-
	Administrative jurisdiction of Gucheng County	352,700	100,771	71,888	15	12	1,070	-
	Nangong City	430,000	120,000	63,166	2	148	248	-
	Jize County	122,400	34,971	13,569	18	65	156	-
	Xinhe County	152,600	43,600	16,273	29	117	175	-
	Within the operation area of Xinhe County	130,000	37,143	5,606	20	60	81	-
	Xingtai	70,000	20,000	10,946	9	22	26	-
Jiangsu	Jingqiao Town, Nanjing City	50,700	14,486	1,021	10	4	21	-
	Donghai County	56,500	16,143	1,714	21	4	48	-
	Tongshan	260,000	74,286	66,376	-	143	57	-
	City district of Sihong County	486,000	138,857	124,452	33	387	627	-
	Sihong County	34,100	9,743	3,976	25	1	484	-
	Guannan County	225,000	64,286	52,460	-	249	314	-
Shandong	Linyi City (Note)	1,674,900	478,543	390,400	404	1,692	1,128	14
	Linyi Economic Development District	345,000	98,571	79,190	216	312	675	4
	Linshu County	9,000	2,571	1,753	77	6	235	2
	Tianqu Industrial Park in Dezhou City	-	-	-	24	16	74	1
Jilin	Baishan City	369,639	105,611	88,325	8	558	317	2
	Changbaishan International Tourist Resort Zone in Fusong County	166,419	47,548	5,138	8	67	132	-
Fujian	Shaowu City	202,000	57,714	29,592	7	184	108	2
Heilongjiang	Chengguan Town, Tieli City	213,000	60,857	14,873	7	92	114	-
	Current administrative jurisdiction of Shuangfeng Forestry Bureau, Tieli City	62,000	17,714	-	-	-	-	-
Zhejiang	Daishan Economic Development District	-	-	-	17	2	41	1
	Yueqing City	35,000	10,000	2,647	-	12	45	-
Anhui	Wuhe County	241,500	69,000	69,531	14	247	173	-
	Sixian County	186,037	53,153	41,103	7	123	142	-
		18,195,665	5,181,779	3,485,127	2,932	13,695	23,318	63

Note: The operational location covers the administrative jurisdiction of Linyi City, which is from Binhe Road on the west bank of Yihe River in the east to Beijing-Shanghai Expressway in the west, bordering Binhe Road on the south bank of Fanghe River in the north and reaching Yihe Road, Luozhuang District in the south (excluding western part beyond Mengshan Avenue and southern part beyond Huawu Road).



MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

During the year ended 31st December, 2019, the Group was principally engaged in (i) the investment, operation and management of city gas pipeline infrastructure, and the distribution of piped gas to residential, industrial and commercial users; and (ii) the operation of CNG/LNG vehicle filling stations in the PRC.

New Downstream Piped Gas Distribution Projects

As at 31st December, 2019, the Group had 69 gas projects with exclusive rights in the PRC. During the year, the Group obtained concession right to operate 8 additional natural gas projects in Henan Province, Hebei Province and Heilongjiang Province.

New CNG/LNG Vehicle Filling Stations Expansion

In 2019, the Group slowed down the expansion of CNG/LNG vehicle filling stations due to keen competition. During the financial year ended 31st December, 2019, 1 new CNG vehicle filling station was put into operation.

Major Operational Data

The downstream natural gas distribution business of the Group primarily comprises sales of gas, gas pipeline construction and sales of natural gas from CNG/LNG vehicle filling stations.



MANAGEMENT DISCUSSION & ANALYSIS

FINANCIAL REVIEW

The major operational data of the Group for the year ended 31st December, 2019 together with the comparative figures for the corresponding period last year are as follows:

	2019	2018	Increase/ (Decrease)
Number of operational locations (<i>Note a</i>)	69	61	8
– Henan Province	28	24	4
– Hebei Province	22	19	3
– Jiangsu Province	6	6	–
– Shandong Province	4	4	–
– Jilin Province	2	2	–
– Fujian Province	1	1	–
– Heilongjiang Province	2	1	1
– Zhejiang Province	2	2	–
– Anhui Province	2	2	–
Connectable population ('000) (<i>Note b</i>)	18,196	15,527	17.2%
Connectable residential households ('000)	5,182	4,436	16.8%
New piped gas connections by the Group made during the year			
– Residential households	448,296	668,577	(32.9)%
(i) "Coal-to-gas" projects	217,674	445,324	(51.1)%
(ii) Non "Coal-to-gas" projects	230,622	223,253	3.3%
– Industrial customers	323	489	(33.9)%
– Commercial customers	2,530	2,130	18.8%
Accumulated number of connected piped gas customers			
– Residential households	3,485,127	2,878,103	21.1%
– Industrial customers	2,932	2,135	37.3%
– Commercial customers	13,695	10,386	31.9%
Penetration rate of residential pipeline connection (<i>Note c</i>)	67.3%	64.9%	2.4%
Unit of piped natural gas sold ('000 m ³)	1,673,599	1,461,377	14.5%
– Residential households	430,181	319,646	34.6%
– Industrial customers	1,077,641	967,372	11.4%
– Commercial customers	143,414	138,271	3.7%
– Wholesale customers	22,363	36,088	(38.0)%

	2019	2018	Increase/ (Decrease)
Unit of LNG sold ('000 m ³)			
– Wholesale customers	180,504	67,943	165.7%
Number of CNG/LNG vehicle filling stations			
– Accumulated	63	62	1
– Under construction	8	9	(1)
Unit of natural gas sold to vehicles ('000 m ³)	89,461	86,326	3.6%
Total length of existing intermediate and main pipelines (km)	23,318	14,928	56.2%
Average selling price of natural gas (pre-tax) (RMB per m ³)			
– Residential households	2.36	2.20	7.3%
– Industrial customers	2.89	2.77	4.3%
– Commercial customers	3.22	3.05	5.6%
– Wholesale customers	2.43	2.25	8.0%
– Wholesale customers (LNG)	2.32	2.76	(15.9)%
– CNG/LNG vehicle filling stations	3.32	3.35	(0.9)%
Average purchase cost of natural gas (RMB per m ³) (Note d)	2.26	2.27	(0.4)%
Average connection fee for residential households (RMB)			
– “Coal-to-gas” projects	2,998	2,745	9.2%
– Non “Coal-to-gas” projects	2,666	2,510	6.2%

Note a: The number of operational locations represents the gas projects with exclusive rights which are operated by the Group in different cities and regions in the PRC.

Note b: The information is quoted from the website of PRC government.

Note c: The penetration rates of residential pipeline connection represented by the percentage of the accumulated number of the Group's connected residential households to the estimated aggregate number of connectable residential households in its operation regions.

Note d: The amounts do not include the average distribution costs of natural gas, which is RMB0.22 per m³ (2018: RMB0.19 per m³)





MANAGEMENT DISCUSSION & ANALYSIS

FINANCIAL REVIEW

Overall

The Group's turnover for the year ended 31st December, 2019 increased by 6.8% to HK\$8,143,771,000 (2018: HK\$7,627,088,000). The gross profit dropped to HK\$1,909,920,000 (2018: HK\$2,221,873,000) as a result of reduction of new piped gas connections made under "coal-to-gas" projects. The Group's profit attributable to owners of the Company declined by 30.7% to HK\$430,121,000 (2018: HK\$620,684,000). Excluding the net foreign exchange

loss of HK\$248,562,000 (2018: HK\$321,905,000) and share option expenses of HK\$43,802,000 (2018: HK\$58,847,000), adjusted profit attributable to owners of the Company would amount to HK\$722,485,000 (2018: HK\$1,001,436,000). The basic and diluted earnings per share attributable to the owners of the Company were HK16.93 cents and HK16.73 cents respectively for the year ended 31st December, 2019, as compared with that of HK24.52 cents and HK24.30 cents respectively for the corresponding period last year.

Turnover

An analysis of the Group's turnover by products and services for the year, together with the comparative figures for the corresponding period last year are as follows:

	Year ended 31st December,				
	2019 HK\$'000	% of total	2018 HK\$'000	% of total	Increase/ (Decrease)
Sales of Gas	5,805,421	71.3%	4,871,134	63.9%	19.2%
Revenue from Gas Pipeline Construction	1,581,238	19.4%	2,251,268	29.5%	(29.8)%
Sales of Stoves and Other Services	412,348	5.1%	154,854	2.0%	166.3%
Operation of CNG/LNG Vehicle Filling Stations	337,377	4.1%	342,365	4.5%	(1.5)%
Sub-total	8,136,384	99.9%	7,619,621	99.9%	6.8%
Sales of Liquefied Petroleum Gas	7,387	0.1%	7,467	0.1%	(1.1)%
Total	8,143,771	100%	7,627,088	100%	6.8%

The turnover for the year ended 31st December, 2019 amounted to HK\$8,143,771,000 (2018: HK\$7,627,088,000). The growth in turnover was mainly attributable to (i) increase in sales of gas and sales of stoves and other services, offset by (ii) decrease in revenue from gas pipeline construction for "coal-to-gas" projects.

Sales of Gas

Sales of gas for the year ended 31st December, 2019 amounted to HK\$5,805,421,000 (2018: HK\$4,871,134,000), representing an increase of 19.2% over the corresponding period last year.

Sales of gas for the year ended 31st December, 2019 contributed 71.3% of the total turnover of the Group, as compared with the percentage of 63.9% during the corresponding period last year. Sales of gas continued to be the major source of turnover for the Group. The following table set forth the breakdown of sales of gas by customers.

Sales of gas by customers:

	Year ended 31st December,				Increase/ (Decrease)
	2019 HK\$'000	% of total	2018 HK\$'000	% of total	
Industrial customers	3,592,551	61.9%	3,216,181	66.0%	11.7%
Residential households	1,150,846	19.8%	837,033	17.2%	37.5%
Commercial customers	525,503	9.0%	500,141	10.3%	5.1%
Wholesale customers	61,728	1.1%	95,962	2.0%	(35.7)%
Wholesale customers (LNG)	474,793	8.2%	221,817	4.5%	114.0%
Total	5,805,421	100%	4,871,134	100%	19.2%

Industrial customers

The sales of gas to the Group's industrial customers for the year ended 31st December, 2019 increased by 11.7% to HK\$3,592,551,000 from HK\$3,216,181,000 for the corresponding period last year. During the year ended 31st December, 2019, the Group connected 323 new industrial customers. The average selling price of natural gas for industrial customers for the year ended 31st December, 2019 increased by 4.3% to RMB2.89 per m³ (2018: RMB2.77 per m³) when compared to the corresponding period last year. There is a continuous growth in the demand of natural gas among industrial customers under the implementation of the environmental pollution control policy. During the year ended 31st December, 2019, the piped natural gas usage provided by the Group to its industrial customers increased by 11.4% to 1,077,641,000 m³ (2018: 967,372,000 m³).

The sales of gas to our industrial customers for the year ended 31st December, 2019 contributed 61.9% of the total sales of gas of the Group (2018: 66.0%) and continues to be the major source of sales of gas of the Group.

Residential households

The sales of gas to our residential households for the year ended 31st December, 2019 increased by 37.5% to HK\$1,150,846,000 from HK\$837,033,000 for the corresponding period last year. The growth in sales of gas to residential households was supported by the implementation of the "coal-to-gas" conversion policy and the growth in population in the Group's existing project cities in the PRC. The Group also actively acquired new projects in 2019. During the year ended 31st December, 2019, the Group provided new natural gas connections for 448,296 residential households and the piped natural gas usage provided by the Group to residential households increased by 34.6% to 430,181,000 m³ (2018: 319,646,000 m³). After years of promotion of clean energy heating plan, more residential households are willing to use natural gas for indoor heating in winter.

The sales of gas to our residential households for the year contributed 19.8% of the total sales of gas of the Group (2018: 17.2%).

Commercial customers

The sales of gas to our commercial customers for the year ended 31st December, 2019 increased by 5.1% to HK\$525,503,000 from HK\$500,141,000 for the corresponding period last year. The sales of gas to commercial customers for the year contributed 9.0% of the total sales of gas of the Group (2018: 10.3%). During the year ended 31st December, 2019, the Group connected 2,530 new commercial customers. As at 31st December, 2019, the number of commercial customers of the Group reached 13,695, representing an increase of 31.9% as compared with 10,386 commercial customers as at 31st December, 2018.

The average selling price of natural gas for commercial customers increased by 5.6% to RMB3.22 per m³ (2018: RMB3.05 per m³) when compared to the corresponding period last year. The increase in gas consumption of commercial customers by 3.7% to 143,414,000 m³ (2018: 138,271,000 m³) for the year ended 31st December, 2019 was attributable to the increasing awareness for environmental protection.

Gas Pipeline Construction

Revenue from gas pipeline construction for the year ended 31st December, 2019 amounted to HK\$1,581,238,000, representing a decrease of 29.8% over the corresponding period last year. The following table set forth the breakdown of revenue from gas pipeline construction by customers.

Revenue from gas pipeline construction by customers

	2019		2018		Increase/ (Decrease)
	2019 HK\$'000	% of total	2018 HK\$'000	% of total	
Residential households					
– “Coal-to-gas” projects	741,272	46.9%	1,447,721	64.3%	(48.8)%
– Non “Coal-to-gas” projects	698,894	44.2%	663,678	29.5%	5.3%
Non-residential customers	141,072	8.9%	139,869	6.2%	0.9%
Total	1,581,238	100%	2,251,268	100%	(29.8)%

Started from 2017, the PRC government has determined to launch the “coal-to-gas” policy as one of its major priorities to fight against air pollution. The Group has followed the “coal-to-gas” conversion policy and carried out a number of conversion projects in different regions of the PRC. In 2019, the Group selected new projects in a more cautious manner and focused on projects with better profitability and recoverability. As a result, the revenue from gas pipeline construction for residential households for “coal-to-gas” projects for the year ended 31st December, 2019 decreased by 48.8% to HK\$741,272,000 from HK\$1,447,721,000 for the corresponding period last year. During the year ended 31st December, 2019, the Group provided new natural gas connections for 217,674 residential households (2018: 445,324) under “coal-to-gas” projects and the average connection fee was RMB2,998 (2018: RMB2,745).

During the year ended 31st December, 2019, revenue from gas pipeline construction for residential households for non “coal-to-gas” projects increased by 5.3% to HK\$698,894,000 from HK\$663,678,000 for the corresponding period last year. The growth was mainly attributable to (i) the increase in construction work for gas pipeline connection completed by the Group for residential households for non “coal-to-gas” projects to 230,622 from 223,253 for the corresponding period last year and (ii) the increase in average connection fee to RMB2,666 in 2019 from RMB2,510 in 2018.

The connection fee charged to industrial/commercial customers by the Group was significantly higher than that charged to residential households and was determined on a case-by-case basis. During the year ended 31st December, 2019, revenue from gas pipeline construction for non-residential customers increased by 0.9% to HK\$141,072,000 from HK\$139,869,000 for the corresponding period last year.

As at 31st December, 2019, the Group’s penetration rates of residential pipeline connection amounted to 67.3% (2018: 64.9%) (represented by the percentage of the accumulated number of the Group’s connected residential households to the estimated aggregate number of connectable residential households in its operation regions). In view of the favourable energy policies in the PRC, the Group is aiming to continue to increase its market coverage by acquisitions when suitable opportunities arise.

Sales of Stoves and Other Services

Sales of stoves and other services for the year ended 31st December, 2019 amounted to HK\$412,348,000 (2018: HK\$154,854,000), representing an increase of 166.3% over the corresponding period last year. It contributed 5.1% of the total turnover of the Group, as compared with the percentage of 2.0% during the corresponding period last year.

Since 2017, the Group placed greater efforts in value-added services such as sales of stoves and related equipment, which involves the sales of safe and reliable kitchenware, including gas water heaters, gas cooking appliances and wall hung boilers under its own brand name, “中裕鳳凰” (Zhongyu Phoenix), to residential customers. With the increasing number of connected residential customers and brand recognition built in recent years, the turnover from sales of stoves and other services kept growing.

Operation of CNG/LNG Vehicle Filling Stations

The operation of CNG/LNG vehicle filling stations is facing keen competition. Revenue from operating CNG/LNG vehicle filling stations for the year ended 31st December, 2019 amounted to HK\$337,377,000, representing a mild decrease of 1.5% over the corresponding period last year. The average selling price of natural gas for CNG/LNG vehicle filling stations for the year ended 31st December, 2019 remained stable at RMB3.32 per m³ (2018: RMB3.35 per m³). The unit of natural gas sold to vehicles slightly increased by 3.6% to 89,461,000 m³ for the year ended 31st December, 2019 from 86,326,000 m³ for the corresponding period last year.

During the year ended 31st December, 2019, the turnover derived from operating CNG/LNG vehicle filling stations accounted for 4.1% (2018: 4.5%) of the total turnover of the Group. As at 31st December, 2019, the Group had 63 CNG/LNG vehicle filling stations and commenced building an additional 8 CNG/LNG vehicle filling stations in the PRC.

Gross profit margin

The overall gross profit margin for the year ended 31st December, 2019 was 23.5% (2018: 29.1%). The decline in overall gross profit margin in current year was mainly due to decrease in the proportion of revenue from pipeline construction to total turnover.

The gross profit margin for the sales of piped natural gas increased to 9.9% (2018: 8.1%) because of average selling price increment in 2019. The gross profit margin for the operation of CNG/LNG vehicle filling stations reduced to 6.7% (2018: 9.3%) as a result of keen competition. The gross profit margin for the gas pipeline construction remained stable at 75.5% for the year under review (2018: 77.3%). The gross profit margin for sales of stoves and other services reduced to 43.0% (2018: 63.8%) because there was an increment in sales of wall hung boilers in 2019, which had lower gross profit margin than sales of other equipment and other services.

Other gains and losses

The Group recognised other net loss of HK\$230,304,000 in 2019 (2018: HK\$332,787,000). The amount mainly represented (i) net foreign exchange loss of HK\$248,562,000 (2018: HK\$321,905,000) mainly arising from the Group's bank borrowings denominated in United States dollars and Hong Kong dollars as a result of the depreciation of RMB in 2019; offset by (ii) net gain on disposal of property, plant and equipment of HK\$18,926,000 (2018: loss of HK\$37,805,000). In 2018, there was one-off recovery of bad debts previously written off of HK\$29,109,000.

Other income

Other income reduced to HK\$53,493,000 in 2019 from HK\$60,930,000 in 2018. The balance in 2019 represented the bank interest income of HK\$11,282,000 (2018: HK\$9,412,000), interest income on amount due from an associate of HK\$2,946,000 (2018: HK\$3,072,000), government subsidies of HK\$5,160,000 (2018: HK\$6,264,000), income from investments in life insurance contracts of HK\$2,771,000 (2018: HK\$2,702,000) and sundry income of HK\$31,334,000 (2018: HK\$39,480,000).

Selling and distribution costs and administrative expenses

Selling and distribution costs increased by 25.2% to HK\$183,041,000 in 2019 from HK\$146,145,000 in 2018. Administrative expenses increased by 20.2% to HK\$451,878,000 in 2019 from HK\$375,792,000 in 2018. The increase was mainly attributable to (i) ascending staff costs and related expenses as a result of increased number of headcount; (ii) increasing commission expenses for sales of stoves and other services; (iii) escalating advertising expenses for brand building; and (iv) additional depreciation expenses arisen from the revaluation of pipelines in prior year. In 2019, the Group also recognised equity-settled share option expenses of HK\$43,802,000 (2018: HK\$58,847,000) arising from share options granted on 5th January, 2018.

Finance costs

Finance costs increased by 26.2% to HK\$344,248,000 in 2019 from HK\$272,747,000 in 2018. The increase was mainly attributable to the increase in average bank and other borrowings balance.

Income tax expenses

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the year ended 31st December, 2019, withholding tax amounting to HK\$7,361,000 (2018: HK\$9,402,000) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities in the previous and current years.

Accordingly, the income tax expenses in 2019 amounted to HK\$280,770,000 (2018: HK\$406,686,000).

Earnings from continuing operations before finance costs, taxation, depreciation, amortisation, foreign exchange gain/loss and share option expenses (“EBITDA”)

The Group's EBITDA was approximately HK\$1,813,582,000 in 2019, representing a decrease of 14.0% as compared with that of approximately HK\$2,107,648,000 in 2018.

Profit attributable to owners of the Company

As a result of the above, profit attributable to owners of the Company was HK\$430,121,000 in 2019, representing a decrease of 30.7% as compared with that of HK\$620,684,000 in 2018.

Excluding the net foreign exchange loss of HK\$248,562,000 (2018: HK\$321,905,000) and share option expenses of HK\$43,802,000 (2018: HK\$58,847,000), adjusted profit attributable to owners of the Company would amount to HK\$722,485,000 (2018: HK\$1,001,436,000).

Net profit margin

For the year ended 31st December, 2019, the net profit margin, representing a ratio of profit attributable to owners of the Company to turnover, was 5.3% (2018: 8.1%).

Earnings per share

The basic and diluted earnings per share attributable to the owners of the Company were HK16.93 cents and HK16.73 cents respectively in 2019, as compared with that of HK24.52 cents and HK24.30 cents respectively in 2018.

Net assets value per share

The net assets value per share attributable to the owners of the Company was HK\$1.81 as at 31st December, 2019, representing an increase of 16.8% as compared with that of HK\$1.55 as at 31st December, 2018.

The net assets value represents total assets minus total liabilities.

LIQUIDITY, FINANCIAL RESOURCES AND WORKING CAPITAL

Liquidity

As at 31st December, 2019, the total assets of the Group increased by HK\$4,007,745,000 or 24.6% to HK\$20,289,099,000 (2018: HK\$16,281,354,000).

As at 31st December, 2019, the Group has net current liabilities of HK\$1,558,870,000 (2018: HK\$2,790,038,000). Decrease in net current liabilities was mainly due to the increase in bank balances and reduction of borrowings due within one year after re-financing.

As at 31st December, 2019, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 0.8 (2018: 0.6).

As at 31st December, 2019, the total borrowings, lease liabilities and obligations under finance leases increased by HK\$2,625,159,000 or 31.0% to HK\$11,102,632,000 (2018: HK\$8,477,473,000).

As at 31st December, 2019, the Group had total net debts of HK\$9,199,319,000 (2018: HK\$6,876,596,000), measured as total borrowings, lease liabilities and obligations under finance leases minus the bank balances and cash and pledged bank deposits. As at 31st December, 2019, the Group had net gearing ratio of approximately 1.69 (2018: 1.52), measured as total net debts to total equity of HK\$5,436,073,000 (2018: HK\$4,520,169,000).

Financial resources

During the year ended 31st December, 2019, the Group entered into several loan agreements with several banks in Hong Kong and overseas, pursuant to which loan facilities of up to US\$75,200,000 and HK\$4,455,605,000 in total were made available to the Group.

During the year ended 31st December, 2019, the Group generally financed its operations with internally generated resources and bank and other borrowings. As at 31st December, 2019, all of the bank and other borrowings were secured or unsecured and on normal commercial basis.

Capital structure

Please refer to notes 31, 34, 35, 36, 37 and 48 of the consolidated financial statements for details of the capital structure of the Group.

Working capital

In view of the Group's current financial and liquidity positions and in the absence of unforeseen circumstances, the Directors are of the opinion that the Group has sufficient working capital for its requirements.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

During the year, the Group's monetary assets and liabilities are principally denominated in either Renminbi ("RMB"), Hong Kong dollars or the United States dollars and the Group conducted its business transactions principally in RMB. As a result of the depreciation of RMB in 2019, exchange loss arising from the Group's bank borrowings denominated in United States dollars and Hong Kong dollars was recognised during the year. The Group is seeking suitable financial instruments to hedge against potential depreciation of RMB. As at 31st December, 2019, the Group did not employ any financial instruments for hedging purposes.

EMPLOYEE INFORMATION

As at 31st December, 2019, the Group had a total of 4,388 employees (2018: 3,816) in Hong Kong and the PRC, and the total employee benefit expenses (other than directors) for the year was approximately HK\$512,635,000 (2018: HK\$483,630,000), which included equity-settled share option expenses of HK\$43,802,000 (2018: HK\$48,631,000). The increase was mainly due to the increase in the number of headcount of the Group. Around 99.6% of the Group's employees are located in the PRC.

The Group's remuneration and bonus policies are determined based on the performance of individual employees.

The emoluments of the Directors are recommended by the Remuneration Committee of the Company, having regard to the Group's operating results, the Directors' duties and responsibilities within the Group and comparable market statistics.

Share option scheme

On 24th October, 2003, the Company adopted a share option scheme (“Old Share Option Scheme”) pursuant to which the Directors were authorised to grant share option to its employees (including executive directors and employees of any of its subsidiaries) or any person who has contributed or will contribute to the Group. The Old Share Option Scheme was terminated and replaced by a new share option scheme (“New Share Option Scheme”) on 3rd May, 2013 by an ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 3rd May, 2013.

As at the date of this report, there were a total of 1,005,800 share options (as at the date of the annual report of the Company for the year ended 31st December, 2018: 2,011,600) outstanding which were granted to the Directors under the Old Share Option Scheme, the full conversion of which will result in the issue of 1,005,800 ordinary shares in the Company, representing approximately 0.04% of the number of issued shares of the Company as at the date of this report (number of share options outstanding as at the date of the annual report of the Company for the year ended 31st December, 2018 over the number of issued shares of the Company as at that date: 0.08%).

The New Share Option Scheme shall be valid and effective for a period of ten years commencing on 3rd May, 2013 and will expire on 2nd May, 2023. Under the New Share Option Scheme, the Directors may offer to any employees or any eligible person, who has made or will make contributions to the Group, share options to subscribe for shares in the Company in accordance with the terms of the New Share Option Scheme. The exercise price is determined by the Directors, and shall not be less than the higher of (i) the closing price of the Company’s shares on the date of grant which must be a business day; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company’s shares.

As at the date of this report, the number of outstanding share options granted under the New Share Option Scheme was 17,098,600 and the maximum number of share options which may be granted under the New Share Option Scheme is 235,302,168. The outstanding share options, if converted in full into shares of the Company, and the number of options available for future grant, if granted and converted in full, represent approximately 0.65% and 8.90% of the number of issued shares of the Company as at the date of this report, respectively.

The movements of the Company’s share options granted under the Old Share Option Scheme and the New Share Option Scheme and movements in such holdings during the year ended 31st December, 2019 are disclosed in the title of share options in Directors’ Report.

CHARGE ON THE GROUP’S ASSETS

As at 31st December, 2019, no pledged bank deposit (2018: RMB5,000,000 (equivalent to HK\$5,720,000)) is used to secure the short-term general banking facilities granted to the Group.

As at 31st December, 2018, the Group’s obligations under finance leases were secured by the Group’s pipelines with an aggregate carrying amount of RMB733,203,000 (equivalent to HK\$838,713,000) and 50% of the equity interests of a subsidiary of the Company.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the year ended 31st December, 2019, save for the events described in notes 41 and 42 to the consolidated financial statements, the Group did not conduct any significant investments, or material acquisitions or disposals of subsidiaries.

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 31st December, 2019, the Board did not have any specific plans for material investment or capital assets.

CAPITAL AND OTHER COMMITMENTS

As at 31st December, 2019, the capital expenditure in respect of the acquisition of property, plant and equipment and right-of-use assets (2018: prepaid lease payments) contracted for but not provided in the consolidated financial statements is HK\$94,110,000 (2018: HK\$167,297,000).

CONTINGENT LIABILITIES

As at 31st December, 2019, the Group did not have any contingent liabilities (2018: nil).

Executive Directors

Mr. Wang Wenliang, aged 49, is the Chairman of the Company. He was appointed as an executive Director on 10 July 2003 and is responsible for the overall strategic development of the Company and its subsidiaries (collectively the “Group”). Mr. Wang also serves as a director of certain other subsidiaries within the Group. Mr. Wang has held investments in various industries in the PRC including aluminium, property, and information technology. Mr. Wang was a deputy general manager of a company in Zhengzhou, People’s Republic of China (the “PRC”) (whose principal business is the manufacture and sale of aluminium products) between 1996 and 1999 and was a deputy general manager of a company in Henan Province, the PRC (whose principal business is property management and rental) between 1997 and 2000. Mr. Wang was also a president of a company in Henan Province, the PRC between 2000 and 2005, the principal business of which is the provision of software development, networking engineering services, sale of computer and peripheral products, and provision of internet services. Mr. Wang was an executive director of China Gas Holdings Limited between 17 January 2003 and 10 June 2003. Mr. Wang completed his postgraduate course in Finance in the Graduate School of Chinese Academy of Social Sciences in the PRC in June 2001. Mr. Wang is the sole shareholder, a chairman and director of Hezhong Investment Holding Company Limited (“Hezhong”), which is a substantial shareholder (as defined in the Listing Rules) of the Company.

In April 2019, after reviewing (a) the performance of the Group in recent years; (b) the contribution made by, time and effort devoted by and the duties and responsibilities of Mr. Wang as an Executive Director of the Company during the same period; and (c) salaries paid by comparable companies in the market to officers of similar position or duties, Mr. Wang’s annual emolument was adjusted upwards to HK\$7,140,000 with effect from 1st January, 2019.

Mr. Lui Siu Keung, aged 48, is the Chief Executive Officer and Company Secretary of the Company. He was appointed as an executive Director of the Company on 22 October 2007. Mr. Lui joined the Company in 2003 and is responsible for the general business operations and management. Mr. Lui also serves as a director of certain other subsidiaries within the Group. Mr. Lui has approximately twenty years of experience in corporate finance, accounting and auditing fields. He graduated from The Hong Kong Polytechnic University with a bachelor of arts degree in accountancy in November 1996. Mr. Lui is an associate member of the Hong Kong Institute of Certified Public Accountants.

In April 2019, after reviewing (a) the performance of the Group in recent years; (b) the contribution made by, time and effort devoted by and the duties and responsibilities of Mr. Lui as an Executive Director of the Company during the same period; and (c) salaries paid by comparable companies in the market to officers of similar position or duties, Mr. Lui’s annual emolument was adjusted upwards to HK\$5,600,000 with effect from 1st January, 2019.

Mr. Lu Zhaoheng, aged 55, is an executive Director of the Company and is mainly responsible for the management of the Group’s business in PRC. He was appointed as an executive Director on 24 June 2004. Mr. Lu also serves as a director of certain other subsidiaries within the Group. Mr. Lu is the National Registered Public Facilities Engineer and Senior Engineer. Mr. Lu graduated from 重慶建築工程學院 (The Architecture and Engineering Institute of Chongqing) specializing in Town Gas Thermal Engineering in 1984, and obtained a master degree in senior management of business administration from China Europe International Business School in 2017. Mr. Lu has accumulated more than thirty years of experience in the development and commercialisation of natural gas in the PRC. Mr. Lu held various positions in 河南省城鄉規劃設計研究總院 (Henan Urban Planning Institute Corporation) and has comprehensive qualification and experience in planning research, engineering and business management in the natural gas industry.

BIOGRAPHICAL INFORMATION OF DIRECTORS

In April 2019, after reviewing (a) the performance of the Group in recent years; (b) the contribution made by, time and effort devoted by and the duties and responsibilities of Mr. Lu as an Executive Director of the Company during the same period; and (c) salaries paid by comparable companies in the market to officers of similar position or duties, Mr. Lu's annual emolument was adjusted upwards to HK\$2,300,000 with effect from 1st January, 2019.

Mr. Li Yan, aged 56, is an executive Director of the Company. He was appointed as an executive Director on 25 February 2019. Mr. Li also serves as a director of certain other subsidiaries within the Group. Mr. Li holds a bachelor's degree from Henan University of Economics and Law (河南財經政法大學) (formerly known as Henan University of Economics (河南財經學院)) and an EMBA degree from The Guanghua School of Management of Peking University (北京大學光華管理學院). Mr. Li taught accounting, finance and economics at Henan Province Supply and Marketing School (河南省供銷學校) from July 1988 to February 1992 and served as assistant to the general manager of China Commercial Resources Zhengzhou Company (中國商業物資鄭州公司) from March 1992 to 2002. Mr. Li joined the Group in 2003 and is currently the executive vice president (執行副總裁) of the Company. In December 2005, Mr. Li obtained the title of senior economist.

In April 2019, after reviewing (a) the performance of the Group in recent years; (b) the contribution made by, time and effort devoted by and the duties and responsibilities of Mr. Li as an Executive Director of the Company during the same period; and (c) salaries paid by comparable companies in the market to officers of similar position or duties, Mr. Li's annual emolument was adjusted upwards to HK\$1,540,000 with effect from 1st January, 2019.

Mr. Jia Kun, aged 49, is an executive Director of the Company. He was appointed as an executive Director on 25 February 2019. Mr. Jia graduated from Zhongnan University of Economics and Law (中南財經政法大學) (formerly known as Zhongnan University of Law (中南政

法學院)) and Cheung Kong Graduate School of Business (長江商學院). Mr. Jia holds a bachelor of laws degree and an EMBA degree. Mr. Jia has 8 years of judicial experience and 19 years of legal, risk management and administrative management experience. Mr. Jia previously served as head of office and chief executive officer of Henan Hezhong Group Company (河南和眾集團公司). Mr. Jia joined the Group in 2003 and currently serves as its vice president (副總裁). Mr. Jia also serves as a director of certain other subsidiaries within the Group.

In April 2019, after reviewing (a) the performance of the Group in recent years; (b) the contribution made by, time and effort devoted by and the duties and responsibilities of Mr. Jia as an Executive Director of the Company during the same period; and (c) salaries paid by comparable companies in the market to officers of similar position or duties, Mr. Jia's annual emolument was adjusted upwards to HK\$1,540,000 with effect from 1st January, 2019.

Non-executive Director

Mr. Xu Yongxuan, aged 74, is the Vice Chairman of the Company. Mr. Xu was appointed as a non-executive Director and Vice Chairman of the Company on 12 March 2004. Mr. Xu had been an executive director of Greater China Holdings Limited, the issued shares of which are listed on the main board of the Stock Exchange for the period from October 2001 to January 2004.

Independent Non-executive Directors

Mr. Li Chunyan, aged 56, is an independent non-executive Director, Chairman of Audit Committee, Remuneration Committee and Nomination Committee of the Company. He was appointed as an independent non-executive Director on 5 October 2010. He has been a practicing lawyer at Henan Shi Ji Tong Law Office (河南世紀通律師事務所) since April 1999. He has also been a teacher at Xiangcheng Normal School in Henan Province, a lawyer at Pingdingshan Economic Law Office (平頂山經濟律師事務所), a lawyer at Asia Pacific (Group) CPAs, a certified public accountant, as well as a registered assets valuer. In July 2007, he attended the independent director

BIOGRAPHICAL INFORMATION OF DIRECTORS

training of Shenzhen Stock Exchange and obtained the qualification certificate of independent directors. He was the independent non-executive director of Zhengzhou Yutong Bus Co. Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600066) from April 2014 to the present. He has been an independent director of Do-Fluoride Chemicals Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002407) since 16 January 2020. He is a non-executive director of Rosan Resources Holdings Limited (stock code: 578).

Dr. Luo Yongtai, aged 73, is an independent non-executive Director, a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. He was appointed as an independent non-executive Director on 31 July 2003. He is a professor and a doctoral tutor in management of Tianjin University of Finance and Economics, the committee member of Tianjin Historical Building Protection Expert Consultation Committee, a Director of Coordinated Innovation Development Research Institute of the Beijing, Tianjin and Hebei region, the committee member of Coordinated Development Research Center Expert Consultation Committee of the Northeastern region and the Beijing, Tianjin and Hebei region, and an expert of Thinking Tank in Tianjin Science and Technology Commission, as well as a beneficiary of the Expert Special Subsidy granted by the State Council of the PRC. Dr. Luo had been an independent director of Tianjin Tianbao Infrastructure Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000965) for the period from December 2014 to June 2017. He was an independent director of Tianjin Guifaxiang 18th Street Mahua Food Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002820) during the period between December 2012 and September 2018. He was also an external director of Tianjin Ringpu Bio-Technology Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300119) during the period between January 2015 and December 2018.

Ms. Liu Yu Jie, aged 55, is an independent non-executive Director, a member of Audit Committee, Remuneration Committee and Nomination Committee of the Company. She was appointed as an independent non-executive Director on 30 June 2017. Ms. Liu graduated from University of International Business and Economics in Beijing and obtained a master's degree in business management. She has been working in Hong Kong, Singapore and the PRC for over 20 years and is familiar with the business environment and regulatory systems of such jurisdictions. She has comprehensive experience in capital markets, business promotion and corporate management through participating in initial public offerings, underwriting over 30 companies in their respective initial public offerings on The Stock Exchange of Hong Kong Limited, and having led and completed mergers and acquisitions of a number of companies in Hong Kong and Singapore. Ms. Liu also assisted in capital raising and management of large-scale industrial funds which make investments in China, and acted as executive directors of listed companies in Hong Kong and Singapore which engaged in utilities and infrastructure investments. Ms. Liu is an executive director of China Water Affairs Group Limited (stock code: 855), New Universe Environmental Group Limited (stock code: 436) and Kangda International Environmental Company Limited (stock code: 6136). She was also an executive director of SIIC Environment Holdings Ltd. (a company listed on the Singapore Exchange) from 19 November 2009 to 8 August 2014.

The board of directors (the “Directors”) and the management of Zhongyu Gas Holdings Limited (the “Company”) are committed to high standards of corporate governance. Corporate governance system is set up to achieve a balance of the interests of different participants in the corporation, to direct and manage corporate affairs and to monitor corporate performance. The Company is dedicated to continue improving its corporate governance practices to ensure accountable, transparent and efficient management.

Save as disclosed herein, the Company has fully complied with all code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) (the “CG Code”) for the year ended 31st December, 2019. The following summarises the corporate governance practices of the Company and the reasons for deviations, if any, from the CG Code.

Executive Directors:

Mr. Wang Wenliang (“Mr. Wang”) (*Chairman*)
Mr. Lui Siu Keung (*Chief Executive Officer*)
Mr. Lu Zhaoheng
Mr. Li Yan (appointed with effect from 25th February, 2019)
Mr. Jia Kun (appointed with effect from 25th February, 2019)

Non-executive Director:

Mr. Xu Yongxuan (*Vice-Chairman*)

Independent Non-executive Directors:

Mr. Li Chunyan
Dr. Luo Yongtai
Ms. Liu Yu Jie

The Company received a written annual confirmation of independence from each of the independent non-executive Directors pursuant to the Rule 3.13 of the Listing Rules. The Company considered each independent non-executive Director to be independent.

Given the business nature, the Board members have distinct skills and experience in a variety of business range, which includes city gas network design and operation, organisational management,

A. Board of Directors

The board of Directors (the “Board”), holds responsibility for leadership and control of the corporation. By directing and supervising corporate affairs, the Board plays an important role in protecting and enhancing long-term shareholder value.

A.1 Board composition

As at 31st December, 2019, the Board included nine Directors, of which five were executive Directors, one was non-executive Director and the remaining three were independent non-executive Directors. The composition of the Board and its changes during the year ended 31st December, 2019 and up to the date of this report are as follows:

financial and securities trading market, etc. The relevant biographies and the respective roles of all Directors on the Board are set out on pages 29 to 31 in this report.

The primary roles of the Board are to set the corporate strategy by determining business objectives, development plan and strategic policies; to delegate day-to-day operations to the management and to monitor their operating and financial performance; to avoid risks and oversee corporate affairs.

A.2 Board meetings and information supply

The Board meets regularly and board meetings were held quarterly and additional meetings would be arranged, if and when required. All Directors can attend meetings in person or through other electronic means of communication.

The Company Secretary assists the Chairman in establishing the meeting agenda and each Director may request inclusion of matters in the agenda.

Notice of at least 14 days in advance is given of a regular board meeting to give all Directors an opportunity to attend.

The management of the Company has provided the Board with adequate information in a timely manner to enable it to make informed decisions. In addition, the management may be invited, if and when requested, to attend board meetings to make presentation and answer the queries raised by the Board.

All Directors have access to the advice and services of the Company Secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed.

Minutes of board meetings are kept by the Company Secretary and such minutes are open for inspection at any reasonable time on reasonable notice by any Director.

Minutes of board meetings are recorded in sufficient detail and draft and final versions of minutes of board meetings are sent to all Directors for their comment and records respectively, in both cases within a reasonable time after the board meeting is held.

If and when a substantial shareholder of the Company or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter would not be dealt with by way of circulation but a board meeting would be held. Independent non-executive Directors who and whose associates, have no material interest in the transaction would be present at such board meeting.

For the year ended 31st December, 2019, the Board held 31 board meetings and the Company held two general meetings. The attendance records of all board meetings and the general meeting are set out below:

	General meetings		Board meetings	
Executive Directors				
Mr. Wang Wenliang (Chairman)	2	100%	31	100%
Mr. Lui Siu Keung (Chief Executive Officer)	2	100%	31	100%
Mr. Lu Zhaoheng	2	100%	30	97%
Mr. Li Yan*	2	100%	25	96%
Mr. Jia Kun*	2	100%	25	96%
Non-executive Director				
Mr. Xu Yongxuan (Vice Chairman)	2	100%	30	97%
Independent Non-executive Directors				
Mr. Li Chunyan	2	100%	29	94%
Dr. Luo Yongtai	2	100%	30	97%
Ms. Liu Yu Jie	2	100%	30	97%

* Mr. Li Yan and Mr. Jia Kun were appointed as executive Directors with effect from 25th February, 2019. Accordingly, the attendance record only shows the board meetings and general meetings that were held after their appointment.

A.3 Chairman and chief executive

The Chairman is responsible for offering leadership and effectiveness for the Board, arranging all key and appropriate issues to be discussed by the Board in a timely manner, and ensuring the Board acts in the best interests of the Company and its subsidiaries (collectively the “Group”) by establishing constructive relations between executive and non-executive Directors and providing effective communication with shareholders; whereas the chief executive is responsible for running the Group’s business, supervising the implementation of the Group’s strategy in achieving the overall commercial objectives and managing the day-to-day operation of the Group.

The CG Code Provision A.2.1 provides that the roles of Chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and chief executive should be clearly established and set out in writing.

A.4 Appointments and re-election

According to the Company’s articles of association (“Articles of Association”), the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board and the Directors shall have the power from time to time and at any time to appoint any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next following annual general meeting of the company and shall then be eligible for re-election.

The Company renewed the service contracts with each non-executive Director, except for Ms. Liu Yu Jie, on 11th July 2018. The Company entered into service contracts with Ms. Liu Yu Jie on 30th June, 2017 and with each of Mr. Li Yan and Mr. Jia Kun on 25th February, 2019, respectively. The term of appointment for the non-executive Directors is three years and they are subject to retirement by rotation and re-election in accordance with the Articles of Association. The details of procedure for retirement of Directors are as follows:

According to the Articles of Association and the CG Code Provisions A4.1-A4.3, one-third of the Directors shall retire from office by rotation at the annual general meeting. The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election. Any further Director so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall be determined by lot. Any Director appointed pursuant to the Company’s articles of association as stated in the paragraph one under the heading “A.4 Appointment and re-election” shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

Accordingly, Mr. Lu Zhaoheng, Mr. Li Chunyan and Ms. Liu Yu Jie will retire from office as Directors by rotation at the AGM and being eligible, offer themselves for re-election. In accordance with CG Code Provision A.4.3, the re-election of Mr. Li Chunyan, an independent non-executive Director who has served more than 9 years, will be subject to approval by the shareholders of the Company at the upcoming AGM.

A.5 Responsibilities of directors

Directors are provided sufficient and appropriate information by management periodically to ensure they have a proper understanding of the operations and business of the Group, and to enable them to be fully aware of their responsibilities. When a new Director is appointed, he will receive a formal induction and other materials to familiarize with the Group promptly. Besides every Director is required to disclose his interests, potential conflict of interests, and changes in a timely manner according to the written responsibilities guideline, the independent non-executive Directors participate in board meetings and serve on relevant committees, to make an independent judgment on corporate affairs and to develop a balanced understanding of the view of shareholders. Individual Directors may also seek external independent professional advice, at the Company's expense, on any specific matter. The Company also encourages all Directors to participate in programs of continuous professional development to develop and refresh their knowledge and skills, in order to discharge their responsibilities positively and constructively.

A.6 Directors' securities transaction

The Company has adopted and complied with the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, they have all confirmed their compliance with the required standard of dealings and the Model Code regarding securities transactions by Directors adopted by the Company.

A.7 Directors and Officers' Liabilities Insurance

The Company maintains appropriate insurance cover in respect of legal action against the Company's directors and officers when they discharge their duties. The insurance coverage is reviewed on an annual basis.

A.8 Corporate Governance Functions

The Board also assumes the corporate governance functions and is responsible for: developing and reviewing the Company's policies on corporate governance; reviewing and monitoring training and continuous professional development of Directors and senior management; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the Company's code of conduct; and reviewing the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

A.9 Continuous Professional Development

Any newly appointed Director would receive an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company. All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged in-house trainings for Directors and provision of training materials. A summary of training received by Directors during the year ended 31st December, 2019 according to the records provided by the Directors is as follows:

Name of Directors	Training on corporate governance, Directors' responsibilities and other relevant topics
Executive Directors	
Mr. Wang Wenliang	✓
Mr. Lui Siu Keung	✓
Mr. Lu Zhaoheng	✓
Mr. Li Yan	✓
Mr. Jia Kun	✓
Non-executive Director	
Mr. Xu Yongxuan	✓
Independent non-executive Directors	
Mr. Li Chunyan	✓
Dr. Luo Yongtai	✓
Ms. Liu Yu Jie	✓

B. Remuneration Matters

The Board has established a Remuneration Committee comprising three independent non-executive Directors including Mr. Li Chunyan, Dr. Luo Yongtai and Ms. Liu Yu Jie. Mr. Li Chunyan is the chairman of the Remuneration Committee. The Remuneration Committee meets at least once a year. It will consult the Chairman about their remuneration proposals for other executive directors and the primary responsibilities of the Remuneration Committee are: to make recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; to determine specific remuneration packages of individual executive directors and senior management including benefits in kind, pension rights and compensation policy (i.e. the model as described in Code Provision B.1.2(c)(i) was adopted); to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; and to ensure that no Director or any of this associates is involved in deciding his own remuneration.

Two remuneration meetings were held on 22nd February, 2019 and 1st April, 2019 to review the remuneration packages of Directors with reference to their duties and responsibilities within the Group, the Company's remuneration policy and the prevailing market condition. The attendance record of the Remuneration Committee meetings is set out below:

Independent Non-executive Directors		
Mr. Li Chunyan (<i>Chairman</i>)	2	100%
Dr. Luo Yongtai	2	100%
Ms. Liu Yu Jie	2	100%

C. Accountability and Audit

C.1 Financial reporting

The Directors acknowledge their responsibilities for preparing the accounts of the Group and ensuring that the preparation of the accounts of the Group is in accordance with statutory requirements and applicable accounting standards. The Directors shall ensure the publication of the Group's accounts in a timely manner.

The statement of the Auditor of the Company about their reporting responsibilities on the accounts of the Group is set out in the Independent Auditor's Report of this Annual Report.

C.2 Risk Management and Internal controls

The risk management and internal control systems have a key role in the management of risks that are significant to the fulfillment of corporation business objectives. Internal control is designed to facilitate the effectiveness and efficiency of operations, to help ensure the reliability of internal and external reporting, to assist compliance with laws and regulations.

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.

The Board is responsible for the Group's risk management and internal control systems and reviewing their effectiveness. The effectiveness of the risk management and internal control systems is reviewed annually by the Board through the Audit Committee. Management is accountable to the Board for ongoing monitoring of the systems of risk management and internal control. By covering financial, operational, compliance controls and risk management, the Board takes the following procedures to achieve business objectives: A distinct organizational structure exists with defined lines of authority and control responsibilities.

- As the Board sets up corporate strategy and delegates daily operation power to senior management, both senior managers in administration headquarter and heads in divisions or projects are involved in the strategic plan and resource allocation to achieve their annual operational and financial targets.
- A comprehensive performance assessment system is implemented to provide financial and operational performance evaluation for both the management and employees once a year. When there are variances against targets or quality requirements, to find the reasons and take appropriate actions to eliminate gaps.

According to business nature and management structure, the Company has established different departments in two levels. The administration headquarter has major responsibilities to prepare and accomplish the Group's business development plan, to conduct day-to-day operation and report to senior management directly, to appoint and direct administrative officers in gas project divisions then to assess their business performances, to implement internal control and avoid operational and financial risks. Compared with headquarter offices, the gas project divisions hold very similar duties except that all their daily jobs are done in a lower level and they have to report to the accordance administration departments respectively on different operational matters.

In order to realize effective financial controls, through maintenance of proper accounting records, the upper and lower financial departments both ensure the Group is not unnecessarily exposed to avoidable financial risks and the financial information can be used only within the business and for reliable publication. They also contribute to pre-setting annual financial budgets, saving expenses and safeguarding of assets, including the prevention and detection of fraud.

The operational control is the other important part of the whole risk management and internal control system. To achieve effective result and avoid operational risks, human resource department employs motivation plan to attract employees with necessary knowledge, skills and information, while administrative and engineering departments in two levels pay more attention to ensure efficient operational management and construct high quality gas projects. In addition, all employees have some responsibility for internal control as part of their accountability for achieving Group's objectives. With delegated authority, they are allowed to establish, operate and monitor the system of internal control, and are required to have an understanding of the Group, its objectives, the energy industries and gas markets, and the risks it faces.

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company:

- is aware of its obligations under the Securities and Futures Ordinance and the Listing Rules and the overriding principle that inside information should be announced immediately after such information comes to our attention and/or it is the subject of a decision unless it falls within the "Safe Harbours" as defined under the Securities and Futures Ordinance;

- conducts its affairs in strict compliance with the "Guidelines on Disclosure of Inside Information" and "Recent Economic Developments and the Disclosure Obligations of Listed Issuers" issued by the Securities and Futures Commission in June 2012 and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 2008, respectively;
- has implemented procedures for responding to external enquiries about the Group's affairs; and
- has implemented policy regarding prohibition on the unauthorised use of confidential or inside information.

The Group's internal auditor department checks for compliance with statutory requirement, internal policies and procedures. It assesses the operating effectiveness and efficiency of the risk management and internal control systems in the course of its audit. The audit scope and frequency are determined by the level of assessed risks and have to be reviewed and approved by the Audit Committee.

During the year ended 31st December, 2019, the Board, through the Audit Committee, conducted an annual review of the effectiveness of the risk management and internal control systems of the Group. The annual review covered all material controls, including financial, operational and compliance controls. The annual review also covered the resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions, which the Board considered to be adequate.

As part of the key processes that have been established in reviewing the adequacy and integrity of the systems of risk management and internal control, the Audit Committee of the Company reviewed risk management and internal control issues (if any) identified by internal auditor, external auditor, regulatory authorities and management, and evaluates the adequacy and effectiveness of the Group's risk management and internal control systems.

The Board is of the view that the risk management and internal control systems of the Group are effective and adequate. The Board is also satisfied that the Group has fully complied with the code provisions on risk management and internal controls as set forth in the CG Code.

C.3 Audit committee

The Company has established the Audit Committee in compliance with Rules 3.21 and 3.23 of the Listing Rules. The primary duties of the Audit Committee are: to independently review and supervise the financial reporting process and risk management and internal control systems, to ensure good communication among Directors and the Company's auditors, to recommend the appointment of external auditors on an annual basis and approval of the audit fees, to assist the Board in oversight of the independence, qualifications, performance and compensation of the independent accountant, to review interim and annual results announcements as well as the financial statements prior to their approval by the Board, to provide audit report, advice, accounting policies and comments to all Directors.

The Audit Committee comprises three independent non-executive Directors who have extensive experience in financial matters, including Mr. Li Chunyan, Dr. Luo Yongtai and Ms. Liu Yu Jie. Mr. Li Chunyan is the chairman of the Audit Committee. In 2019, the Audit Committee held two meetings to check the effectiveness of the risk management and internal control systems; to review the report of internal control prepared by the internal audit department; to consider major investigation findings on risk management and internal control matters (if any); to review the effectiveness of the Company's internal audit function; to review all draft interim and annual financial reports, circulars and announcements; and understand the external auditors' statutory audit plan and the Letters of Representation, and to consider and approve the audit fees. The attendance records of the Audit Committee meetings are set out below:

Independent Non-executive Directors

Mr. Li Chunyan (<i>Chairman</i>)	2	100%
Dr. Luo Yongtai	2	100%
Ms. Liu Yu Jie	2	100%

C.4 Auditor's remuneration

The remuneration in respect of audit service and non-audit services provided by Deloitte Touche Tohmatsu, being the Company's auditor during the year 2019 amounted to HK\$4,145,000 and HK\$100,000, respectively. The non-audit services include professional services such as tax advisory.

D. Nomination Committee

The Board has established a Nomination Committee with written terms of reference in compliance with the CG Code. The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board, making recommendation to the Board on selection of candidates for directorships, the appointment and reappointment of Directors, Board succession planning and assessing the independence of independent non-executive Directors.

The Nomination Committee and/or the Board may select candidates for directorship from various channels, including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agents. On selection of candidates for directorship of the Company, the Nomination Committee makes reference to criteria such as the skills, experience, professional qualifications, personal integrity and time commitments of such individuals. Each candidate shall be ranked by order of preference based on the needs of the Company and his/her reference check. The Nomination Committee shall report its findings and make recommendation to the Board on the appointment of appropriate candidate for directorship for decision.

The Nomination Committee comprises three independent non-executive Directors including Mr. Li Chunyan, Dr. Luo Yongtai and Ms. Liu Yu Jie. Mr. Li Chunyan is the chairman of the Nomination Committee.

The Nomination Committee held one meeting during the year ended 31st December, 2019 to determine the policy for the nomination of directors, review the nomination, re-appointment and re-election of Directors, and to determine the nomination procedures and consider the process and criteria to be adopted by the Nomination Committee for selecting and proposing a person for election as a Director including the benefits of board diversity in terms of skill, experience, knowledge and gender. The Company believes diversity is important to enhance board effectiveness by encouraging a diversity of perspectives and to maintain high

standards of corporate governance. According to the Board diversity policy adopted by the Company, the range of diversity perspectives may include a consideration of various factors, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and industry and regional experience, and other factors based on the specific needs of the Company. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained and will discuss and where necessary, agree on the measurable objectives for achieving diversity on the Board and make recommendation to the Board. The Nomination Committee considered the current size and composition of the Board to be sufficient to meet the Company's business needs. The attendance record of the Nomination Committee meeting is set out below:

Independent Non-executive Directors

Mr. Li Chunyan (<i>Chairman</i>)	1	100%
Dr. Luo Yongtai	1	100%
Ms. Liu Yu Jie	1	100%

E. Shareholders' Rights

Dividend Policy

The Company adopted a dividend policy (the "Dividend Policy") which aimed to set out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profits as dividends to the shareholders of the Company.

In recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and needs for future growth as well as its shareholder value in the long-run.

The Board shall also take into account the following factors of the Group when considering the declaration and payment of dividends:

- financial results;
- cash flow situation;
- availability of distributable profits;

- business conditions and strategies;
- future operations and earnings;
- development plans;
- cash requirements;
- capital requirements and expenditure plans;
- interests of shareholders;
- any restrictions on payment of dividends; and
- any other factors that the Board may consider relevant.

The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate.

Notwithstanding anything in the Dividend Policy, the declaration and payment of dividends (if any) by the Company is subject to the discretion of the Board, any restrictions under the Companies Law of the Cayman Islands, the Listing Rules, the laws of Hong Kong and the Company's Memorandum and Articles of Association and any other applicable laws and regulations.

Procedures for Shareholders to convene an extraordinary general meeting and putting forward proposals at Shareholders' meetings

Pursuant to the Article 58 of the articles of association of the Company, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company by mail at Unit 04-06, 28th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified

in such requisition, and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the secretary of the Company by mail at Unit 04-06, 28th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong. The company secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the Directors of the Company.

F. Constitutional Documents

There was no change in the Company's constitutional documents during the year ended 31st December, 2019.

The directors of the Company present their annual report and the audited consolidated financial statements of the Group for the year ended 31st December, 2019.

Further discussion and analysis of the activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the business, an analysis using key performance indicators and an indication of likely future development in the Group's business can be found in the "Chairman's Statement", "CEO Message" and the "Management Discussion and Analysis" sections of this annual report (which form part of this report of the Directors).

Principal Activities

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The activities of the Company's principal subsidiaries are set out in note 50 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31st December, 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 59 and 60.

The Board recommended the payment of a final dividend of HK7 cents per ordinary share (payable in cash) for the year ended 31st December, 2018 to shareholders whose names appear on the register of members of the Company on 15th July, 2019 and the final dividend was paid on 1st August, 2019. The payment of dividends was approved by the shareholders at the annual general meeting of the Company held on 29th May, 2019.

The Board recommended the payment of an interim dividend of HK2 cents per ordinary share (payable in cash) for the year ended 31st December, 2019 to shareholders whose names appear on the register of members of the Company on 21st October, 2019 and the interim dividend was paid on 15th November, 2019.

The Board has recommended the payment of a final dividend of HK5 cents per ordinary share (payable in cash) for the year ended 31st December, 2019 to shareholders whose names appear on the register of members of the Company on 15th July, 2020 and the proposed final dividend is expected to be paid on 3rd August, 2020. The payment of dividends shall be subject to the approval of the shareholders at the forthcoming annual general meeting of the Company.

Investment Properties and Pipelines

The Group revalued all of its investment properties and pipelines included in property, plant and equipment and right-of-use assets at the year end date. The decrease in fair value of investment properties, which has been debited to profit or loss, amounted to HK\$1,579,000. The investment properties are primarily used as offices and shop in the PRC.

Details of the movements during the year in investment properties and pipelines of the Group are set out in notes 15, 16 and 17 to the consolidated financial statements respectively.

Share Capital

Details of movements during the year in the share capital of the Company are set out in note 37 to the consolidated financial statements.

Distributable Reserves

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for distributions as dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the directors, as at 31st December, 2019, the Company's reserves available for distribution amounted to HK\$761,375,000 which consisted of share premium of HK\$1,644,649,000 and accumulated loss of HK\$883,274,000.

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 31st December, 2019.

Directors

The directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Wang Wenliang (*Chairman*)
 Mr. Lui Siu Keung (*Chief Executive Officer*)
 Mr. Lu Zhaoheng
 Mr. Li Yan (*appointed with effect from 25th February, 2019*)
 Mr. Jia Kun (*appointed with effect from 25th February, 2019*)

Non-executive Director

Mr. Xu Yongxuan (*Vice-Chairman*)

Independent non-executive Directors

Mr. Li Chunyan
 Dr. Luo Yongtai
 Ms. Liu Yu Jie

In accordance with the provisions of the Company's Articles of Association, Mr. Lu Zhaoheng, Mr. Li Chunyan and Ms. Liu Yu Jie will retire by rotation at the upcoming AGM and, being eligible, offer themselves for re-election. The re-election of Mr. Li Chunyan will also be subject to approval by the shareholders as he has served as an independent non-executive director for over nine years.

Directors Service Contracts

The Company renewed the service contracts with each of the Directors of the Company, except for Ms. Liu Yu Jie (whose service contract was entered into on 30th June, 2017), on 11th July, 2018. The Company entered into service contracts with Mr. Li Yan and Mr. Jia Kun

on 25th February, 2019. The term of appointment for the Directors is three years and the Directors are subject to retirement by rotation and re-election in accordance with the Articles of Association and the CG Code. There are no existing or proposed directors' service contracts which are not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Transactions, Arrangements or Contracts of Significance

No transactions, arrangements or contracts of significance in which a director or an entity connected with the director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Disclosure of Interests

(a) Interests of Directors

As at 31st December, 2019, the interests and short positions of the Directors of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules were as follows:

Long positions in the shares/underlying shares of the Company

Name of Directors	Notes	Number of shares and/or underlying shares	Type of interests	Approximate shareholding interest as disclosed under the SFO
Mr. Wang Wenliang	1	759,714,206	Beneficial/Interest in controlled corporation/Interest of spouse	28.72%
Mr. Xu Yongxuan	2	1,508,700	Beneficial	0.06%
Mr. Lui Siu Keung	3	21,707,179	Beneficial	0.85%
Mr. Lu Zhaoheng	4	6,040,984	Beneficial	0.24%
Mr. Li Yan	5	14,013,063	Beneficial	0.55%
Mr. Jia Kun	6	7,055,031	Beneficial	0.28%
Mr. Li Chunyan	7	1,510,761	Beneficial	0.06%
Dr. Luo Yongtai	8	1,508,700	Beneficial	0.06%
Ms. Liu Yu Jie	9	502,900	Beneficial	0.02%

Notes:

- Among these shares and/or underlying shares, 730,451,289 shares were held by Hezhong Investment Holding Company Limited ("Hezhong"). Mr. Wang Wenliang was beneficially interested in 100% of the issued share capital of Hezhong. The remaining 18,824,616 shares and 10,438,301 shares were directly held by Mr. Wang Wenliang and his spouse respectively.
- These underlying shares issuable upon exercise of the rights attaching to the 1,005,800 share options at an exercise price of HK\$0.4872 per share granted under the Old Share Option Scheme and the 502,900 share options at an exercise price of HK\$5.468 per share granted under the New Share Option Scheme.
- These comprise 14,163,679 shares directly held by Mr. Lui Siu Keung and 7,543,500 underlying shares issuable upon exercise of the rights attaching to the 7,543,500 share options at an exercise price of HK\$5.468 per share granted under the New Share Option Scheme.
- These comprise 3,023,584 shares directly held by Mr. Lu Zhaoheng and 3,017,400 underlying shares issuable upon exercise of the rights attaching to the 3,017,400 share options at an exercise price of HK\$5.468 per share granted under the New Share Option Scheme.
- These shares were directly held by Mr. Li Yan.
- These shares were directly held by Mr. Jia Kun.

7. *These comprise 1,007,861 shares directly held by Mr. Li Chunyan and 502,900 underlying shares issuable upon exercise of the rights attaching to the 502,900 share options at an exercise price of HK\$5.468 per share granted under the New Share Option Scheme.*
8. *These comprise 1,005,800 shares directly held by Dr. Luo Yongtai and 502,900 underlying shares issuable upon exercise of the rights attaching to the 502,900 share options at an exercise price of HK\$5.468 per share granted under the New Share Option Scheme.*
9. *These underlying shares are issuable upon exercise of the rights attaching to the 502,900 share options at an exercise price of HK\$5.468 per share granted under the New Share Option Scheme.*
10. *As at 31st December, 2019, the total number of issued shares of the Company was 2,644,832,157. Had this number been used as the denominator for calculation of directors' interests, the shareholding interests of Mr. Lui Siu Keung, Mr. Lu Zhaoheng, Mr. Li Yan and Mr. Jia Kun as at 31st December, 2019 would have been slightly different in percentage ratio (namely 0.82%, 0.23%, 0.53% and 0.27%, respectively), while the percentage ratio for the other Directors remains the same.*

Save as disclosed above, as at 31st December, 2019, none of the Directors and chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(b) Interests of substantial shareholders of the Company

So far as is known to the Directors, as at 31st December, 2019, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in the shares of the Company

Name of shareholder	Notes	Type of interests	Number of Shares	Approximate shareholding interest as disclosed under the SFO
China Gas Holdings Limited	1	Interest of controlled corporation	1,057,905,071	40.00%
Hezhong	2	Beneficial	730,451,289	27.62%
Ms. Feng Haiyan	3	Beneficial/Interest of spouse	759,714,206	28.72%

(Note 4)

Notes:

1. According to the disclosure of interests pages as shown in the website of the Stock Exchange as at 31st December, 2019, China Gas Holdings Limited held these shares through Rich Legend International Limited ("Rich Legend"), its wholly-owned subsidiary, and is therefore deemed to be interested in the 1,057,905,071 shares held by Rich Legend.
2. Hezhong was beneficially interested in 730,451,289 shares. Mr. Wang Wenliang was beneficially interested in 100% of the issued share capital of Hezhong.
3. Ms. Feng Haiyan directly held 10,438,301 shares and was deemed to be interested in 749,275,905 shares under the SFO as she is the spouse of Mr. Wang Wenliang.
4. As at 31st December, 2019, the total number of issued shares of the Company was 2,644,832,157.

Save as disclosed above, as at 31st December, 2019, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Share option scheme

On 24th October, 2003, the Company adopted a share option scheme ("Old Share Option Scheme") pursuant to which the Directors were authorised to grant share option to its employees (including executive directors and employees of any of its subsidiaries) or any person who has contributed or will contribute to the Group. The Old Share Option Scheme was terminated and replaced by a new share option scheme ("New Share Option Scheme") on 3rd May, 2013 by an ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 3rd May, 2013.

As at the date of this report, there were a total of 1,005,800 share options (as at the date of the annual report of the Company for the year ended 31st December, 2018: 2,011,600) outstanding which were granted to the Directors under the Old Share Option Scheme, the full conversion of which will result in the issue of 1,005,800 ordinary shares in the Company, representing approximately 0.04% of the number of issued shares of the Company as at the date of this report (number of

share options outstanding as at the date of the annual report of the Company for the year ended 31st December, 2018 over the number of issued shares of the Company as at that date: 0.08%).

The following table discloses movements of the Company's share options granted to the Directors under the Old Share Option Scheme and movements in such holdings during the year ended 31st December, 2019:

Name of Directors	Date of grant	Exercise/ vesting period	Exercise price HK\$	Number of share options granted under the Old Share Option Scheme				
				Outstanding at 1st January, 2019	Granted during the year under review	Exercised during the year under review	Lapsed/ Cancelled during the year under review	Outstanding at 31st December, 2019
Xu Yongxuan	11th April, 2011	11th April, 2011 to 10th April, 2021	0.4872	1,005,800	-	-	-	1,005,800
Luo Yongtai	11th April, 2011	11th April, 2011 to 10th April, 2021	0.4872	1,005,800	-	(1,005,800)	-	-
				2,011,600	-	(1,005,800)	-	1,005,800
Exercisable at the end of the period								1,005,800
Weighted average exercise price				HK\$0.4872	-	HK\$0.4872	-	HK\$0.4872

The closing price of the Company's shares on 8th April, 2011 was HK\$0.48, which was the business day immediately before the date on which the share options under the Old Share Option Scheme were granted on 11th April, 2011.

The purpose of the New Share Option Scheme is to reward participants who have contributed or will contribute to the Group and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Under the New Share Option Scheme, the Directors may offer share options to any directors and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group who the board of directors of the Company considers, in its sole discretion, have contributed or will contribute to the Group, to subscribe for shares in the Company in accordance with the terms of the New Share Option Scheme.

The New Share Option Scheme shall be valid and effective for a period of ten years commencing on 3rd May, 2013 and will expire on 2nd May, 2023. Options granted under the New Share Option Scheme may be exercised during the period to be determined and notified by the Board to the grantee at the time of making an offer which shall not expire later than 10 years from the date of grant. An amount of HK\$1.00 is payable upon acceptance of the grant of options. The exercise price shall be determined by the Board in its absolute discretion but in any event shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant which must be a business day; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

The maximum number of shares which may be issued upon exercise of all share options to be granted under the New Share Option Scheme shall not, in the absence of shareholders' approval, in aggregate exceed 10% in nominal amount of the aggregate of shares in issue on the adoption date (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the New Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.

The Company may renew the Scheme Mandate Limit at any time subject to prior shareholders' approval but in any event, the total number of shares which may be issued upon exercise of all share options to be granted under the New Share Option Scheme under the limit as refreshed must not exceed 10% of the Shares in issue as at the date of the Shareholders' approval of the renewed limit. Options previously granted under the New Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the terms or exercised options) will not be counted for the purpose of calculating the limit as renewed.

Further, no options will be granted which would result in the maximum aggregate number of shares which may be issued upon exercise of all outstanding options granted but yet to be exercised under the New Share Option

Scheme, the existing options granted under the Old Share Option Scheme, in aggregate, 30% of the issued share capital of the Company from time to time.

The maximum number of shares issued and to be issued upon exercise of the options granted to each grantee under the New Share Option Scheme (including both exercised and outstanding options) in any 12-month period shall not (when aggregated with any shares subject to options granted during such period under any other share option scheme(s) of the Company other than those options granted pursuant to specific approval by the shareholders in a general meeting) exceed 1% of the shares of the Company in issue for the time being.

On 5th January, 2018, 126,000,000 share options to subscribe for an aggregate of 126,000,000 ordinary shares of the Company at par value of HK\$0.01 each were granted to the eligible participants (including Directors) by the Company pursuant to the New Share Option Scheme. The exercise price of such share options granted under the New Share Option Scheme was HK\$5.5 per share. The share options granted shall be valid for a period of ten years from the date of grant. The closing price of the Company's shares on 4th January, 2018, being the date immediately before the date on which the share options under the New Share Option Scheme were granted, was HK\$4.98. As announced by the Company on 1st August, 2018, the exercise price and the number of options outstanding as at that date were adjusted to HK\$5.468 per share and 126,730,800 options in accordance with the terms of the New Share Option Scheme, as a result of the issue of scrip shares by the Company to its shareholders on 1st August, 2018.

As at the date of this report, the Scheme Mandate Limit is 252,400,768, the number of outstanding share options granted under the New Share Option Scheme was 17,098,600 and the maximum number of share options which may be granted under the New Share Option Scheme is 235,302,168. The outstanding share options, if converted in full into shares of the Company, and the number of options available for future grant, if granted and converted in full, represent approximately 0.65% and 8.90% of the number of issued shares of the Company as at the date of this report, respectively.

The following table discloses movements of the Company's share options granted to the eligible participants (including Directors) under the New Share Option Scheme and movements in their holdings during the year ended 31st December, 2019:

Name of participants who are Directors and category of other participants	Date of grant	Exercise/ vesting period	Exercise price HK\$	Number of share options granted under the New Share Option Scheme				
				Outstanding at 1st January, 2019	Granted during the year under review	Exercised during the year under review	Lapsed/ Cancelled during the year under review	Outstanding at 31st December, 2019
Lui Siu Keung	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	7,543,500	-	-	-	7,543,500
Lu Zhaoheng	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	3,017,400	-	-	-	3,017,400
Xu Yongxuan	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	502,900	-	-	-	502,900
Li Chunyan	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	502,900	-	-	-	502,900
Luo Yongtai	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	502,900	-	-	-	502,900
Liu Yu Jie	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	502,900	-	-	-	502,900
				12,572,500	-	-	-	12,572,500
Employees	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	3,017,400	-	-	-	3,017,400
Employees	5th January, 2018	17th December, 2019 to 4th January, 2028 (Note)	5.468	108,123,500	-	(106,614,800)	-	1,508,700
				123,713,400	-	(106,614,800)	-	17,098,600
Exercisable at the end of the period								17,098,600
Weighted average exercise price				HK\$5.468	-	HK\$5.468	-	HK\$5.468

Note: On 17th December, 2019, the shareholders approved the amendment of the vesting period of 108,123,500 options granted by the Company on 5th January, 2018 to certain employees of the Group. As a result, these options have become vested and exercisable from 17th December, 2019 until 4th January, 2028.

Save as disclosed above, (i) at no time during the year under review was the Company, its subsidiaries, its ultimate holding company or any subsidiaries of its ultimate holding company a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company; and (ii) no other equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

Continuing Connected Transaction

As disclosed in the announcement of the Company dated 25th August, 2017, the Group, as purchaser, had entered into the Gas Appliance Purchase Agreements with Gasbo Electrical and Gas Appliances Co., Ltd. (中燃寶電氣(深圳)有限公司) ("Gasbo") in 2016 and 2017 for the purchase of household appliances, including gas boilers, gas water heaters, gas stoves, range hood, household disinfection cabinet and other kitchen appliances, which would then be sold to the Group's customers. The controlling shareholder of the Company, China Gas Holdings Limited, has an effective interest of approximately 63.3% in Gasbo and therefore the transactions between the Group and Gasbo under the Gas Appliance Purchase Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

During the year ended 31st December, 2019, no transactions were conducted between the Group and Gasbo.

The Board confirms that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules for the year ended 31st December, 2019.

The related party transactions set out in note 45 to the consolidated financial statements constitute connected transactions of the Company which are fully exempt under Rule 14A.95 of the Listing Rules.

Compliance with Laws and Regulations

The Group has complied with the relevant laws and regulations that have a significant impact on the Group. The Group has established policies to reduce wastewater and solid wastes and monitor the waste emissions to comply with relevant environmental laws and regulations in different region in the PRC.

The Group has formulated relevant policies to protect employees' rights and strictly complied with relevant laws and regulations. We have clear requirements for working hours and holidays, which complies with Labour Contract Law and relevant national laws and regulations and prohibits employment of child labour or forced labour.

The Group has formulated various rules in relation to occupational health and work safety in accordance with the Law of the People's Republic of China on Work Safety to specify work safety responsibilities of staff at all levels, and ensure that these rules and measures are strictly followed.

Environmental policies

The major product of the Group is natural gas, and only a negligible amount of natural gas is discharged to atmosphere during replacement and connection of pipelines. We have adopted relevant measures to strictly monitor the concentration of natural gas passed through the pipelines. We conduct continuous testing to ensure compliance with national regulatory standards, and ensure that the emission volume during replacement and connection is in line with the industry specifications and does not cause any air pollution.

The Group has formulated annual standards of energy consumption and included those standards in appraisal indicators for every department. Regular appraisals are conducted and appropriate incentives are given to employees to improve their motivation for energy and water conservation. Guidelines on using lighting facilities and air conditioning have been set up to reduce electricity consumption.

Key Relationship with Employees

The Group has put in place a comprehensive employment system covering compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, anti-discrimination, and other benefits and welfare. In order to meet the needs of business expansion, the Group makes active efforts to recruit talent through open and campus recruitment activities based on the principles of fair competition, two-way selection and merit selection. We have formulated Performance Management System, pursuant to which we provide fair and reasonable promotion opportunities to our employees. The ranks and remuneration of employees are determined according to their skills, contributions and scope of influence. The Group also provides thorough and comprehensive training for staff at all levels through diversified means including lectures, practical training, sharing and learning, onsite observation and outreach training.

Major Customers and Suppliers

The aggregate sales attributable to the Group's five largest customers were less than 7.3% of total turnover for the year. The Group's largest customer accounted for 1.7% of the total sales for the year. The Group allows an average credit period of 30 days to its trade customers. Customers are mainly local reputable real estate developers and corporate entities in the PRC and no significant counterparty default was noted in the past. The concentration of credit risk is limited due to the customer base being large and unrelated.

For the year ended 31st December, 2019, our five largest suppliers comprised 49.3% of our total purchase for the year. The Group's largest supplier accounted for 29.1% of the total purchase for the year. Long-term relationship has been established with major suppliers to ensure stable supply of gas.

At no time during the year did a director, a close associate of a director, or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Confirmation from Independent Non-executive Directors

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Board is not aware of any circumstances which may influence the independent non-executive Directors in exercising their independent judgement.

Emolument Policy

The Group's remuneration and bonus policies are determined based on the performance of individual employees.

The emoluments of the Directors are recommended by the Remuneration Committee, having regard to the Group's operating results, the Directors' duties and responsibilities within the Group and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 39 to the consolidated financial statements.

Indemnity Provision

Pursuant to article 165 of the Articles of Association of the Company, every director of the Company shall be entitled to be indemnified and assured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of the duties of his/her office or trusts in relation thereto provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the said directors. Such provision was in force during the year ended 31st December, 2019 and remained in force as of the date of this report.

Principal Risks and Uncertainties Facing by the Group

Work safety is the most important operational risk facing by the Group. The Group has formulated various rules in relation to occupational health and work safety in accordance with the Law of the People's Republic of China on Work Safety to specify work safety responsibilities of staff at all levels, and ensure that these rules and measures are strictly followed. We organize annual training for all staff in respect of management, environment to safety systems, and departments organize their own relevant training as well, with the aim of raising employees' awareness of prevention. We have also equipped our employees with appropriate safety gear to ensure their work safety. For frontline positions, all employees are strictly required to obtain certificates of labour skills from the government, ensuring that the related personnel are equipped with the professional qualifications and safety knowledge about dangerous working conditions.

We proactively prevent gas leakage. Apart from thorough and rigorous control systems including the Rules on Gas Pipeline Network Safety Inspection, we have also equipped the pipeline network management department with adequate manpower and equipment, ensuring that any leakage can be noticed timely. We also greatly publicize the Group's hotline to encourage the public to report any gas leakage.

Please refer to note 48 to the consolidated financial statements for a summary of financial risks of the Group.

Competing Business

As far as the Directors are aware, during the year, none of the Directors had any interest in a business which competed with or might compete with the business of the Group.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31st December, 2019.

Donations

During the year under review, the Group made charitable and other donations amounted to approximately RMB1,520,000.

Auditor

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Wang Wenliang
Chairman

Hong Kong
7th April, 2020

The Deloitte logo is displayed in a large, bold, black sans-serif font.The Chinese characters for Deloitte, '德勤', are displayed in a large, bold, black sans-serif font.**TO THE MEMBERS OF ZHONGYU GAS HOLDINGS LIMITED***(incorporated in the Cayman Islands with limited liability)***OPINION**

We have audited the consolidated financial statements of Zhongyu Gas Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as “the Group”) set out on pages 59 to 211, which comprise the consolidated statement of financial position as at 31st December, 2019, and the consolidated statement of profit or loss and other 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 31st December, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (Continued)

Key audit matter

Impairment assessment of goodwill, other intangible assets, property, plant and equipment and right-of-use assets

We identified the impairment assessment of goodwill, other intangible assets, property, plant and equipment and right-of-use assets of the Group as a key audit matter due to their significance to the consolidated financial statements and significant judgment and estimation involved in the impairment assessment.

As at 31st December, 2019, the carrying amounts of goodwill, other intangible assets, property, plant and equipment and right-of-use assets, which were subjected to impairment assessment, were HK\$411,885,000, HK\$1,588,657,000, HK\$6,157,024,000 and HK\$302,263,000 respectively as disclosed in note 18 to the consolidated financial statements.

As disclosed in note 4 to the consolidated financial statements, the relevant assets have been allocated to individual cash-generating units ("CGUs") relating to (i) sales of gas, (ii) pipeline construction, (iii) different subsidiaries of Harmony Gas Holdings Limited engaging in sales of gas and (iv) design and consulting of energy projects. The recoverable amounts of the respective CGUs have been determined with reference to the value in use of the relevant CGUs, which require adoption of key assumptions such as suitable discount rates and growth rates, in order to calculate the present value of the estimated future cash flows.

How our audit addressed the key audit matter

Our procedures in relation to the impairment assessment of goodwill, other intangible assets, property, plant and equipment and right-of-use assets included:

- understanding management's process over impairment assessment of goodwill, other intangible assets, property, plant and equipment and right-of-use assets;
- obtaining the Cashflow Forecasts ("Cashflow Forecasts") prepared by the management that are used to calculate the value in use of the CGUs to which the Group's goodwill, other intangible assets, property, plant and equipment and right-of-use assets are allocated and understanding the key management assumptions adopted in these Cashflow Forecasts through enquiries with the management;
- challenging of the models used including the macroeconomic assumptions used;
- comparing key assumptions (including discount rates and growth rates) used in the model to external data;
- assessing the reasonableness of forecasted future cash flows by comparing to historical performance; and
- performing sensitivity analysis on key assumption, including discount rates and growth rates adopted.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of pipelines included in property, plant and equipment and right-of-use assets</i></p> <p>Included in the property, plant and equipment and right-of-use assets are pipelines which are stated in the consolidated statement of financial position at revalued amounts less accumulated depreciation. We identified valuation of pipelines as a key audit matter due to the significance of this balance to the consolidated financial statements and the complex and subjective judgments and estimates involved in:</p> <ul style="list-style-type: none"> • the determination of valuation techniques, which is depreciated replacement cost method considering the new replacement cost of the pipelines and deduction for obsolescence and • the selection of different inputs in the model. <p>The directors of the Company adopt revaluation model to measure pipelines included in property, plant and equipment and right-of-use assets. The surplus resulted from the revaluation is dealt with in other comprehensive income and accumulated in equity, under the heading of property revaluation reserve. As disclosed in note 16 to the consolidated financial statements, the fair value of the pipelines amounted to HK\$6,583,706,000 as at 31st December, 2019 with the revaluation increase of the pipelines for the year of HK\$92,099,000 recorded in other comprehensive income.</p> <p>The fair value was determined by the Group with reference to the valuations performed by an independent professional valuer (the "Valuer") engaged by the Group.</p>	<p>Our procedures in relation to the valuation of pipelines included in property, plant and equipment and right-of-use assets included:</p> <ul style="list-style-type: none"> • assessing the competence, capabilities and objectivity of the Valuer; • evaluating management's process in respect of reviewing the valuation performed by the Valuer; • obtaining the valuation reports for pipelines, and challenging the relevance and reasonableness of valuation techniques used by the Valuer; • holding discussion with management and the Valuer to understand the valuation basis, methodology used and underlying assumptions applied; and • assessing the reasonableness of key inputs which were used to determine the fair value under depreciated replacement cost method, including historical labour cost and historical raw chemical materials purchasing price indices for industrial producers, by comparing with the historical construction prices of the pipelines by the Group in the relevant valuation period.

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 HKSAAs 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 HKSAAs, 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.
- 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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 Yu Kin Man.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
7th April, 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December, 2019

	NOTES	2019 HK\$'000	2018 HK\$'000
Turnover	5	8,143,771	7,627,088
Cost of sales		(6,233,851)	(5,405,215)
Gross profit		1,909,920	2,221,873
Reversal of impairment/(impairment losses)		9,344	(16,295)
Other gains and losses	7	(230,304)	(332,787)
Other income	8	53,493	60,930
Selling and distribution costs		(183,041)	(146,145)
Administrative expenses		(451,878)	(375,792)
Share-based payments		(43,802)	(58,847)
Finance costs	9	(344,248)	(272,747)
Share of results of associates		45,052	41,387
Share of result of a joint venture		(117)	(536)
Profit before tax		764,419	1,121,041
Income tax expenses	10	(280,770)	(406,686)
Profit for the year	11	483,649	714,355
Other comprehensive income (expense)			
Items that will not be reclassified subsequently to profit or loss:			
Exchange differences on translation from functional currency to presentation currency		(57,763)	(135,229)
Fair value gain on revaluation of pipelines included in property, plant and equipment and right-of-use assets	16, 17	92,099	–
Fair value gain on revaluation of pipelines included in property, plant and equipments	16	–	384,750
Deferred tax arising from revaluation of pipelines included in property, plant and equipment and right-of-use assets		(23,025)	(96,188)
Other comprehensive income for the year		11,311	153,333
Total comprehensive income for the year		494,960	867,688
Profit for the year attributable to:			
Owners of the Company		430,121	620,684
Non-controlling interests		53,528	93,671
		483,649	714,355

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December, 2019

	NOTES	2019 HK\$'000	2018 HK\$'000
<hr/>			
Total comprehensive income attributable to:			
Owners of the Company		438,027	751,861
Non-controlling interests		56,933	115,827
		<hr/>	
		494,960	867,688
		<hr/>	
Earnings per share	14		
Basic		HK16.93 cents	HK24.52 cents
		<hr/>	
Diluted		HK16.73 cents	HK24.30 cents
		<hr/>	

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2019

	NOTES	2019 HK\$'000	2018 HK\$'000
Non-current assets			
Investment properties	15	9,180	42,940
Property, plant and equipment	16	9,937,008	8,880,175
Right-of-use assets	17	1,022,284	–
Goodwill	18	411,885	255,776
Other intangible assets	19	1,646,932	1,103,468
Long-term deposits, prepayments and other receivables	20	1,114,217	477,506
Prepaid lease payments	21	–	538,195
Interests in associates	22	426,832	390,780
Interest in a joint venture	23	9,453	9,777
Amount due from an associate	29	–	57,195
Financial assets at fair value through other comprehensive income	24	78,898	23,310
		14,656,689	11,779,122
Current assets			
Inventories	25	473,657	326,121
Properties under development for sale	26	110,871	–
Trade receivables	27	1,331,588	1,669,455
Deposits, prepayments and other receivables	27	1,219,926	676,438
Amount due from an associate	29	55,972	–
Amount due from a related party	29	8,396	8,579
Prepaid lease payments	21	–	15,614
Contract assets	30	509,321	185,698
Tax recoverable		19,366	19,450
Pledged bank deposits	31	–	5,720
Bank balances and cash	31	1,903,313	1,595,157
		5,632,410	4,502,232
Current liabilities			
Trade payables	32	1,219,726	1,206,316
Other payables and accrued charges	32	417,460	337,723
Amount due to an associate	33	1,001	1,023
Amounts due to related parties	33	–	81,102
Contract liabilities	30	1,097,362	884,573
Borrowings	34	4,308,237	4,499,852
Lease liabilities	35	68,744	–
Obligations under finance leases due within one year	36	–	185,717
Tax payables		78,750	95,964
		7,191,280	7,292,270
Net current liabilities		(1,558,870)	(2,790,038)
Total assets less current liabilities		13,097,819	8,989,084

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2019

	NOTES	2019 HK\$'000	2018 HK\$'000
Capital and reserves			
Share capital	37	26,448	25,372
Reserves		4,748,921	3,913,147
Equity attributable to owners of the Company		4,775,369	3,938,519
Non-controlling interests		660,704	581,650
Total equity		5,436,073	4,520,169
Non-current liabilities			
Deferred income and advance received	32	6,874	15,616
Borrowings	34	6,712,973	3,730,367
Lease liabilities	35	12,678	–
Obligations under finance leases due after one year	36	–	61,537
Deferred taxation	38	929,221	661,395
		7,661,746	4,468,915
		13,097,819	8,989,084

The consolidated financial statements on pages 59 to 211 were approved and authorised for issue by the Board of Directors on 7th April, 2020 and are signed on its behalf by:

MR. WANG WENLIANG
DIRECTOR

MR. LUI SIU KEUNG
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2019

	Attributable to owners of the Company										Total	
	Share capital	Share premium	Share option reserve	Property revaluation reserve	Other reserve	Statutory surplus reserve	Translation reserve	Accumulated profits	Sub-total	Non-controlling interests		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note i)	HK\$'000 (Note ii)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (note 51)	HK\$'000
At 1st January, 2018	25,250	895,736	319	830,072	(603,692)	110,443	235,094	1,680,730	3,173,952	549,265	3,723,217	
Profit for the year	-	-	-	-	-	-	-	620,684	620,684	93,671	714,355	
Other comprehensive income (expense) for the year	-	-	-	261,548	-	-	(130,371)	-	131,177	22,156	153,333	
Total comprehensive income (expense) for the year	-	-	-	261,548	-	-	(130,371)	620,684	751,861	115,827	867,688	
Issue of shares as scrip dividend (notes 13 and 37)	146	93,001	-	-	-	-	-	(93,147)	-	-	-	
Repurchase of shares (note 37)	(24)	(13,014)	-	-	-	-	-	-	(13,038)	-	(13,038)	
Dividends paid in cash	-	-	-	-	-	-	-	(33,103)	(33,103)	-	(33,103)	
Transfer to statutory surplus reserve	-	-	-	-	-	11,702	-	(11,702)	-	-	-	
Dividends paid by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	(81,102)	(81,102)	
Acquisition of a subsidiary (note 41)	-	-	-	-	-	-	-	-	-	(4,970)	(4,970)	
Acquisition of assets and liabilities through acquisitions of subsidiaries (note 42)	-	-	-	-	-	-	-	-	-	431	431	
Capital contribution from non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	5,849	5,849	
Acquisition of additional interests in a subsidiary (note 40)	-	-	-	-	-	-	-	-	-	(1,075)	(1,075)	
Disposals of subsidiaries	-	-	-	-	-	-	-	-	-	(2,575)	(2,575)	
Recognition of share-based payments (note 39)	-	-	58,847	-	-	-	-	-	58,847	-	58,847	
Transfer to accumulated profits upon forfeiture of share options (note 39)	-	-	(2,445)	-	-	-	-	2,445	-	-	-	
At 31st December, 2018	25,372	975,723	56,721	1,091,620	(603,692)	122,145	104,723	2,165,907	3,938,519	581,650	4,520,169	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2019

	Attributable to owners of the Company										
	Share capital	Share premium	Share option reserve	Property revaluation reserve	Other reserve	Statutory surplus reserve	Translation reserve	Accumulated profits	Sub-total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Note i)	(Note ii)				(note 51)	
At 1st January, 2019	25,372	975,723	56,721	1,091,620	(603,692)	122,145	104,723	2,165,907	3,938,519	581,650	4,520,169
Profit for the year	-	-	-	-	-	-	-	430,121	430,121	53,528	483,649
Other comprehensive income (expense) for the year	-	-	-	40,611	-	-	(32,705)	-	7,906	3,405	11,311
Total comprehensive income (expense) for the year	-	-	-	40,611	-	-	(32,705)	430,121	438,027	56,933	494,960
Property revaluation reserve transfer to accumulated profits (note 15)	-	-	-	(4,811)	-	-	-	4,811	-	-	-
Dividends paid in cash (note 13)	-	-	-	-	-	-	-	(228,439)	(228,439)	-	(228,439)
Transfer to statutory surplus reserve	-	-	-	-	-	47,453	-	(47,453)	-	-	-
Dividends paid by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	(51,512)	(51,512)
Acquisition of a subsidiary (note 41)	-	-	-	-	-	-	-	-	-	44,832	44,832
Capital contribution from non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	28,801	28,801
Recognition of share-based payments (note 39)	-	-	43,802	-	-	-	-	-	43,802	-	43,802
Exercise of share options (note 39)	1,076	668,926	(86,542)	-	-	-	-	-	583,460	-	583,460
At 31st December, 2019	26,448	1,644,649	13,981	1,127,420	(603,692)	169,598	72,018	2,324,947	4,775,369	660,704	5,436,073

Note: (i) *Other reserve represents the difference between the fair value of the considerations paid and the carrying amount of the non-controlling interests arising from acquisition of additional interest in subsidiaries.*

(ii) *The articles of association of the Company's subsidiaries established in the People's Republic of China (the "PRC") state that they may make an appropriation of 10% of their profit for each year (prepared under generally accepted accounting principles in the PRC) to the statutory surplus reserve until the balance reaches 50% of the paid-in capital. The statutory surplus reserve shall only be used for making up losses, capitalisation into paid-in capital and expansion of their production and operation.*

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2019

	2019 HK\$'000	2018 HK\$'000
Operating activities		
Profit before tax	764,419	1,121,041
Adjustments for:		
Depreciation of property, plant and equipment	291,646	278,601
Depreciation of right-of-use assets	51,187	–
Amortisation of other intangible assets	69,718	42,668
Release of prepaid lease payments	–	11,839
Net (gain) loss on disposal of property, plant and equipment	(18,926)	37,805
(Reversal of impairment) impairment losses		
– trade receivables (goods and services)	(739)	(95)
– contract assets	(9,389)	16,390
– other receivables	784	–
Recovery of bad debts previously written off	–	(29,109)
Share of results of associates	(45,052)	(41,387)
Share of result of a joint venture	117	536
Share-based payments	43,802	58,847
Interest income	(16,999)	(15,186)
Finance costs	344,248	272,747
Decrease (increase) in fair value of investment properties	1,579	(387)
Foreign exchange loss	252,755	265,510
Operating cash flows before movements in working capital	1,729,150	2,019,820
Increase in inventories	(133,520)	(123,185)
Decrease (increase) in trade receivables	324,530	(1,041,391)
Increase in deposits, prepayments and other receivables	(496,857)	(175,384)
Increase in contract assets	(321,664)	(150,580)
Increase in properties under development for sale	(27,052)	–
(Increase) decrease in deferred income and advance received	(8,502)	10,043
(Decrease) increase in trade payables	(47,755)	508,683
Decrease in other payables and accrued charges	(115,371)	(57,735)
Increase in contract liabilities	233,977	194,900
Increase in discounted bills with recourse	118,457	–
Cash generated from operations	1,255,393	1,185,171
Interest received	16,999	15,186
Income taxes paid	(183,862)	(335,094)
Withholding tax paid	(7,361)	(9,402)
Net cash from operating activities	1,081,169	855,861

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2019

	NOTES	2019 HK\$'000	2018 HK\$'000
Investing activities			
Purchases of property, plant and equipment		(1,391,908)	(1,961,779)
Payments of right-of-use assets		(85,517)	–
Proceeds from disposal of property, plant and equipment		31,040	84,917
Placement of pledged bank deposits		–	(5,921)
Withdrawal of pledged bank deposits		5,679	–
Repayment of an entrusted loan		–	23,685
Acquisitions of subsidiaries	41	(724,416)	(24,826)
Acquisitions of assets and liabilities through acquisitions of subsidiaries	42	–	(2,290)
Payments of unsettled consideration of acquisitions of subsidiaries		(40,918)	(39,183)
Additional investment in financial assets at fair value through other comprehensive income		(56,843)	(17,764)
Addition of prepaid lease payments		–	(49,852)
Addition of other intangible assets		(303)	(686)
Deposits paid for acquisition of property, plant and equipment and leasehold lands		(187,791)	(159,346)
Net cash used in investing activities		(2,450,977)	(2,153,045)
Financing activities			
Interest paid		(375,682)	(290,011)
Loan facilities fees paid		(79,040)	(53,772)
New borrowings raised		7,367,706	5,821,119
Repayments of lease liabilities		(194,557)	–
Repayments of borrowings		(4,622,863)	(2,720,494)
Repayments of obligations under finance leases		–	(186,477)
Repayment to an associate		–	(165)
Repayment to related parties		(80,522)	–
Dividend paid by subsidiaries to non-controlling interests		(51,512)	–
Capital contribution from non-controlling interests of a subsidiary		28,801	5,849
Exercise of share options		490	–
Payment on repurchase of ordinary shares		–	(13,038)
Dividends paid		(228,439)	(33,103)
Net cash from financing activities		1,764,382	2,529,908
Net increase in cash and cash equivalents		394,574	1,232,724
Cash and cash equivalents at 1st January		1,595,157	464,347
Effect of foreign exchange rate changes		(86,418)	(101,914)
Cash and cash equivalents at 31st December, represented by bank balances and cash		1,903,313	1,595,157

1. GENERAL INFORMATION AND BASIS OF PREPARATION

General information

Zhongyu Gas Holdings Limited (the “Company”) is a public limited company incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The Company’s subsidiaries are principally engaged in the development, construction and operation of natural gas projects in the PRC.

The functional currency of the Company is Renminbi (“RMB”) and the presentation currency of the consolidated financial statements is Hong Kong dollars (“HK\$”). The directors of the Company (the “Directors”) consider this presentation is more appropriate as the Company is listed on the Stock Exchange.

Basis of preparation

As at 31st December, 2019, the Company and its subsidiaries (collectively referred to as “the Group”) has net current liabilities of HK\$1,558,870,000.

The Directors have therefore given careful consideration to the future liquidity of the Group when preparing the consolidated financial statements. The Directors believe that the consolidated financial statements are prepared on a going concern basis, taking into account that the new bank borrowings facilities amounting to US\$500,000,000 (equivalent to HK\$3,896,450,000) have been approved by a bank subsequent to 31st December, 2019, in which the borrowings are due after one year from the date of draw down.

As a result of the measure described above, the Directors are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due for 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 31st December, 2019

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

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 positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts of application on HKFRS 16 “Leases”

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

Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

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

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

As a lessee

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

Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

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

Impacts of application on HKFRS 16 “Leases” (Continued)

Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

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

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and
- ii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16, other than reclassification of obligations under finance leases of HK\$247,254,000, prepaid lease payments of HK\$533,809,000 and assets previously under finance leases included in property, plant and equipment of HK\$838,713,000, the Group recognised lease liabilities of HK\$24,245,000 and right-of-use assets of HK\$24,245,000 at 1st January, 2019 by applying HKFRS 16.C8(b)(ii) transition.

In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under leases as at 1st January, 2019 amounting to HK\$838,713,000 as right-of-use assets. In addition, the Group reclassified the obligations under finance leases of HK\$185,717,000 and HK\$61,537,000 to lease liabilities as current and non-current liabilities respectively at 1st January, 2019. For these leases, the Group accounted for the right-of-use asset and the lease liability by applying HKFRS 16 from the date of initial application.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

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

Impacts of application on HKFRS 16 “Leases” (Continued)

Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied by the relevant group entities range from 3.9% to 5.4%.

	Note	At 1st January, 2019 HK\$'000
Operating lease commitments disclosed as at 31st December, 2018		27,958
Lease liabilities discounted at relevant incremental borrowing rates		26,640
Less: Practical expedient – leases with lease term ending within 12 months from the date of initial application of HKFRS 16		(2,395)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16		24,245
Add: Obligations under financial leases recognized at 31st December, 2018	(b)	247,254
Lease liabilities as at 1st January, 2019		271,499
Analysed as		
Current		194,379
Non-current		77,120
		271,499

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

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

Impacts of application on HKFRS 16 “Leases” (Continued)

Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

The carrying amount of right-of-use assets for own use as at 1st January, 2019 comprises the following:

	Notes	Right-of-use assets HK\$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		24,245
Reclassified from prepaid lease payments	(a)	553,809
Amount included in property, plant and equipment under HKAS 17		
– Assets previously under finance leases	(b)	838,713
		1,416,767

(a) Upfront payments for leasehold lands in the PRC for own used properties were classified as prepaid lease payments as at 31st December, 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK\$15,614,000 and HK\$538,195,000 respectively were reclassified to right-of-use assets.

(b) In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under leases as at 1st January, 2019 amounting to HK\$838,713,000 as right-of-use assets. In addition, the Group reclassified the obligations under finance leases of HK\$185,717,000 and HK\$61,537,000 to lease liabilities as current and non-current liabilities respectively at 1st January, 2019.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

Based on the assessment by the Directors, there is no material impact of transition to HKFRS 16 on accumulated profits at 1st January, 2019. The application of HKFRS 16 by the Group as a lessor in the current year has had no material impact on the Group's financial position as at 31st December, 2019 and the result for the year ended 31st December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

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

Impacts of application on HKFRS 16 “Leases” (Continued)

Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

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

	Carrying amounts previously reported at 31st December, 2018 HK\$'000	Adjustments HK\$'000	Carrying amounts under HKFRS 15 at 1st January, 2019 HK\$'000
Non-current Assets			
Property, plant and equipment	8,880,175	(838,713)	8,041,462
Right-of-use assets	–	1,416,767	1,416,767
Prepaid lease payments	538,195	(538,195)	–
Current Assets			
Prepaid lease payments	15,614	(15,614)	–
Current Liabilities			
Lease liabilities	–	194,379	194,379
Obligations under finance leases due within one year	185,717	(185,717)	–
Non-current liabilities			
Lease liabilities	–	77,120	77,120
Obligations under finance leases due after one year	61,537	(61,537)	–

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴

1 Effective for annual periods beginning on or after 1st January, 2021

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

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

4 Effective for annual periods beginning on or after 1st January, 2020

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

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 Group’s financial position and performance and/or on disclosures in the foreseeable future.

Amendments to HKFRS 3 “Definition of a Business”

The amendments:

- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis;
- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; and
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

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

Amendments to HKFRS 3 “Definition of a Business” (Continued)

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1st January, 2020, with early application permitted. The optional concentration test and the amended definition of a business are not expected to have a significant impact to the Group.

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

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group’s annual period beginning on 1st 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.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain property, plant and equipment, right-of-use assets, financial instruments and investment properties that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are accounted for in accordance with HKFRS 16 (since 1st January, 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated as that the results of the valuation technique equals the transaction price.

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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 statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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 the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and 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.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of the 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 "Financial Instruments" or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 “Income Taxes” and HKAS 19 “Employee Benefits” respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 “Share-based Payment” at the acquisition date (see the accounting policy below);
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” are measured in accordance with that standard; and
- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which the lease term ends within 12 months of the acquisition date. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary’s net assets in the event of liquidation are initially measured at the non-controlling interests’ proportionate share of the recognised amounts of the acquiree’s identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

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. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's 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 purposes and not larger than an operating segment.

A cash-generating unit (or a 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 a group of cash-generating units) to which goodwill has been allocated is tested for impairment at 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 and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or a group of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and a joint venture

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 the associates and joint venture are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of the associates and joint venture used for equity accounting purpose 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 and 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 and 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and a joint venture *(Continued)*

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

The Group assesses whether there is an objective evidence that the investments in associates and a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment 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 of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and joint venture 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.

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 and joint venture that are not related to the Group.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers *(Continued)*

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

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

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

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, 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.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers *(Continued)*

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

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than assets under construction as described below) are stated in the consolidated statement of financial position at cost or fair value less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Pipelines are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period.

Any revaluation increase arising from revaluation of property, plant and equipment is recognised in other comprehensive income and accumulated in property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in net carrying amount arising on revaluation of property, plant and equipment is recognised in profit or loss to the extent that it exceeds the balance, if any, in the property revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Assets including building in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attribute to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost or revalued amount of assets other than assets under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to accumulated profits.

For a transfer from investment property carried at fair value to owner-occupied property, the property deemed cost for subsequent accounting shall be its fair value at the date of change in use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Prior to 1st January, 2019, assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

When the Group obtains ownership of the underlying leased assets at the end of the lease term, the carrying amount of the relevant right-of-use assets are transferred to property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasehold land and building for own use

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as “right-of-use assets” (upon application of HKFRS 16) or “prepaid lease payments” (before application of HKFRS 16) in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Properties under development for sale

Properties for/under development which are intended to be sold upon completion of development and properties for sale are classified as current assets. Except for the leasehold land element which is measured at cost model in accordance with the accounting policies of right-of-use assets upon the application of HKFRS 16, properties for/under development/properties for sale are carried at the lower of cost and net realisable value. Cost is determined on a specific identification basis including allocation of the related development expenditure incurred and where appropriate, borrowing costs capitalised. Net realisable value represents the estimated selling price for the properties less estimated cost to completion and costs necessary to make the sales.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, or fair value at the date of transfer including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values, adjusted to exclude any prepaid or accrued operating lease income. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Effective 1st January, 2019, a leased property which is recognised as a right-of-use asset upon application of HKFRS 16 is derecognised if the Group as intermediate lessor classifies the sublease as a finance lease. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

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.

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

Leases

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

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

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

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of certain properties and equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

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

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability; and
- any initial direct costs incurred by the Group.

Except for investment properties and pipelines included in right-of-use assets that are measured under fair value model and revaluation model respectively, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Pipelines included in right-of-use assets are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period.

Any revaluation increase arising from revaluation of pipelines included in right-of-use assets is recognised in other comprehensive income and accumulated in property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in net carrying amount arising on revaluation of pipelines included in right-of-use assets is recognised in profit or loss to the extent that it exceeds the balance, if any, in the property revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

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

Right-of-use assets (Continued)

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property plant and equipment.

The Group presents right-of-use assets that do not meet the definition of investment property and inventories as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property and inventories are presented within “investment properties” and “properties under development for sales” respectively.

The Group transfers a leasehold land from right-of-use assets to properties under development for sale when there is a change in use to hold the leasehold land for sale rather than in the production or supply of goods or services, or for administrative purposes. The cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property under development for sale.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, if any.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

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

Lease liabilities (Continued)

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

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

Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

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

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

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

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 lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis (see accounting policy in respect of impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill below).

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

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 before tax as reported in the consolidated statement of profit or loss and other comprehensive income 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 bases 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 differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of 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 a joint venture, 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 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 each 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 “Income Taxes” requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities results in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate 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. Where 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.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 “Revenue from Contract with Customers”. 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 directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets

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

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

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (“FVTOCI”):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows and 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 that at the date of initial application of HKFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 “Business Combinations” applies.

A financial asset is held for trading if:

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the FVTOCI 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 be transferred to accumulated profits.

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 income" line item in profit or loss.

(iii) Financial assets at FVTPL

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and contract assets

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade receivables, refundable deposits, other receivables, amount due from an associate, amount due from a related party, pledged bank deposits and bank balances and cash) and contract assets which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL 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 always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed individually for the credit-impaired balances and based on provision matrix for the remaining balances.

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

(i) Significant increase in credit risk

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and contract assets (Continued)

(i) Significant increase in credit risk (Continued)

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and contract assets (Continued)

(ii) Definition of default

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

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

(iii) 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; or
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and contract assets (Continued)

(v) Measurement and recognition of ECL

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

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

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;
- Past-due status; and
- Nature and industry of debtors.

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.

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, other receivables and contract assets where the corresponding adjustment is recognised through a loss allowance account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire. 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, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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

Financial liabilities and equity instruments

Debt 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 an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase of the Company's own equity instruments.

Financial liabilities at amortised cost

Financial liabilities including trade payables, other payables, accrued charges, amount due to an associate, amounts due to related parties and borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

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

Inventories

Inventories, including construction materials, gas appliances, consumables and spare parts, are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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 recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising from the translation of the Company's functional currency, RMB, to the presentation currency of the consolidated financial statements, HK\$, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate) and will not be reclassified subsequently to profit or loss.

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

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

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets 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.

In addition, corporate assets are allocated to individual cash generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal 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 on property, plant and equipment, right-of-use assets and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) *(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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or a group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or a group of cash-generating units. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying 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.

Impairment assessment of goodwill, other intangible assets, property, plant and equipment and right-of-use assets

Determining whether goodwill, other intangible assets, property, plant and equipment and right-of-use assets are impaired, requires an estimate of the recoverable amount of relevant assets or the cash-generating unit to which the assets belongs. The recoverable amount is determined based on the value in use calculation which requires the Group to estimate the future cash flows expected to arise from relevant assets or the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected or due to changes in estimates, a material impairment loss may arise. Details of the recoverable amount calculation for the cash-generating units in respect of (i) sales of gas, (ii) pipeline construction, (iii) different subsidiaries of Harmony Gas Holdings Limited ("Harmony Gas") engaging in sales of gas and (iv) design and consulting of energy projects are set out in note 18. As at 31st December, 2019, the carrying amounts of goodwill, other intangible assets, property, plant and equipment and right-of-use assets, which were subjected to impairment assessment, were HK\$411,885,000 (2018: HK\$255,776,000), HK\$1,588,657,000 (2018: HK\$1,045,000,000), HK\$6,157,024,000 (2018: HK\$4,597,419,000) and HK\$302,263,000 (2018: prepaid lease payments of HK\$187,000,000) respectively.

Valuation of pipelines included in property, plant and equipment and right-of-use assets

As described in notes 16 and 17, pipelines included in property, plant and equipment and right-of-use assets were revalued as at 31st December, 2019 based on depreciated replacement cost method ("DRC") determined by an independent professional valuer. Such valuations were based on certain assumptions, which are subject to uncertainty and may materially differ from the actual results. In making the estimation for depreciated replacement cost for pipelines, the independent professional valuer considers information from the aggregate amount of the new replacement cost of the pipelines and deductions obsolescence at the end of the reporting period. As at 31st December, 2019, the carrying amount of pipelines included in property, plant and equipment and right-of-use assets were HK\$6,127,073,000 (2018: HK\$5,795,225,000) and HK\$456,633,000 (2018: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

5. TURNOVER

(i) Disaggregation of revenue from contracts with customers

	2019 HK\$'000	2018 HK\$'000
Types of goods or services		
Sales of gas	5,805,421	4,871,134
Revenue from gas pipeline construction	1,581,238	2,251,268
Sales of stoves and other services	412,348	154,854
Sales of compressed natural gas or liquefied natural gas ("CNG/LNG") in vehicle filling stations	337,377	342,365
Sales of liquefied petroleum gas	7,387	7,467
Total	8,143,771	7,627,088
Timing of revenue recognition		
A point in time	6,562,533	5,375,820
Over time	1,581,238	2,251,268
Total	8,143,771	7,627,088

All the revenue from contracts with customers are derived from the PRC.

(ii) Performance obligations for contracts with customers

The Group recognises revenue from the following major sources:

(a) Sales of goods

For the sales of CNG/LNG, stoves and liquefied petroleum gas, a receivable is recognised by the Group when the goods are delivered to the customers as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. The Group allows an average credit period of 30 days to its customers for the invoices issued.

For the sales of gas, the Group would require advance payment before the usage of the natural gas for certain customers, any shortage against the periodically actual charge for the actual usage of natural gas will be billed by the Group accordingly. The Group allows an average credit period of 30 days to its customers for the invoices issued. These customers are required to top up the advance payment for future usage of natural gas to be supplied by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

5. TURNOVER (Continued)

(ii) Performance obligations for contracts with customers (Continued)

(a) Sales of goods (Continued)

The Group requires advance payment before the usage of the natural gas through prepaid card for certain household users. The charge of the actual usage of natural gas will be deducted directly to the balance of the prepaid card. These customers can only consume the natural gas up to the balance of the prepaid card.

(b) Construction

The Group provides gas pipeline construction services under construction contracts with its customers. Such contracts are entered into before construction of the gas pipeline begins. The Group's performance creates or enhances an asset that the customer controls as the Group performs. Revenue from construction of gas pipeline is recognised over time on an input method, i.e. based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. The Directors consider that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under HKFRS 15.

The Group requires certain customers to provide upfront deposits before the commencement of the construction which will give rise to contract liabilities until the revenue recognised on the relevant contracts exceed the amount of the deposits. The Group is entitled to invoice customers for gas pipeline construction services upon completion of construction works. The Group recognises contract asset for any work performed in excess of payment from customer for the same contract. Any amount previously recognised as a contract asset is reclassified to trade receivables upon completion of construction works. The Group allows an average credit period of 30 days to its customers.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

All the contracts for sales of gas and other goods, and gas pipeline construction are for original expected duration of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6. SEGMENT INFORMATION

The Group's executive directors are the chief operating decision makers ("CODM") as they collectively make strategic decisions on resources allocation and performance assessment. The Group is principally engaged in (i) the investment, operation and management of city gas pipeline infrastructure, distribution of piped gas to residential, industrial and commercial users; and (ii) the operation of CNG/LNG vehicle filling stations in the PRC. Nearly all identifiable assets of the Group are located in the PRC. During the year ended 31st December, 2018, the Group commenced the business of design and consulting of energy projects upon the acquisition of 北京恩耐特分布能源技术有限公司 ("Beijing Energy-Net De.") (as detailed in note 41) and its result is included in the segment of sales of stoves and other services.

Information that is reported to the CODM for the purpose of resources allocation and assessment of performance focuses on the type of products delivered or services rendered which is also consistent with the basis of organisation of the Group.

Each type of product or service represents an unique business unit within the Group whose performance is assessed independently. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group. The Group's operating and reportable segments are therefore as follows:

- (a) sales of gas;
- (b) gas pipeline construction;
- (c) sales of stoves and other services;
- (d) operation of CNG/LNG vehicle filling stations; and
- (e) sales of liquefied petroleum gas

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

6. SEGMENT INFORMATION (Continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments.

For the year ended 31st December, 2019

	Sales of gas HK\$'000	Gas pipeline construction HK\$'000	Sales of stoves and other services HK\$'000	Operation of CNG/LNG vehicle filling stations HK\$'000	Sales of liquefied petroleum gas HK\$'000	Consolidated HK\$'000
Segment revenue	5,805,421	1,581,238	412,348	337,377	7,387	8,143,771
Segment profit	407,773	922,253	91,255	24,596	61	1,445,938
Unallocated other income						13,634
Unallocated other gains and losses						(219,548)
Unallocated central corporate expenses						(140,701)
Reversal of impairment						9,344
Finance costs						(344,248)
Profit before tax						764,419

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

6. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 31st December, 2018

	Sales of gas HK\$'000	Gas pipeline construction HK\$'000	Sales of stoves and other services HK\$'000	Operation of CNG/LNG vehicle filling stations HK\$'000	Sales of liquefied petroleum gas HK\$'000	Consolidated HK\$'000
Segment revenue	4,871,134	2,251,268	154,854	342,365	7,467	7,627,088
Segment profit	296,082	1,459,432	43,348	24,165	148	1,823,175
Unallocated other income						17,787
Unallocated other gains and losses						(309,024)
Unallocated central corporate expenses						(121,855)
Impairment losses						(16,295)
Finance costs						(272,747)
Profit before tax						1,121,041

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Reportable segments represents the financial result of each segment without allocation of central administration costs, directors' emoluments, interest income, share-based payments, change in fair value of investment properties, net foreign exchange gain or loss, certain sundry income, finance costs and income tax expenses. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

A subsidiary of the Group also engages in the property development in the PRC and the revenue generate from this business will be included as the consolidated revenue of the Group. There was no property sold for the year ended 31st December, 2019. The operating result and other financial information of this subsidiary's business are not reviewed by the CODM for the purpose of resources allocation and performance assessments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

Amounts of segment assets and liabilities of the Group are not reviewed by the CODM or otherwise regularly provided to the CODM, accordingly, segment assets and liabilities are not presented.

Other segment information

2019

	Sales of gas HK\$'000	Gas pipeline construction HK\$'000	Sales of stoves and other services HK\$'000	Operations of CNG/LNG vehicle filling stations HK\$'000	Sales of liquefied petroleum gas HK\$'000	Segment total HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Amounts included in the measure of segment profit or loss:								
Net (gain) loss on disposal of property, plant and equipment	(18,941)	-	-	3	-	(18,938)	12	(18,926)
Depreciation of right-of-use assets	40,790	-	1,062	5,267	-	47,119	4,068	51,187
Depreciation of property, plant and equipment	272,239	694	1,306	10,246	-	284,485	7,161	291,646
Amortisation of other intangible assets	65,767	-	2,168	1,783	-	69,718	-	69,718

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

6. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

2018

	Sales of gas HK\$'000	Gas pipeline construction HK\$'000	Sales of stoves and other services HK\$'000	Operations of CNG/LNG vehicle filling stations HK\$'000	Sales of liquefied petroleum gas HK\$'000	Segment total HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Amounts included in the measure of segment profit or loss:								
Net loss (gain) on disposal of property, plant and equipment	37,285	-	(1,241)	2,298	-	38,342	(537)	37,805
Release of prepaid lease payments	6,236	-	-	4,842	-	11,078	761	11,839
Depreciation of property, plant and equipment	260,301	-	200	9,977	-	270,478	8,123	278,601
Amortisation of other intangible assets	40,647	-	-	2,021	-	42,668	-	42,668

Geographical information

All the turnover of the Group for both years are derived from the PRC. None of the customers contributes over 10% of the total revenue of the Group.

As at 31st December, 2019, all the non-current assets of the Group (excluding financial assets) amounting to HK\$13,899,766,000 (2018: HK\$11,604,438,000) are located in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

7. OTHER GAINS AND LOSSES

	2019 HK\$'000	2018 HK\$'000
Recovery of bad debts previously written off	–	29,109
Net foreign exchange losses	(248,562)	(321,905)
(Decrease) increase in fair value of investment properties	(1,579)	387
Net gain (loss) on disposal of property, plant and equipment	18,926	(37,805)
Others	911	(2,573)
	(230,304)	(332,787)

8. OTHER INCOME

	2019 HK\$'000	2018 HK\$'000
Interest income from financial assets at amortised cost		
– Bank interest income	11,282	9,412
– Interest income on amount due from an associate	2,946	3,072
	14,228	12,484
Government subsidies (Note)	5,160	6,264
Income from investments in life insurance contracts	2,771	2,702
Sundry income	31,334	39,480
	53,493	60,930

Note: During the year ended 31st December, 2019, the Group has received subsidies of HK\$5,160,000 (2018: HK\$6,264,000) from the relevant PRC governments for promoting the use of natural gas. There are no conditions attached to the subsidies granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

9. FINANCE COSTS

	2019 HK\$'000	2018 HK\$'000
Interest on borrowings	357,915	281,233
Interest on obligations under finance leases	–	20,338
Interest on lease liabilities	12,408	–
	370,323	301,571
Amortisation on loan facilities fees relating to bank borrowings	53,167	38,100
Total borrowing costs	423,490	339,671
Less: Amounts capitalised in construction in progress included in property, plant and equipment	(79,242)	(66,924)
	344,248	272,747

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.66% (2018: 5.09%) per annum to expenditure on qualifying assets.

10. INCOME TAX EXPENSES

	2019 HK\$'000	2018 HK\$'000
PRC Enterprise Income Tax:		
Current tax	173,144	301,670
Overprovision in prior years	(3,736)	(6,467)
Withholding tax levied on dividends paid previously not recognised	7,361	9,402
	176,769	304,605
Deferred tax (note 38)	104,001	102,081
	280,770	406,686

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

10. INCOME TAX EXPENSES (Continued)

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

On 21st March, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduced the two-tiered profits tax rates regime. The Bill was signed into law on 28th March, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The Directors considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Company and its subsidiaries had no assessable profits arising in Hong Kong for both years.

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the year ended 31st December, 2019, withholding tax amounting to HK\$7,361,000 (2018: HK\$9,402,000) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities in previous and current years.

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2019 HK\$'000	2018 HK\$'000
Profit before tax	764,419	1,121,041
Tax at the domestic income tax rate of 25% (2018: 25%) (Note)	191,105	280,260
Tax effect of expenses not deductible for tax purpose	68,337	141,960
Tax effect of income not taxable for tax purpose	(319)	(1,561)
Overprovision in respect of prior years	(3,736)	(6,467)
Tax effect of share of results of associates	(11,263)	(10,347)
Tax effect of share of results of a joint venture	29	134
Tax effect of estimated tax losses not recognised	31,446	23,317
Utilisation of estimated tax losses previously not recognised	(2,190)	(30,012)
Withholding tax levied on dividends paid previously not recognised	7,361	9,402
Tax charge for the year	280,770	406,686

Note: The domestic tax rate in the jurisdiction where the operation of the Group is substantially based is used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

11. PROFIT FOR THE YEAR

	2019 HK\$'000	2018 HK\$'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	4,145	3,500
Amortisation of other intangible assets (included in cost of sales)	69,718	42,668
Depreciation of right-of-use assets	51,187	–
Release of prepaid lease payments	–	11,839
Depreciation of property, plant and equipment	291,646	278,601
Employee benefits expenses, other than directors' emoluments		
– Salaries and other benefits	345,317	309,043
– Share-based payments	43,802	48,631
– Contributions to retirement benefits schemes	69,387	62,070
	458,506	419,744
Cost of inventories recognised as expenses in respect of contract cost for gas pipeline construction	276,759	405,900
Cost of inventories recognised as expenses in respect of sales of gas, CNG/LNG, liquefied petroleum gas and stoves	5,268,305	4,235,995
	5,545,064	4,641,895
(Reversal of impairment) impairment losses		
– Trade receivables (good and services)	(739)	(95)
– Other receivables	784	–
– Contract assets	(9,389)	16,390
	(9,344)	16,295
Gross rental income from investment properties with minimal outgoings	(1,265)	(874)
Gross rental income from equipment with minimal outgoings	(6,579)	(1,968)
Operating lease rentals in respect of rental premises	–	16,614

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors' and chief executive's emoluments

The emoluments paid or payable to the Directors and the chief executive are as follows:

	2019 HK\$'000	2018 HK\$'000
Fees	1,000	1,000
Other emoluments:		
– Salaries and other benefits	18,120	9,785
– Discretionary and performance related incentive payments	4,260	–
– Contributions to retirement benefits schemes	261	105
– Share-based payments	–	10,216
Total emoluments	23,641	21,106

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued) Directors' and chief executive's emoluments (Continued)

The emoluments of Directors and the chief executive of the Company are analysed as follows:

	2019					2018				
	Fees HK\$'000	Salaries and other benefits HK\$'000	Discretionary and performance related incentive payments HK\$'000	Contributions to retirement benefits schemes HK\$'000	Total HK\$'000	Fees HK\$'000	Salaries and other benefits HK\$'000	Share-based payments HK\$'000	Contributions to retirement benefits schemes HK\$'000	Total HK\$'000
Executive directors										
Mr. Wang Wenliang	-	7,140	2,460	-	9,600	-	4,920	-	-	4,920
Mr. Lui Siu Keung (note i)	-	5,600	1,800	18	7,418	-	3,600	5,957	18	9,575
Mr. Lu Zhaoheng	-	2,300	-	81	2,381	-	1,265	2,383	87	3,735
Mr. Li Yan (note ii)	-	1,540	-	81	1,621	-	-	-	-	-
Mr. Jia Kun (note iii)	-	1,540	-	81	1,621	-	-	-	-	-
Non-executive director										
Mr. Xu Yongxuan	250	-	-	-	250	250	-	397	-	647
Independent non-executive directors										
Mr. Li Chunyan	250	-	-	-	250	250	-	493	-	743
Dr. Luo Yongtai	250	-	-	-	250	250	-	493	-	743
Ms. Liu Yu Jie	250	-	-	-	250	250	-	493	-	743
	1,000	18,120	4,260	261	23,641	1,000	9,785	10,216	105	21,106

Notes:

- (i) Mr. Lui Siu Keung is also the chief executive officer ("CEO") of the Company and his emoluments disclosed above include those for services rendered by him as the CEO.
- (ii) Mr. Li Yan was appointed as an executive director of the Company with effect from 25th February, 2019.
- (iii) Mr. Jia Kun was appointed as an executive director of the Company with effect from 25th February, 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

Directors' and chief executive's emoluments (Continued)

No emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as a compensation for loss of office for both years.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive director's emoluments shown above was for his services as director of the Company and its subsidiaries.

The independent non-executive directors' emoluments shown above were for their services as Directors.

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2018: one) were Directors whose emoluments are disclosed above. The emoluments of the remaining three (2018: four) individuals are as follows:

	2019 HK\$'000	2018 HK\$'000
Salaries and other benefits	1,154	1,274
Discretionary and performance related incentive payments	234	–
Contributions to retirement benefits schemes	186	233
Share-based payments	18,336	24,448
	19,910	25,955

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

Employees' emoluments (Continued)

The emoluments are within the following bands:

	2019 Number of employees	2018 Number of employees
HK\$6,000,001 to HK\$6,500,000	–	3
HK\$6,500,001 to HK\$7,000,000	3	1

13. DIVIDENDS

	2019 HK\$'000	2018 HK\$'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2018 final dividend of HK7 cents (2018: 2017 final dividend of HK5 cents) per ordinary share	177,675	126,250
2019 interim dividend of HK2 cents (2018: nil) per ordinary share	50,764	–
	228,439	126,250
Final dividend, proposed, of HK5 cents (2018: HK7 cents) per ordinary share	132,242	177,605

Subsequent to the end of reporting period, a final dividend in respect of the year ended 31st December, 2019 of HK5 cents (2018: final dividend in respect of the year ended 31st December, 2018 of HK7 cents) per ordinary share, in an aggregate amount of HK\$132,242,000 (2018: HK\$177,605,000), has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming general meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

14. EARNINGS PER SHARE

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

	2019 HK\$'000	2018 HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to owners of the Company	430,121	620,684
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,540,405	2,530,877
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	29,852	23,098
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,570,257	2,553,975

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

15. INVESTMENT PROPERTIES

	HK\$'000
FAIR VALUE	
At 1st January, 2018	44,516
Exchange adjustments	(1,963)
Increase in fair value recognised in profit or loss (notes i)	387
At 31st December, 2018	42,940
Exchange adjustments	(897)
Net decrease in fair value recognised in profit or loss (notes i)	(1,579)
Transfers to property, plant and equipment (note ii)	(31,284)
At 31st December, 2019	9,180

Notes:

- (i) *The fair value of the Group's investment properties at 31st December, 2019 and 2018 has been arrived at on the basis of a valuation carried out on the respective dates by 河南九鼎資產評估有限公司 ("河南九鼎") and GW Financial Advisory Services Limited ("GW Financial"), independent qualified professional valuers not connected to the Group.*

The fair value determined by 河南九鼎 was based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The discount rate is determined by reference to the yields derived from analysing the sales transactions of similar commercial properties in the PRC and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's investment properties. There has been no change from the valuation technique used in the prior year.

The fair value determined by GW Financial was based on direct comparison approach making reference to comparable market observable transactions of similar locations and conditions as available in the relevant market.

- (ii) *During the year ended 31st December, 2019, an investment property of the Group have been self-used as office. Accordingly the fair value of this property of HK\$31,284,000 was transferred to property, plant and equipment of the Group and HK\$4,811,000 was transferred from property revaluation reserve to accumulated profits.*

The Group leases out various offices under operating leases with rentals payable monthly. The leases mainly run for an initial period of one to ten years.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

15. INVESTMENT PROPERTIES (Continued)

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

In estimating the fair value of the properties, the highest and best use of the properties is their current use. At the end of each reporting periods, the chief executive officer ("CEO") of the Company works closely with the independent qualified professional valuers to establish and determine the appropriate valuation techniques and inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the management of the Group.

Information about fair value measurements using significant unobservable inputs

The following table gives information about how the fair value of these investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Description	Fair value		Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of inputs to fair value
	2019 HK\$'000	2018 HK\$'000				
Commercial property units located in the PRC (note i)	9,180	9,348	Level 3	Income approach	Discount rate (2019: 6.48%; 2018: 6.43%)	The higher the discount rate, the lower the fair value
Commercial property units located in the PRC (note i)	-	33,592	Level 3	Direct comparison approach	Market price, taking into account the recent transaction prices for similar properties adjusted for nature, location and conditions of the property which range from RMB8,000 to RMB12,000 per square metre (2018: RMB12,000 to RMB20,000 per square metre)	The higher the market price, the higher the fair value
	9,180	42,940				

There were no transfers into or out of Level 3 during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Construction in progress	Leasehold improvements	Pipelines	Machinery and equipment	Furniture and fixtures	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST OR VALUATION								
At 1st January, 2018	782,118	1,184,192	25,142	4,664,851	657,334	25,682	144,719	7,484,038
Exchange adjustments	(41,199)	(65,641)	(1,226)	(266,021)	(33,690)	(192)	(5,898)	(413,867)
Acquisition of assets and liabilities through acquisition of a subsidiary (note 42)	-	8,961	-	-	-	-	-	8,961
Acquisitions of business (note 41)	1,055	2,299	-	17,337	4,715	166	485	26,057
Additions	24,060	1,918,806	5,116	85,589	43,957	4,157	22,938	2,104,623
Disposals	(3,594)	(550)	-	(120,117)	(21,008)	(532)	(23,720)	(169,521)
Transfer	118,986	(1,378,037)	-	1,167,901	90,943	207	-	-
Revaluation	-	-	-	245,685	-	-	-	245,685
At 31st December, 2018	881,426	1,670,030	29,032	5,795,225	742,251	29,488	138,524	9,285,976
Adjustments upon application of HKFRS 16	-	-	-	(838,713)	-	-	-	(838,713)
At 1st January, 2019 (restated)	881,426	1,670,030	29,032	4,956,512	742,251	29,488	138,524	8,447,263
Exchange adjustments	(20,217)	(37,520)	(640)	(148,076)	(17,712)	(717)	(2,962)	(227,844)
Acquisitions of business (note 41)	17,040	81,679	-	248,257	10,295	539	2,238	360,048
Additions	24,141	1,491,419	3,064	17,324	20,701	3,541	11,149	1,571,339
Disposals	(1,261)	-	-	(12,686)	(1,946)	(62)	(6,580)	(22,535)
Transfer	12,264	(844,085)	-	801,510	29,668	57	586	-
Transfer from investment property	31,284	-	-	-	-	-	-	31,284
Transfer from right-of-use assets	-	-	-	352,178	-	-	-	352,178
Revaluation	-	-	-	(87,946)	-	-	-	(87,946)
At 31st December, 2019	944,677	2,361,523	31,456	6,127,073	783,257	32,846	142,955	10,423,787

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings	Construction in progress	Leasehold improvements	Pipelines	Machinery and equipment	Furniture and fixtures	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
DEPRECIATION								
At 1st January, 2018	93,146	-	6,151	-	192,943	14,094	53,528	359,862
Exchange adjustments	(5,034)	-	(351)	(27,125)	(11,183)	(753)	(2,352)	(46,798)
Provided for the year	16,741	-	3,836	183,454	58,581	3,010	12,979	278,601
Eliminated on disposals	(944)	-	-	(17,264)	(9,154)	(467)	(18,970)	(46,799)
Eliminated on revaluation	-	-	-	(139,065)	-	-	-	(139,065)
At 31st December, 2018	103,909	-	9,636	-	231,187	15,884	45,185	405,801
Exchange adjustments	(2,912)	-	(220)	(18,757)	(6,623)	(420)	(1,298)	(30,230)
Provided for the year	19,500	-	2,642	192,468	60,569	2,787	13,680	291,646
Eliminated on disposals	(309)	-	-	(3,694)	(855)	(32)	(5,531)	(10,421)
Eliminated on revaluation	-	-	-	(170,017)	-	-	-	(170,017)
At 31st December, 2019	120,188	-	12,058	-	284,278	18,219	52,036	486,779
CARRYING VALUES								
At 31st December, 2019	824,489	2,361,523	19,398	6,127,073	498,979	14,627	90,919	9,937,008
At 31st December, 2018	777,517	1,670,030	19,396	5,795,225	511,064	13,604	93,339	8,880,175

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis after taking into account the residual values at the following rates per annum:

Buildings	Over the remaining terms of leases
Leasehold improvements	Over the remaining term of leases
Pipelines	Over the shorter of 30 years or operation period of the relevant company
Machinery and equipment	6% – 30%
Furniture and fixtures	20%
Motor vehicles	10% – 18%

As at 31st December, 2019, the Group is in the process of obtaining title deeds from relevant government authority for its buildings in the PRC amounting to HK\$133,932,000 (2018: HK\$141,839,000). In the opinion of the Directors, the Group is not required to incur additional cost in obtaining the title deeds for its buildings in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

Fair value measurement of the Group's pipelines included in property, plant and equipment and right-of-use assets

At 31st December, 2019 and 2018, the fair value of the Group's pipelines was valued by the independent qualified professional valuer, GW Financial, using DRC approach.

In determining the fair value of the pipelines, at the end of each reporting period, the CEO works closely with the independent qualified professional valuer to establish and determine the appropriate valuation techniques and inputs to be used in determining the fair value of the assets. Discussion of valuation processes and results is held between CEO and the Directors at least once a year.

The fair value of the pipelines has been determined using the DRC approach that reflects the cost to a market participant to construct assets of comparable utility and the age of the pipelines, adjusted for obsolescence. The Group has determined that the highest and best use of the pipelines at the measurement date would be their existing use.

The Group's pipelines at revalued amount are categorised into level 3 of the fair value hierarchy.

The following table shows the valuation techniques used in the determination of fair value and unobservable inputs used in the valuation models.

Description	Fair value		Valuation techniques	Significant unobservable inputs	Significant inputs
	2019 HK\$'000	2018 HK\$'000			
Pipelines included in property, plant and equipment	6,127,073	5,795,225	DRC approach	(a) historical labour cost (RMB/year) (b) historical raw chemical materials purchasing price indices for industrial producers	(a) RMB60,501 (2018: RMB57,919) (b) 94.8 (2018: 107.1)
Pipelines included in right-of-use assets	456,633	–	DRC approach	(a) historical labour cost (RMB/year) (b) historical raw chemical materials purchasing price indices for industrial producers	(a) RMB60,501 (2018: RMB57,919) (b) 94.8 (2018: 107.1)
	6,583,706	5,795,225			

A significant positive adjustment to any of the above significant unobservable inputs would result in a significant increase in fair value of the pipelines, and vice versa.

Had the pipelines included in property, plant and equipment and right-of-use assets at 31st December, 2019 been carried at cost less accumulated depreciation, its carrying value would have been approximately HK\$5,035,078,000 (2018: HK\$4,253,154,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

17. RIGHT-OF-USE ASSETS

	Pipelines HK\$'000	Leasehold lands HK\$'000	Leased properties HK\$'000	Total HK\$'000
COST OR VALUATION				
At 1st January, 2019	888,713	553,809	24,245	1,416,767
Additions	–	100,538	7,575	108,113
Acquisition of business (note 41)	–	915	–	915
Transfer to property under development for sale	–	(85,430)	–	(85,430)
Transfer to property, plant and equipment	(354,359)	–	–	(354,359)
Revaluation	(14,866)	–	–	(14,866)
Exchange adjustments	(12,855)	(13,340)	(550)	(26,745)
At 31st December, 2019	456,633	556,492	31,270	1,044,395
DEPRECIATION				
At 1st January, 2019	–	–	–	–
Charge for the year	27,437	13,138	10,612	51,187
Eliminated on transfer to property, plant and equipment	(2,181)	–	–	(2,181)
Eliminated on revaluation	(24,894)	–	–	(24,894)
Exchange adjustments	(362)	(1,532)	(107)	(2,001)
At 31st December, 2019	–	11,606	10,505	22,111
CARRYING VALUES				
At 1st January, 2019	888,713	553,809	24,245	1,416,767
At 31st December, 2019	456,633	544,886	20,765	1,022,284

The above items of right-of-use assets are depreciated on a straight-line basis at the following rates per annum:

Pipelines	Over the shorter of 30 years or operation period of the relevant company
Leasehold lands	Over the remaining term of leases
Leased properties	Over the remaining term of leases

Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16 is HK\$2,865,000 during the year ended 31st December 2019.

Total cash outflow for lease was HK\$295,347,000 for the year ended 31st December, 2019.

For both years, the Group leases various pipelines, offices, staff quarters and gas container for its operations. Lease contracts are entered into for fixed term of one year to twenty-five years with no options. Certain leases of pipeline were accounted for as finance leases during the year ended 31st December, 2018 and carried interest ranged from 4.28% to 4.99%. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

17. RIGHT-OF-USE ASSETS (Continued)

The Group has obtained the land use right certificates for all leasehold lands except for leasehold lands with carrying amount of HK\$35,803,000 (2018: HK\$36,585,000) in which the Group is in the process of obtaining.

Fair value measurement of pipelines are set out in note 16.

18. GOODWILL

	2019 HK\$'000	2018 HK\$'000
Cost and carrying amount		
At 1st January	255,776	225,878
Exchange adjustments	(10,711)	(10,250)
Arising on acquisitions of subsidiaries (note 41)	166,820	40,148
At 31st December	411,885	255,776

For the purposes of impairment testing, the carrying amount of goodwill is attributable to the cash-generating units ("CGUs") relating to sales of gas ("Unit A") amounting to HK\$240,663,000 in aggregate (2018: HK\$100,753,000), pipeline construction ("Unit B") amounting to HK\$66,680,000 in aggregate (2018: HK\$51,332,000), different subsidiaries of Harmony Gas engaging in sales of gas ("Unit C") amounting to HK\$90,641,000 in aggregate (2018: HK\$89,486,000) and design and consulting of energy projects ("Unit D") amounting to HK\$13,901,000 in aggregate (2018: HK\$14,205,000).

Impairment testing on Unit A

Unit A consists of several CGUs which represent the operations of different subsidiaries engaging in sales of gas. For impairment test purpose, management reviews each CGU's recoverable amount and compares with the carrying amount of the respective CGU. The aggregate carrying amounts of the CGUs of Unit A comprise other intangible assets of HK\$1,162,850,000 (2018: HK\$650,779,000), goodwill of HK\$240,663,000 (2018: HK\$100,753,000), property, plant and equipment of HK\$4,493,672,000 (2018: HK\$3,238,876,000) and right-of-use assets of HK\$243,256,000 (2018: prepaid lease payments of HK\$152,448,000). The recoverable amount of each CGU has been determined based on the value in use calculation of each CGU using the following assumptions for 2019 and 2018:

Period of cash flow projections	5 years (2018: 5 years)
Growth rates beyond 5-year period extrapolated in the financial budgets approved by the management	2% to 3% (2018: 0.90% to 5.52%)
Discount rate	10.92% (2018: 11.82%)

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18. GOODWILL (Continued)

Impairment testing on Unit A (Continued)

This growth rate is based on the relevant industry growth forecast and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the respective CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the individual carrying amount of each CGU within Unit A to exceed the individual recoverable amount of each CGU within Unit A. At the end of each reporting period, the recoverable amount of each CGU of Unit A exceeds its carrying amount and no impairment loss is considered necessary for the years ended 31st December, 2019 and 2018.

Impairment testing on Unit B

Unit B consists of several CGUs which represent operation of different subsidiaries engaging in the pipeline constructions. For impairment test purpose, management reviews each CGU's recoverable amount and compares with the carrying amount of respective CGU. The aggregate carrying amounts of the CGUs of Unit B comprise other intangible assets of HK\$58,381,000 (2018: nil) and goodwill of HK\$66,680,000 (2018: HK\$51,332,000). The recoverable amount of each CGU has been determined based on value in use calculation of each CGU using the following assumptions for 2019 and 2018:

Period of cash flow projections	5 years (2018: 5 years)
Growth rates beyond 5-year period extrapolated in the financial budgets approved by the management	2% (2018:2%)
Discount rate	10.92% (2018: 11.82%)

This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the respective CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the individual carrying amount of each CGU within Unit B to exceed the individual recoverable amount of each CGU within Unit B. At the end of each reporting period, the recoverable amounts of each CGU of Unit B exceeds its carrying amount, therefore, no impairment loss is considered necessary for the years ended 31st December, 2019 and 2018.

18. GOODWILL (Continued)

Impairment testing on Unit C

Unit C consists of several CGUs which represent the operations of different subsidiaries of Harmony Gas engaging in sales of gas. For impairment test purpose, management reviews each CGU's recoverable amount and compares with the carrying amount of the respective CGU. The aggregate carrying amounts of the CGUs of Unit C comprise other intangible assets of HK\$348,191,000 (2018: HK\$372,381,000), goodwill of HK\$90,641,000 (2018: HK\$89,486,000), property, plant and equipment of HK\$1,658,918,000 (2018: HK\$1,353,403,000) and right-of-use assets of HK\$59,007,000 (2018: prepaid lease payments of HK\$34,552,000). The recoverable amount of each CGU has been determined based on the value in use calculation of each CGU using the following assumptions for 2019 and 2018:

Period of cash flow projections	5 years (2018: 5 years)
Growth rate beyond 5-year period extrapolated in the financial budgets approved by the management	2% (2018: 2%)
Discount rate	10.92% (2018: 11.82%)

The growth rate is based on the relevant industry growth forecast and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the respective CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the individual carrying amount of each CGU within Unit C to exceed the individual recoverable amount of each CGU within Unit C. At the end of each reporting period, the recoverable amount of each CGU of Unit C exceeds its carrying amount and no impairment loss is considered necessary for the years ended 31st December, 2019 and 2018.

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18. GOODWILL (Continued)

Impairment testing on Unit D

Unit D consists of several CGUs which represent the operations of different subsidiaries engaging in design and consulting of energy projects. For impairment test purpose, management reviews each CGU's recoverable amount and compares with the carrying amount of the respective CGU. The aggregate carrying amounts of the CGUs of Unit D comprise other intangible assets of HK\$19,235,000 (2018: HK\$21,840,000), goodwill of HK\$13,901,000 (2018: HK\$14,205,000) and property, plant and equipment of HK\$4,434,000 (2018: HK\$5,140,000). The recoverable amount of each CGU has been determined based on the value in use calculation of each CGU using the following assumptions for 2019 and 2018:

Period of cash flow projections	5 years (2018: 5 years)
Growth rate beyond 5-year period extrapolated in the financial budgets approved by the management	2% (2018: 3%)
Discount rate	18.11% (2018: 18.11%)

The growth rate is based on the relevant industry growth forecast and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the respective CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the individual carrying amount of each CGU within Unit D to exceed the individual recoverable amount of each CGU within Unit D. At the end of each reporting period, the recoverable amount of each CGU of Unit D exceeds its carrying amount and no impairment loss is considered necessary for the years ended 31st December, 2019 and 2018.

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19. OTHER INTANGIBLE ASSETS

	Exclusive rights of operation	Other operating rights	Technology know-how	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST				
At 1st January, 2018	1,175,162	175,109	–	1,350,271
Exchange adjustments	(47,651)	(7,857)	(130)	(55,638)
Addition	686	–	–	686
Acquired on acquisitions of subsidiaries (note 41)	94,871	–	21,970	116,841
Disposals	–	(67,828)	–	(67,828)
At 31st December, 2018	1,223,068	99,424	21,840	1,344,332
Exchange adjustments	(42,312)	1,590	(467)	(41,189)
Addition	303	–	–	303
Acquired on acquisitions of subsidiaries (note 41)	650,266	–	–	650,266
At 31st December, 2019	1,831,325	101,014	21,373	1,953,712
AMORTISATION AND IMPAIRMENT				
At 1st January, 2018	165,024	112,925	–	277,949
Exchange adjustments	(5,763)	(7,907)	–	(13,670)
Eliminated on disposals	–	(66,083)	–	(66,083)
Charged for the year	40,647	2,021	–	42,668
At 31st December, 2018	199,908	40,956	–	240,864
Exchange adjustments	(3,772)	–	(30)	(3,802)
Charged for the year	65,767	1,783	2,168	69,718
At 31st December, 2019	261,903	42,739	2,138	306,780
CARRYING VALUES				
At 31st December, 2019	1,569,422	58,275	19,235	1,646,932
At 31st December, 2018	1,023,160	58,468	21,840	1,103,468

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19. OTHER INTANGIBLE ASSETS (Continued)

The exclusive rights of operation represent sales and distribution of piped gas in certain cities in Henan, Shandong, Fujian, Jiangsu, Heilongjiang, Hebei, Zhejiang, Jilin and Anhui provinces and are amortised on a straight-line method over the period of a range of 7 to 34 years (2018: 7 to 30 years), which is the remaining finite useful life period being granted for exclusive operations in the relevant cities.

Other operating rights represent the licences possessed by the Group's subsidiaries, 濟源中裕壓縮氣有限公司, 漯河中裕壓縮氣有限公司 and 三門峽中裕能源有限公司 to operate eight CNG vehicle filling stations in Jiyuan City, Luohe City and Sanmenxia City and are amortised on a straight-line method over a period of 30 years, which is the period of the licenses being granted for operating CNG vehicle filling stations.

Technology know-how represents the technology developed for design and consulting of energy projects which arose upon acquisition of Beijing Energy-Net De. and its subsidiaries during the year ended 31st December, 2018 as defined and detailed in note 41. Technology know-how is amortised on a straight-line method over a period of 10 years.

The Group tests intangible assets if there are indications that intangible assets might be impaired.

For the purpose of impairment testing, the carrying amounts of intangible assets have been allocated to the respective CGUs as follows:

	2019 HK\$'000	2018 HK\$'000
Unit A	1,162,850	650,779
Unit B	58,381	–
Unit C	348,191	372,381
Unit D	19,235	21,840
Operation of CNG vehicle filling stations	58,275	58,468
	1,646,932	1,103,468

Impairment assessment of Unit A, B, C and D are set out in note 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

20. LONG-TERM DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Deposits paid for acquisition of property, plant and equipment	349,231	273,309
Deposits paid for leasehold lands	86,150	96,334
Investment components of life insurance contracts	77,556	75,676
Prepayments of insurance premium	2,777	3,017
Loans to employees	582,970	–
Other long-term deposits	15,533	29,170
	1,114,217	477,506

Deposits paid for acquisition of property, plant and equipment

As at 31st December, 2019, deposit of RMB169,912,000 (equivalent to HK\$190,207,000) (2018: RMB139,169,000, equivalent to HK\$159,196,000) was paid to a supplier for acquisition of construction materials mainly for construction of the Group's pipelines.

Investment components of life insurance contracts

The Group had entered into two life insurance contracts with HSBC Life (International) Limited to insure two executive directors of the Company.

Under the policies, the beneficiary and policy holder is the Company, and the total insured sum is approximately US\$32,000,000 (equivalent to HK\$248,205,000). The Company paid US\$9,272,000 (equivalent to HK\$71,866,000), including premium charge at inception of the policies amounting to US\$556,347 (equivalent to HK\$4,315,000). The Company may request a partial surrender or full surrender of the policies at any time and receive cash back based on the cash value of the policies at the date of withdrawal, which is determined based on the gross premium paid plus accumulated income earned (based on the discretion by HSBC Life (International) Limited) and minus insurance premium charged at inception. In addition, if withdrawal is made between the 1st to 18th policy year, there is a specified surrender charge.

During the year ended 31st December, 2019, income from investments in life insurance contracts of HK\$2,771,000 (2018: HK\$2,702,000) was recognised in profit or loss.

At 31st December, 2019, the expected life of the policy remained unchanged from the initial recognition and the Directors considered that the financial impact of the option to terminate the policy was insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

20. LONG-TERM DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Loans to employees

At 31st December, 2019, included in the Group's other receivables balances are loans to employees with aggregate carrying amount of HK\$582,970,000 (2018: nil) which are for the purpose of enabling the PRC employees to exercise their share options granted by the Company. The loans are secured by the shares held by the employees, interest bearing at 4% per annum and repayable within three years.

21. PREPAID LEASE PAYMENTS

All the Group's prepaid lease payments comprise property interests in leasehold land in the PRC.

At 31st December, 2018, the Group is in process of obtaining land use right certificates from relevant government authorities for its land in the PRC amounting to HK\$36,585,000. In the opinion of the Directors, the Group is not required to incur additional cost in obtaining the land use right certificates for its land in the PRC.

22. INTERESTS IN ASSOCIATES

	2019 HK\$'000	2018 HK\$'000
Cost of unlisted investments in associates	319,655	319,655
Share of post-acquisition results	128,466	83,414
Exchange adjustments	(21,289)	(12,289)
	426,832	390,780

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

22. INTERESTS IN ASSOCIATES (Continued)

Details of the Group's associates as at 31st December, 2018 and 2019 are as follows:

Name of company	Place of establishment	Form of business structure	Proportion of nominal value of registered capital held by the Group		Principal activities
			2019	2018	
Beijing Zhongran Xiangke Oil and Gas Technology Co., Ltd. ("Zhongran Xiangke")	PRC	Sino-foreign joint venture	40%	40%	Sales of natural gas and gas pipeline construction
Yunnan Yuntou Zhongyu Energy Co., Ltd. ("Yunnan Yuntou") (formerly known as Qujing City Fuel Gas Co., Ltd.)	PRC	Limited liability company	39%	39%	Sales of natural gas and gas pipeline construction
Energy-Net De. (Chongqing) New Energy Co., Ltd. ("Energy-Net De. (Chongqing)")	PRC	Limited liability company	20%	20% (note)	Design and consulting of energy projects

Note: During the year ended 31st December, 2018, the Group obtained significant influence of Energy-Net De. (Chongqing) through acquisition of 70% of the registered capital of Beijing Energy-Net De. and its subsidiaries as detailed in note 41.

Summarised financial information of major associates

Summarised financial information in respect of the Group's major associates is set out below. The summarised financial information below represents amounts shown in the associates' management accounts which are prepared in accordance with HKFRSs. All of these associates are accounted for using the equity method in the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

22. INTERESTS IN ASSOCIATES (Continued)

Summarised financial information of major associates (Continued)

Zhongran Xiangke

Zhongran Xiangke and its subsidiaries (collectively "Zhongran Xiangke Group")

	2019 HK\$'000	2018 HK\$'000
Current assets	950,608	795,260
Non-current assets	1,007,807	854,632
Current liabilities	(947,059)	(742,544)
Net assets	1,011,356	907,348
Equity attributable to owners of Zhongran Xiangke Group	770,000	679,958
Non-controlling interests	241,356	227,390
	1,011,356	907,348
Revenue	1,108,187	1,085,792
Profit for the year	106,103	106,981
Total comprehensive income for the year attributable to:		
Owners of Zhongran Xiangke Group	90,042	76,916
Non-controlling interests	13,966	72,021
	104,008	148,937

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

22. INTERESTS IN ASSOCIATES (Continued)

Summarised financial information of major associates (Continued)

Zhongran Xiangke (Continued)

Zhongran Xiangke and its subsidiaries (collectively "Zhongran Xiangke Group") (Continued)

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

	2019 HK\$'000	2018 HK\$'000
Equity attributable to owners of Zhongran Xiangke Group	770,000	679,958
Proportion of the Group's ownership interest in Zhongran Xiangke Group at 40%	308,000	271,983
Carrying amount of the Group's interest in Zhongran Xiangke Group	308,000	271,983

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

22. INTERESTS IN ASSOCIATES (Continued)

Summarised financial information of major associates (Continued)

Yunnan Yuntou

Yunnan Yuntou and its subsidiaries (collectively "Yunnan Yuntou Group")

	2019 HK\$'000	2018 HK\$'000
Current assets	304,350	304,308
Non-current assets	901,277	868,249
Current liabilities	(740,397)	(261,986)
Non-current liabilities	(164,833)	(577,851)
Net assets	300,397	332,720
Equity attributable to owners of Yunnan Yuntou Group	298,955	298,743
Non-controlling interests	1,442	33,977
	300,397	332,720
Revenue	841,267	701,279
Profit (loss) for the year	6,695	(3,603)
Total comprehensive (expense) income for the year attributable to:		
Owners of Yunnan Yuntou Group	212	(17,328)
Non-controlling interests	(32,535)	15,047
	(32,323)	(2,281)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

22. INTERESTS IN ASSOCIATES (Continued)

Summarised financial information of major associates (Continued)

Yunnan Yuntou (Continued)

Yunnan Yuntou and its subsidiaries (collectively "Yunnan Yuntou Group") (Continued)

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

	2019 HK\$'000	2018 HK\$'000
Equity attributable to owners of Yunnan Yuntou Group	298,955	298,743
Proportion of the Group's ownership interest in Yunnan Yuntou Group at 39%	116,592	116,510
Carrying amount of the Group's interest in Yunnan Yuntou Group	116,592	116,510

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

23. INTEREST IN A JOINT VENTURE

	2019 HK\$'000	2018 HK\$'000
Cost of unlisted investment in a joint venture (note)	10,272	10,272
Share of post-acquisition results	(653)	(536)
Exchange adjustments	(166)	41
	9,453	9,777

Details of the Group's joint venture as at 31st December, 2018 and 2019 are as follows:

Name of Company	Place of establishment	Form of business structure	Proportion of nominal value of registered capital held by the Group		Principal activities
			2019	2018	
故城華洋管道設備 安裝有限公司	PRC	Limited liability company	50%	50%	Not yet commenced business

As all the relevant activities of the above entity require unanimous consent from all joint venture parties, it is accounted for as a joint venture by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 HK\$'000	2018 HK\$'000
Unlisted equity investments (note)	76,178	20,590
Other investments	2,720	2,720
	78,898	23,310

During the year ended 31st December, 2019, the Group newly invested in a PRC entity with carrying amount of RMB4,050,000 (equivalent to HK\$4,534,000) and further invested in two PRC entities with aggregate carrying amount of RMB46,000,000 (equivalent to HK\$51,495,000). As at 31st December, 2019, the Directors considers the carrying amounts are approximate their fair value as bank balances and cash are the major assets of these PRC entities.

Note: The above unlisted equity investments represent the Group's equity interests in certain private entities established in the PRC. The Directors have elected to designate these investments in equity instruments as at FVTOCI as they believe that these investments are not hold for trading and not expected to be sold in the foreseeable future.

25. INVENTORIES

	2019 HK\$'000	2018 HK\$'000
Construction materials	337,924	319,323
Finished goods	135,733	6,798
	473,657	326,121

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

26. PROPERTIES UNDER DEVELOPMENT FOR SALE

	2019 HK\$'000
COST	
At the beginning of the year	–
Transfer from right-of-use assets	85,430
Additions	27,052
Exchange adjustments	(1,611)
At the end of the year	110,871
Properties under development for sales of which:	
– expected to be realised within 12 months	110,871
– expected to be realised over 12 months	–
	110,871

Effective from 1st January, 2019, the carrying amount of leasehold lands is measured under HKFRS 16 at cost less any accumulated depreciation and any impairment losses. The residual values are determined as the estimated disposal value of the leasehold land component. No depreciation charge is made on the leasehold lands taking into account the estimated residual values as at 31st December, 2019.

During the year ended 31st December, 2019, the Group transferred leasehold land included in right-of-use assets with carrying amount of HK\$85,430,000 to properties under development for sale due to change of intention from own use to property development.

The properties under development for sale of the Group are situated in the PRC.

27. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days (2018: 30 days) to its trade customers. The following is an aged analysis of trade receivables from contracts with customers net of allowance for credit losses presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates for sales of gas and the respective construction contracts completion dates, as appropriate:

	2019 HK\$'000	2018 HK\$'000
0 – 30 days	724,759	782,221
31 – 90 days	45,579	130,453
91 – 180 days	73,442	237,993
181 – 360 days	318,699	518,788
Over 360 days	169,109	–
Trade receivables	1,331,588	1,669,455

27. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

(Continued)

As at 31st December, 2019, total bills received amounting to HK\$173,569,000 (2018: HK\$61,269,000) are held by the Group for future settlement of trade receivables. All bills received by the Group are with a maturity period of less than one year.

The amounts due from certain PRC local governments for the “Coal-to-gas” projects under the “gas pipeline construction” segment is included in the carrying amount of trade receivables.

As at 31st December, 2019, included in the Group’s trade receivables balance are debtors with aggregate carrying amount of HK\$579,768,000 (2018: HK\$876,440,000) which are past due as at the reporting date. Out of the past due balances, HK\$547,013,000 (2018: HK\$747,828,000) has been past due 90 days or more and is not considered as in default as these are represented by the debtors without bad debt history or the PRC local governments with low credit risks. The Group does not hold any collateral over these balances.

As at 31st December, 2019, deposits, prepayments and other receivables are advances to suppliers of natural gas and construction materials for customers’ gas pipeline construction amounting to HK\$468,556,000 (2018: HK\$344,953,000).

Details of impairment assessment of trade receivables, deposits and other receivables are set out in note 48.

28. TRANSFERS OF FINANCIAL ASSETS

The following is the Group’s bills as at 31st December, 2019 (2018: nil) that are transferred to banks by discounting bills on a full recourse basis. If the bills are not paid on maturity, the banks have the rights to request the Group to pay the unsettled balances. As the Group has not transferred the significant risks and rewards relating to the bills, it continues to recognise the full carrying amount of the bills and has recognised the cash received on the transfer as a secured borrowing (see note 34). The bills are carried at amortised cost in the Group’s consolidated statement of financial position.

	2019 HK\$'000
Carrying amount of transferred assets	118,457
Carrying amount of associated liabilities	(118,457)
	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

29. AMOUNTS DUE FROM AN ASSOCIATE AND A RELATED PARTY

As at 31st December, 2019, amount due from an associate of RMB50,000,000 (equivalent to HK\$55,972,000) (2018: RMB50,000,000 (equivalent to HK\$57,195,000)) is unsecured, interest bearing at 7% per annum (2018: interest bearing at 5.5% per annum) and repayable within one year (2018: two years).

As at 31st December, 2019, amount due from a related party represented amount due from a non-controlling shareholder of a subsidiary of the Group of RMB7,500,000 (equivalent to HK\$8,396,000) (2018: RMB7,500,000 (equivalent to HK\$8,579,000)) which is secured by its equity interest of that subsidiary, interest bearing at 7.8% per annum and repayable within one year.

30. CONTRACT ASSETS/LIABILITIES

	2019 HK\$'000	2018 HK\$'000
Contract assets – current		
Construction contracts in gas pipeline construction	509,321	185,698
Contract liabilities – current		
Construction contracts in gas pipeline construction	557,352	411,334
Purchase of natural gas	540,010	473,239
	1,097,362	884,573

At as 1st January, 2018, contract assets and contract liabilities amounting to HK\$56,821,000 and HK\$705,534,000, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

30. CONTRACT ASSETS/LIABILITIES (Continued)

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

Construction contracts in respect of gas pipeline construction

The contract assets primarily relate to the Group's right to consideration for work completed because the rights are conditioned on the Group's future performance in achieving specified milestones at the reporting date on contract work. The contract assets are transferred to trade receivables when the rights become unconditional.

The Group classifies these contract assets as current because the Group expects to realise them in its normal operating cycle.

The Group's revenue from construction contracts is measured by input method. The Group requires certain customers to provide upfront deposits before the commencement of the construction work as part of its credit risk management policies.

When the Group receives a deposit before the construction activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit.

Purchase of natural gas

The Group would require advance payment before the usage of the natural gas for certain customers, any shortage against the periodically actual charge for the actual usage of natural gas will be billed by the Group accordingly. These customers are required to top up the advance payment for future usage of natural gas to be supplied by the Group. The Group requires advance payment before the usage of the natural gas through the prepaid card for certain household users. The charge of the actual usage of natural gas will be deducted directly to the balance of the prepaid card. These customers can only consume the natural gas up to the balance of the prepaid card. This will give rise to contract liabilities until the revenue recognised on the relevant contract exceeds the amount of advance payment.

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities.

	2019		2018	
	Construction contracts HK\$'000	Purchase of natural gas HK\$'000	Construction contracts HK\$'000	Purchase of natural gas HK\$'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	411,334	473,239	368,413	337,121

Details of the impairment assessment of contract assets are set out in note 48.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

31. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The bank balances carry interest at market rates which ranged from 0.01% to 0.35% (2018: 0.01% to 0.35%) per annum as at 31st December, 2019. At 31st December, 2019, the bank balances and cash of HK\$1,350,841,000 (2018: HK\$1,248,549,000) are denominated in RMB.

As at 31st December, 2019, the bank balances and cash consisted of HK\$296,742,000 and HK\$255,730,000 (2018: HK\$223,146,000 and HK\$123,462,000) are denominated in United States Dollars (“US\$”) and HK\$ respectively, which are foreign currencies of the respective group entities.

As at 31st December, 2018, pledged bank deposits of RMB5,000,000 (equivalent to HK\$5,720,000) were used to secure the short-term general banking facilities granted to the Group, accordingly, the deposits were classified as current assets.

32. DEFERRED INCOME AND ADVANCE RECEIVED, TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

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

	2019 HK\$'000	2018 HK\$'000
0 – 30 days	592,132	640,840
31 – 90 days	228,734	186,997
91 – 180 days	120,080	110,122
Over 180 days	278,780	268,357
Trade payables	1,219,726	1,206,316

As at 31st December, 2018, the trade payables balance included trade debts due to related companies, subsidiaries of the shareholder of the Company, of HK\$14,136,000.

The average credit period on purchase of goods is 90 days (2018: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

As at 31st December, 2019, deferred income and advance received classified as non-current liabilities are government grants of HK\$6,874,000 (2018: HK\$15,616,000) received by the Group, and will be released to profit or loss when the related costs (for which the grants are intended to compensate) are recognised in profit or loss. Due to redevelopment of Jiaozuo City, Jiaozuo government subsidised the Group for enhancement and relocation of certain pipelines in Jiaozuo City.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

32. DEFERRED INCOME AND ADVANCE RECEIVED, TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES (Continued)

As at 31st December, 2019, included in other payables and accrued charges are (i) refundable security deposits received from customers in relation to gas supply of HK\$46,993,000 (2018: HK\$46,668,000); (ii) accrued expenses of HK\$39,798,000 (2018: HK\$30,204,000); (iii) unsettled consideration for the acquisition of assets and liabilities through acquisition of subsidiaries of RMB454,000, equivalent to HK\$508,000 (2018: RMB1,738,000, equivalent to HK\$1,988,000); and (iv) unsettled consideration for the acquisition of subsidiaries of RMB14,650,000, equivalent to HK\$16,400,000 (2018: RMB34,744,000, equivalent to HK\$39,744,000).

33. AMOUNTS DUE TO AN ASSOCIATE AND RELATED PARTIES

As at 31st December, 2019, the amounts due to an associate amounting to RMB894,000 (equivalent to HK\$1,001,000) (2018: RMB894,000, equivalent to HK\$1,023,000) is unsecured, non-interest bearing and repayable on demand.

The amounts due to related parties represented dividend payables to non-controlling interests of subsidiaries as at 31st December, 2018.

34. BORROWINGS

	2019 HK\$'000	2018 HK\$'000
Secured bank borrowings	830,804	521,620
Unsecured bank borrowings	10,158,246	7,676,765
Unsecured other borrowings	32,160	31,834
	11,021,210	8,230,219
Carrying amounts of the above borrowings are repayable*:		
Within one year	3,534,592	3,692,178
More than one year, but not exceeding two years	6,136,063	1,592,747
More than two years but not exceeding five years	557,723	2,126,867
More than five years	19,187	10,753
	10,247,565	7,422,545
Carrying amounts of bank borrowings that contain a repayment on demand clause (shown under current liabilities) but repayable:		
Within one year	415,595	127,770
More than one year, but not exceeding two years	358,050	321,854
More than two years but not exceeding five years	–	358,050
	773,645	807,674
Less: Amounts due within one year shown under current liabilities	(4,308,237)	(4,499,852)
Amounts shown under non-current liabilities	6,712,973	3,730,367

* the amounts due are based on scheduled repayment dates set out in the loan agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

34. BORROWINGS (Continued)

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2019	2018
Effective interest rate:		
Fixed-rate borrowings	4.00% – 5.10%	4.75% – 5.90%
Variable-rate borrowings	3.35% – 5.70%	2.66% – 6.67%

The Group's certain variable-rate borrowings bear interest at a range of 100% to 137% (2018: 100% to 133%) of People's Bank of China ("PBOC") Prescribed Interest Rate per annum. Interest of London Interbank Offered Rate ("LIBOR") plus a premium ranging from 1.5% to 2.5% (2018: 1.5% to 2.5%) per annum and interest of Hong Kong Interbank Offered Rate ("HIBOR") plus a premium of 1.35% to 2.1% (2018: 1.25% to 2.1%) per annum is charged on remaining outstanding variable-rate loan balances.

As at 31st December, 2019, the bank borrowing balances consisted of HK\$2,182,081,000 (2018: HK\$2,955,476,000) and HK\$6,747,937,000 (2018: HK\$2,543,983,000) are denominated in US\$ and HK\$ respectively, which are foreign currencies of the respective group entities.

During the year, the Group discounted bills receivable with recourse in aggregated amount of HK\$118,457,000 (2018: nil) to banks for short-term financing. At 31st December, 2019, the associated borrowings amounted to HK\$118,457,000 (2018: nil). The relevant cash flows of these borrowings are presented as operating cash flows in the consolidated statement of cash flows as management of the Group considers the cash flows are, in substance, the receipts from trade customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

35. LEASE LIABILITIES

	2019 HK\$'000
Lease liabilities payable:	
Within one year	68,744
Within a period of more than one year but not more than two years	4,737
Within a period of more than two year but not more than five years	4,580
Within a period of more than five year	3,361
	81,422
Less: Amount due for settlement with 12 months shown under current liabilities	(68,744)
	12,678
Amount due for settlement after 12 months shown under non-current liabilities	12,678
Lease obligations that are denominated in currency other than the functional currencies of the relevant group entities are set out below:	
	HK\$'000
As at 31st December, 2019	523

36. OBLIGATIONS UNDER FINANCE LEASES

	2018 HK\$'000
Analysed for reporting purpose as:	
Current liabilities	185,717
Non-current liabilities	61,537
	247,254

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

36. OBLIGATIONS UNDER FINANCE LEASES (Continued)

	Minimum lease payments 2018 HK\$'000	Present value of minimum lease payments 2018 HK\$'000
Amount payable under finance leases:		
Within one year	192,902	185,717
In more than one year but not more than two years	62,823	61,537
In more than two years but not more than five years	–	–
	255,725	247,254
Less: Future finance charges	(8,471)	N/A
Present value of lease obligations	247,254	247,254
Less: Amount due for settlement within one year (shown under current liabilities)		(185,717)
Amount due for settlement after one year		61,537

The Group leased certain of its pipelines under finance leases. The lease term was ranged from three to five years. Interest rates underlying all obligations under finance leases were ranged from 4.28% to 4.99% per annum. No arrangement was entered into for contingent rental payments.

As at 31st December, 2018, the Group's obligations under finance leases were secured by the Group's pipelines with an aggregate carrying amount of RMB733,203,000 (equivalent to HK\$838,713,000) and 50% of the equity interests of a subsidiary of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

37. SHARE CAPITAL

	Notes	Number of shares		Amount	
		2019 '000	2018 '000	2019 HK\$'000	2018 HK\$'000
Authorised:					
Ordinary shares at HK\$0.01 each		10,000,000	10,000,000	100,000	100,000
Issued and fully paid:					
At the beginning of the year		2,537,212	2,525,008	25,372	25,250
Issue of shares	(i)	–	14,646	–	146
Repurchase of shares	(ii)	–	(2,442)	–	(24)
Exercise of share options	(iii)	107,621	–	1,076	–
At the end of the year		2,644,833	2,537,212	26,448	25,372

Notes:

- (i) As disclosed in the announcement of the Company dated 4th July, 2018, the Company proposed to distribute final dividend of HK\$0.05 per share for the year ended 31st December, 2017 to the holders of ordinary shares of the Company by way of allotment and issue of new shares to be credited as fully paid (the "Scrip Shares") or given an option to shareholders to receive the final dividend wholly in cash in lieu of Scrip Shares, or partly in cash and partly in the form of Scrip Shares (the "Scrip Dividend Scheme"). During the year ended 31st December, 2018, 14,645,873 Scrip Shares were issued at HK\$6.36 per share as a result of Scrip Dividend Scheme. Total payment for Scrip Shares was HK\$93,147,000.
- (ii) During the year ended 31st December, 2018, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares of HK\$0.01 each repurchased	Repurchased price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
Year ended 31st December, 2018				
October 2018	900,000	5.35	5.19	4,746
November 2018	200,000	5.40	5.38	1,080
December 2018	1,342,000	5.55	5.14	7,166
	2,442,000			

The repurchased shares were cancelled upon repurchase and the issued share capital of the Company was reduced by the nominal value of the repurchased shares. The premium payable on repurchase of the shares of HK\$13,014,000 was charged to the share premium account.

- (iii) During the year ended 31st December, 2019, 107,620,600 new shares were issued as a result of exercise of share options in respect of the share options granted on 11th April, 2011 and 5th January, 2018. Details are disclosed in note 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

38. DEFERRED TAXATION

The following is the deferred tax liabilities recognised and movements thereon during the current and prior years.

	Revaluation of investment properties and pipelines HK\$'000	Other intangible assets HK\$'000	Undistributed profits of subsidiaries HK\$'000	Accelerated tax depreciation HK\$'000	Total HK\$'000
At 1st January, 2018	317,928	140,012	1,425	–	459,365
Exchange adjustments	(15,414)	(3,757)	(62)	(4,020)	(23,253)
Acquisitions of subsidiaries (note 41)	–	27,014	–	–	27,014
(Credit) charge to profit or loss (note 10)	(10,493)	(5,382)	–	117,956	102,081
Charge to property revaluation reserve	96,188	–	–	–	96,188
At 31st December, 2018	388,209	157,887	1,363	113,936	661,395
Exchange adjustments	(8,104)	(7,829)	(29)	(6,089)	(22,051)
Acquisitions of subsidiaries (note 41)	–	162,567	–	284	162,851
(Credit) charge to profit or loss (note 10)	(13,736)	(12,154)	–	129,891	104,001
Transfer from investment property to property, plant and equipment	(2,355)	–	–	2,355	–
Charge to property revaluation reserve	23,025	–	–	–	23,025
At 31st December, 2019	387,039	300,471	1,334	240,377	929,221

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits amounting to HK\$2,380,197,000 (2018: HK\$2,099,876,000) of certain PRC subsidiaries in relation to owners of the Company. The Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At 31st December, 2019, the Group had unused estimated tax losses of HK\$564,195,000 (2018: HK\$447,171,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unrecognised estimated tax losses due to unpredictability of future profit stream. Included in unrecognised tax losses are losses of PRC subsidiaries of HK\$208,007,000 (2018: HK\$134,755,000) that will expire in various dates up to 2024 (2018: 2023), other losses may be carried forward indefinitely.

39. SHARE-BASED PAYMENT TRANSACTIONS

Share option schemes

Pursuant to an ordinary resolution passed on 24th October, 2003, the Company adopted a share option scheme (“Old Share Option Scheme”) pursuant to which the Directors were authorised to grant share option to its employees (including executive directors and employees of any of its subsidiaries) or any person who has contributed or will contribute to the Group. The Old Share Option Scheme was terminated and replaced by a new share option scheme (“New Share Option Scheme”) on 3rd May, 2013 by an ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 3rd May, 2013.

Outstanding options under the Old Share Option Scheme shall continue to be valid and exercisable in accordance with the Old Share Option after its termination.

Under the New Share Option Scheme, the Directors may offer share options to any directors and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group who the board of directors of the Company considers, in its sole discretion, have contributed or will contribute to the Group, to subscribe for shares in the Company in accordance with the terms of the New Share Option Scheme.

The maximum number of shares which may be issued upon exercise of all share options to be granted under the New Share Option Scheme shall not, in the absence of shareholders’ approval, in aggregate exceed 10% in nominal amount of the aggregate of shares in issue on the adoption date (the “Scheme Mandate Limit”). Options lapsed in accordance with the terms of the New Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.

The Company may renew the Scheme Mandate Limit at any time subject to prior shareholders’ approval but in any event, the total number of shares which may be issued upon exercise of all share options to be granted under the New Share Option Scheme under the limit as refreshed must not exceed 10% of the Shares in issue as at the date of the Shareholders’ approval of the renewed limit. Options previously granted under the New Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the terms or exercised options) will not be counted for the purpose of calculating the limit as renewed.

Further, no options will be granted which would result in the maximum aggregate number of shares which may be issued upon exercise of all outstanding options granted but yet to be exercised under the New Share Option Scheme, the existing options granted under the Old Share Option Scheme, in aggregate, 30% of the issued share capital of the Company from time to time.

On 5th January, 2018, the Company has granted 126,000,000 share options to certain eligible participants (the “Grantees”), which are directors and employees of the Group subject to acceptance by such Grantees, under the New Share Option Scheme to subscribe for a total of 126,000,000 ordinary shares of HK\$0.01 each of the Company at exercise price of HK\$5.5 per share expiring on 4th January, 2028. The details of the grant of options are set out in the Company’s announcement dated 5th January, 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

39. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Share option schemes (Continued)

The following table discloses movements of the Company's share options granted under the Old Share Option Scheme and New Share Option Scheme and movements in such holdings:

Category of grantee	Exercise price per share HK\$ (note a)	Date of grant	Exercisable period	Number of share options							
				At 1st January, 2018	Granted during the year	Exercised during the year	Adjustment during the year (note a)	Forfeited during the year (note b)	At 31st December, 2018	Exercised during the year	At 31st December, 2019
Directors	0.4872	11th April, 2011	11th April, 2011 to 10th April, 2021 (note c)	2,000,000	-	-	11,600	-	2,011,600	(1,005,800)	1,005,800
	5.4680	5th January, 2018	5th January, 2018 to 4th January, 2028	-	12,500,000	-	72,500	-	12,572,500	-	12,572,500
				2,000,000	12,500,000	-	84,100	-	14,584,100	(1,005,800)	13,578,300
Employees	5.4680	5th January, 2018	5th January, 2018 to 4th January, 2028	-	3,000,000	-	17,400	-	3,017,400	-	3,017,400
	5.4680	5th January, 2018	17th December, 2019 to 4th January, 2028 (note c)	-	110,500,000	-	640,900	(3,017,400)	108,123,500	(106,614,800)	1,508,700
				-	113,500,000	-	658,300	(3,017,400)	111,140,900	(106,614,800)	4,526,100
				2,000,000	126,000,000	-	742,400	(3,017,400)	125,725,000	(107,620,600)	18,104,400
Exercisable at the end of the year				2,000,000					17,601,500		18,104,400
Weighted average exercise price				HK\$0.49	HK\$5.5	-	HK\$5.39	HK\$5.468	HK\$5.388	HK\$5.421	HK\$5.191

39. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Share option schemes (Continued)

Notes:

- (a) As disclosed in the announcement dated 1st August, 2018, as a result of the issue and allotment of new shares by the Company to shareholders who elected to receive the final dividend for the year ended 31st December, 2017 in scrip form, the numbers of outstanding share options and exercise price per share in respect of the share options granted on 11th April, 2011 had been adjusted from 2,000,000 to 2,011,600 and from HK\$0.49 to HK\$0.4872 respectively. In respect of the share options granted on 5th January, 2018, the number of outstanding share options and exercise price per share had been adjusted from 126,000,000 to 126,730,800 and from HK\$5.5 to HK\$5.4680 respectively.
- (b) During the year ended 31st December, 2018, 3,017,400 options were forfeited with aggregate fair value of HK\$2,445,000 in share option reserve had been transferred to accumulated profits.
- (c) On 17th December, 2019, the shareholders approved the amendment of the vesting period of 108,123,500 options granted by the Company on 5th January, 2018 to certain employees of the Group. As a result, these options have become vested and exercisable from 17th December, 2019 until 4th January, 2028.

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise was HK\$6.66.

During the year ended 31st December, 2018, share options were granted on 5th January, 2018. The estimated fair values of the share options granted are HK\$102,649,000. The Group recognised share-based payments expense of HK\$43,802,000 (2018: HK\$58,847,000) in relation to share options granted by the Company.

The options granted during the year ended 31st December, 2018 were granted to a number of directors and employees of the Group categorised as Batch 1, 2 and 3 as below, which were measured using Trinomial Option Pricing Model. The inputs into the model were summarised as follows:

Batch	Batch 1	Batch 2	Batch 3
No. of exercisable options	14,000,000	1,500,000	110,500,000
Expected volatility (*)	33.94%	35.33%	33.94%
Risk-free interest rate (**)	1.36%	1.44%	1.36%
Expected annual dividend yield (***)	Nil	Nil	Nil
Average fair value per option (HK\$)	0.7943	0.9862	0.8149

* Expected volatility was determined by using the daily volatility of the Company's shares in similar duration as of the date of valuation.

** Risk free rates were based on Hong Kong Government Bond Yield Curve as of the date of valuation.

*** Dividend yield was based on historical dividend trend and expected future dividend policy determined by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

40. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES

During the year ended 31st December, 2018, 中裕（河南）能源控股有限公司 has acquired additional 20% equity interest in 温縣中裕壓縮氣有限公司 and prepaid lease payments owned by the non-controlling shareholder at a total cash consideration of RMB5,250,000 (equivalent to HK\$5,757,000), of which HK\$4,682,000 was debited to prepaid lease payments during the year ended 31st December, 2018.

41. ACQUISITION OF BUSINESS

Year ended 31st December, 2019

Acquisition of a subsidiary – 新河綠源

On 22nd January, 2019, the Group acquired 100% of the registered share capital of 新河縣綠源天然氣有限公司 (“新河綠源”) for a consideration of RMB10,000,000 (equivalent to HK\$11,658,000) from independent third parties, on that date, control in 新河綠源 was passed to the Group. This acquisition has been accounted for using the purchase method. 新河綠源 is principally engaged in the sales of gas. 新河綠源 was acquired so as to continue the expansion of the Group’s operations.

Consideration transferred:

	HK\$'000
Cash	11,658

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

41. ACQUISITION OF BUSINESS (Continued)

Year ended 31st December, 2019 (Continued)

Acquisition of a subsidiary – 新河綠源 (Continued)

Assets acquired and liabilities of 新河綠源 recognised at the date of acquisition are as follows:

	HK\$'000
Property, plant and equipment	21,821
Other intangible assets – exclusive right of operation in sales of piped gas	7,934
Right-of-use assets	915
Inventories	1,582
Deposits, prepayments and other receivables	10,108
Bank balances and cash	366
Other payables and accrued charges	(32,181)
Deferred taxation	(1,983)
	8,562

The fair value as well as the gross contractual amounts of the other receivables acquired amounted to HK\$209,000 at the date of acquisition.

Goodwill arising on acquisition:

	HK\$'000
Consideration transferred	11,658
Less: Fair value of identifiable net assets acquired	(8,562)
	3,096

Goodwill arose in the acquisition of 新河綠源 because the consideration paid for the acquisition included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforce arising from the acquisition of 新河綠源. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

41. ACQUISITION OF BUSINESS (Continued)

Year ended 31st December, 2019 (Continued)

Acquisition of a subsidiary – 新河綠源 (Continued)

Net cash outflow on acquisition of 新河綠源 during the year ended 31st December, 2019:

	HK\$'000
Total cash consideration	11,658
Less: bank balances and cash acquired	(366)
Less: unsettled consideration (included in other payables and accrued charges as at 31st December, 2019) (RMB2,800,000)	(3,134)
	8,158

Included in the profit for the year ended 31st December, 2019 is profit of HK\$4,664,000 attributable to 新河綠源. Revenue for the year ended 31st December, 2019 includes HK\$34,667,000 generated from 新河綠源.

Had the acquisition of 新河綠源 been completed on 1st January, 2019, total group revenue for the year would have been HK\$8,189,993,000 and profit for the year would have been HK\$489,868,000. 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 on 1st January, 2019, nor is it intended to be a projection of future results.

Acquisition of a subsidiary – 溫縣中裕

On 22nd January, 2019, the Group acquired 100% of the registered share capital of 溫縣中裕燃氣有限公司 (formerly known as 溫縣高遠天然氣有限責任公司) (“溫縣中裕”) for a consideration of RMB204,321,000 (equivalent to HK\$239,084,000) from independent third parties, on that date, control in 溫縣中裕 was passed to the Group. This acquisition has been accounted for using the purchase method. 溫縣中裕 is principally engaged in the sales of gas and gas pipeline construction. 溫縣中裕 was acquired so as to continue the expansion of the Group's operations.

Consideration transferred:

	HK\$'000
Cash	239,084

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

41. ACQUISITION OF BUSINESS (Continued)

Year ended 31st December, 2019 (Continued)

Acquisition of a subsidiary – 溫縣中裕 (Continued)

Assets acquired and liabilities of 溫縣中裕 recognised at the date of acquisition are as follows:

	HK\$'000
Property, plant and equipment	112,837
Other intangible assets – exclusive right of operation in sales of piped gas	173,891
Trade receivables	3,926
Inventories	11,511
Deposits, prepayments and other receivables	5,708
Bank balances and cash	5,389
Trade payables	(14,467)
Other payables and accrued charges	(62,796)
Deferred taxation	(43,473)
	192,526

The fair value as well as the gross contractual amounts of the trade receivables and other receivables acquired amounted to HK\$4,241,000 at the date of acquisition.

Goodwill arising on acquisition:

	HK\$'000
Consideration transferred	239,084
Less: Fair value of identifiable net assets acquired	(192,526)
	46,558

Goodwill arose in the acquisition of 溫縣中裕 because the consideration paid for the acquisition included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforce arising from the acquisition of 溫縣中裕. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

41. ACQUISITION OF BUSINESS (Continued)

Year ended 31st December, 2019 (Continued)

Acquisition of a subsidiary – 溫縣中裕 (Continued)

Net cash outflow on acquisition of 溫縣中裕 during the year ended 31st December, 2019:

	HK\$'000
Total cash consideration	239,084
Less: bank balances and cash acquired	(5,389)
	233,695

Included in the profit for the year ended 31st December, 2019 is profit of HK\$42,796,000 attributable to 溫縣中裕. Revenue for the year ended 31st December, 2019 includes HK\$151,396,000 generated from 溫縣中裕.

Had the acquisition of 溫縣中裕 been completed on 1st January, 2019, total group revenue for the year would have been HK\$8,308,931,000 and profit for the year would have been HK\$530,336,000. 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 on 1st January, 2019, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

41. ACQUISITION OF BUSINESS (Continued)

Year ended 31st December, 2019 (Continued)

Acquisition of a subsidiary – 孟州高遠

On 22nd January, 2019, the Group acquired 100% of the registered share capital of 孟州中裕燃氣有限公司 (formerly known as 孟州市高遠天然氣有限責任公司) (“孟州高遠”) for a consideration of RMB257,831,000 (equivalent to HK\$301,697,000) from independent third parties, on that date, control in 孟州高遠 was passed to the Group. This acquisition has been accounted for using the purchase method. 孟州高遠 is principally engaged in the sales of gas and gas pipeline construction. 孟州高遠 was acquired so as to continue the expansion of the Group's operations.

Consideration transferred:

	HK\$'000
Cash	301,697

Assets acquired and liabilities of 孟州高遠 recognised at the date of acquisition are as follows:

	HK\$'000
Property, plant and equipment	111,082
Other intangible assets – exclusive right of operation in sales of piped gas	244,725
Trade receivables	2,248
Inventories	5,507
Deposits, prepayments and other receivables	14,193
Bank balances and cash	6,375
Trade payables	(50,659)
Other payables and accrued charges	(36,608)
Deferred taxation	(61,181)
	235,682

The fair value as well as the gross contractual amounts of the trade receivables and other receivables acquired amounted to HK\$7,793,000 at the date of acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

41. ACQUISITION OF BUSINESS (Continued)

Year ended 31st December, 2019 (Continued)

Acquisition of a subsidiary – 孟州高遠 (Continued)

Goodwill arising on acquisition:

	HK\$'000
Consideration transferred	301,697
Less: Fair value of identifiable net assets acquired	(235,682)
	66,015

Goodwill arose in the acquisition of 孟州高遠 because the consideration paid for the acquisition included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforce arising from the acquisition of 孟州高遠. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

Net cash outflow on acquisition of 孟州高遠 during the year ended 31st December, 2019:

	HK\$'000
Total cash consideration	301,697
Less: bank balances and cash acquired	(6,375)
	295,322

Included in the profit for the year ended 31st December, 2019 is profit of HK\$61,112,000 attributable to 孟州高遠. Revenue for the year ended 31st December, 2019 includes HK\$198,007,000 generated from 孟州高遠.

Had the acquisition of 孟州高遠 been completed on 1st January, 2019, total group revenue for the year would have been HK\$8,359,779,000 and profit for the year would have been HK\$550,317,000. 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 on 1st January, 2019, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

41. ACQUISITION OF BUSINESS (Continued)

Year ended 31st December, 2019 (Continued)

Acquisition of a subsidiary – 玉田盛和

On 29th March, 2019, the Group acquired 100% of the registered share capital of 玉田縣盛和燃氣有限公司 (“玉田盛和”) for a consideration of RMB42,500,000 (equivalent to HK\$49,545,000) from independent third parties, on that date, control in 玉田盛和 was passed to the Group. This acquisition has been accounted for using the purchase method. 玉田盛和 is principally engaged in the sales of gas and gas pipeline construction. 玉田盛和 was acquired so as to continue the expansion of the Group's operations.

Consideration transferred:

	HK\$'000
Cash	49,545

Assets acquired and liabilities of 玉田盛和 recognised at the date of acquisition are as follows:

	HK\$'000
Property, plant and equipment	5,912
Other intangible assets – exclusive right of operation in sales of piped gas	42,754
Trade receivables	1,233
Inventories	98
Deposits, prepayments and other receivables	676
Bank balances and cash	2,213
Trade payables	(1,622)
Tax payables	(1,067)
Other payables and accrued charges	(3,359)
Deferred taxation	(10,688)
	36,150

The fair value as well as the gross contractual amounts of the trade receivables and other receivables acquired amounted to HK\$1,413,000 at the date of acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

41. ACQUISITION OF BUSINESS (Continued)

Year ended 31st December, 2019 (Continued)

Acquisition of a subsidiary – 玉田盛和 (Continued)

Goodwill arising on acquisition:

	HK\$'000
Consideration transferred	49,545
Less: Fair value of identifiable net assets acquired	(36,150)
	<u>13,395</u>

Goodwill arose in the acquisition of 玉田盛和 because the consideration paid for the acquisition included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforce arising from the acquisition of 玉田盛和. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

Net cash outflow on acquisition of 玉田盛和 during the year ended 31st December, 2019:

	HK\$'000
Total cash consideration	49,545
Less: bank balances and cash acquired	(2,213)
Less: unsettled consideration (included in other payables and accrued charges as at 31st December, 2019) (RMB11,850,000)	(13,266)
	<u>34,066</u>

Included in the profit for the year ended 31st December, 2019 is profit of HK\$86,300,000 attributable to 玉田盛和. Revenue for the year ended 31st December, 2019 includes HK\$166,291,000 generated from 玉田盛和.

Had the acquisition of 玉田盛和 been completed on 1st January, 2019, total group revenue for the year would have been HK\$8,365,493,000 and profit for the year would have been HK\$598,715,000. 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 on 1st January, 2019, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

41. ACQUISITION OF BUSINESS (Continued)

Year ended 31st December, 2019 (Continued)

Acquisition of a subsidiary – 臨沂恆安

On 30th April, 2019, the Group acquired 100% of the registered share capital of 臨沂恆安化學危險貨物運輸有限公司 (“臨沂恆安”) for a consideration of RMB3 (equivalent to HK\$3) from independent third parties, on that date, control in 臨沂恆安 was passed to the Group. This acquisition has been accounted for using the purchase method. 臨沂恆安 is principally engaged in the sales and delivery of gas. 臨沂恆安 was acquired so as to continue the expansion of the Group's operations.

Assets acquired and liabilities of 臨沂恆安 recognised at the date of acquisition are as follows:

	HK\$'000
Other receivables	58
Bank balances and cash	26
Other payables and accrued charges	(816)
	(732)

The fair value as well as the gross contractual amounts of the other receivables acquired amounted to HK\$58,000 at the date of acquisition.

Goodwill arising on acquisition:

	HK\$'000
Consideration transferred	– *
Add: Fair value of identifiable net liabilities acquired	732
	732

* Less than HK\$1,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

41. ACQUISITION OF BUSINESS (Continued)

Year ended 31st December, 2019 (Continued)

Acquisition of a subsidiary – 臨沂恆安 (Continued)

Goodwill arose in the acquisition of 臨沂恆安 because the consideration paid for the acquisition included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforce arising from the acquisition of 臨沂恆安. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

Net cash inflow on acquisition of 臨沂恆安 during the year ended 31st December, 2019:

	HK\$'000
Total cash consideration	– *
Less: bank balances and cash acquired	(26)
	(26)

* Less than HK\$1,000

Included in the profit for the year ended 31st December, 2019 is loss of HK\$499,000 attributable to 臨沂恆安. Revenue for the year ended 31st December, 2019 includes HK\$1,000 generated from 臨沂恆安.

Had the acquisition of 臨沂恆安 been completed on 1st January, 2019, total group revenue for the year would have been HK\$8,143,773,000 and profit for the year would have been HK\$482,900,000. 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 on 1st January, 2019, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

41. ACQUISITION OF BUSINESS (Continued)

Year ended 31st December, 2019 (Continued)

Acquisition of a subsidiary – 南宮恒燃

On 20th May 2019, the Group acquired 100% of the registered share capital of 南宮市恒燃天然氣有限公司 (“南宮恒燃”) for a consideration of RMB27,175,000 (equivalent to HK\$30,888,000) from independent third parties, on that date, control in 南宮恒燃 was passed to the Group. This acquisition has been accounted for using the purchase method. 南宮恒燃 is principally engaged in the sales of gas. 南宮恒燃 was acquired so as to continue the expansion of the Group's operations.

Consideration transferred:

	HK\$'000
Cash	30,888

Assets acquired and liabilities of 南宮恒燃 recognised at the date of acquisition are as follows:

	HK\$'000
Property, plant and equipment	32,805
Other intangible assets – exclusive right of operation in sales of piped gas	4,889
Inventories	170
Deposits, prepayments and other receivables	1,489
Bank balances and cash	10
Trade payables	(229)
Other payables and accrued charges	(10,140)
Deferred taxation	(1,222)
	27,772

The fair value as well as the gross contractual amounts of the other receivables acquired amounted to HK\$903,000 at the date of acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

41. ACQUISITION OF BUSINESS (Continued)

Year ended 31st December, 2019 (Continued)

Acquisition of a subsidiary – 南宮恒燃 (Continued)

Goodwill arising on acquisition:

	HK\$'000
Consideration transferred	30,888
Less: Fair value of identifiable net assets acquired	(27,772)
	3,116

Goodwill arose in the acquisition of 南宮恒燃 because the consideration paid for the acquisition included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforce arising from the acquisition of 南宮恒燃. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

Net cash outflow on acquisition of 南宮恒燃 during the year ended 31st December, 2019:

	HK\$'000
Total cash consideration	30,888
Less: bank balances and cash acquired	(10)
	30,878

Included in the profit for the year ended 31st December, 2019 is loss of HK\$1,106,000 attributable to 南宮恒燃. No revenue was generated from 南宮恒燃 for the year ended 31st December, 2019.

Had the acquisition of 南宮恒燃 been completed on 1st January, 2019, total group revenue for the year would have been HK\$8,143,771,000 and profit for the year would have been HK\$480,332,000. 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 on 1st January, 2019, nor is it intended to be a projection of future results.

41. ACQUISITION OF BUSINESS (Continued)

Year ended 31st December, 2019 (Continued)

Acquisition of a subsidiary – 濮陽中裕能源

On 12th September, 2019, the Group acquired 100% of the registered share capital of 濮陽中裕能源有限公司 (formerly known as 濮陽縣澧源天然氣有限責任公司) (“濮陽中裕能源”) for a consideration of RMB36,000,000 (equivalent to HK\$39,911,000) from independent third parties, on that date, control in 濮陽中裕能源 was passed to the Group. This acquisition has been accounted for using the purchase method. 濮陽中裕能源 is principally engaged in the sales of gas and gas pipeline construction. 濮陽中裕能源 was acquired so as to continue the expansion of the Group’s operations.

Consideration transferred:

	HK\$'000
Cash	39,911

Assets acquired and liabilities of 濮陽中裕能源 recognised at the date of acquisition are as follows:

	HK\$'000
Property, plant and equipment	16,948
Other intangible assets – exclusive right of operation in sales of piped gas	36,559
Inventories	2,550
Deposits, prepayments and other receivables	7,169
Bank balances and cash	43,514
Trade payables	(12,806)
Other payables and accrued charges	(51,009)
Deferred taxation	(9,140)
Borrowings	(3,326)
	30,459

The fair value as well as the gross contractual amounts of the other receivables acquired amounted to HK\$4,106,000 at the date of acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

41. ACQUISITION OF BUSINESS (Continued)

Year ended 31st December, 2019 (Continued)

Acquisition of a subsidiary – 濮陽中裕能源 (Continued)

Goodwill arising on acquisition:

	HK\$'000
Consideration transferred	39,911
Less: Fair value of identifiable net assets acquired	(30,459)
	9,452

Goodwill arose in the acquisition of 濮陽中裕能源 because the consideration paid for the acquisition included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforce arising from the acquisition of 濮陽中裕能源. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

Net cash inflow on acquisition of 濮陽中裕能源 during the year ended 31st December, 2019:

	HK\$'000
Total cash consideration	39,911
Less: bank balances and cash acquired	(43,514)
	(3,603)

Included in the profit for the year ended 31st December, 2019 is profit of HK\$9,055,000 attributable to 濮陽中裕能源. Revenue for the year ended 31st December, 2019 includes HK\$42,649,000 generated from 濮陽中裕能源.

Had the acquisition of 濮陽中裕能源 been completed on 1st January, 2019, total group revenue for the year would have been HK\$8,314,366,000 and profit for the year would have been HK\$519,870,000. 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 on 1st January, 2019, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

41. ACQUISITION OF BUSINESS (Continued)

Year ended 31st December, 2019 (Continued)

Acquisition of subsidiaries – 鄭州益之泉 and its subsidiary

On 12th September, 2019, the Group acquired 89.5% and 10% of the registered share capital of 鄭州益之泉新能源有限公司 (“鄭州益之泉”) and 濮陽中裕燃氣有限公司 (formerly known as 濮陽縣天潤燃氣有限公司) (“濮陽中裕”) respectively for a consideration of RMB114,950,000 (equivalent to HK\$127,439,000) from independent third parties. Prior to acquisition, 鄭州益之泉 held 66.67% of the equity interest of 濮陽中裕. Upon completion of the acquisition, the Group held 89.5% of the equity interest of 鄭州益之泉 and 76.67% of the equity interest of 濮陽中裕 directly and indirectly through 鄭州益之泉. Due to 鄭州益之泉 was a special purpose vehicle, such acquisition was considered as if the Group directly acquired effective interest of 69.67% of 濮陽中裕. On that date, the control in 鄭州益之泉 and 濮陽中裕 were passed to the Group. This acquisition has been accounted for using the purchase method. 濮陽中裕 is principally engaged in the sales of gas and gas pipeline construction. 濮陽中裕 was acquired so as to continue the expansion of the Group's operations.

Consideration transferred:

	HK\$'000
Cash	127,439

Assets acquired and liabilities of 鄭州益之泉 and its subsidiary recognised at the date of acquisition are as follows:

	HK\$'000
Property, plant and equipment	58,643
Other intangible assets – exclusive right of operation in sales of piped gas	139,514
Inventories	1,148
Trade receivables	6,247
Deposits, prepayments and other receivables	17,527
Bank balances and cash	1,513
Trade payables	(7,318)
Other payables and accrued charges	(34,295)
Deferred taxation	(35,164)
	147,815

The fair value as well as the gross contractual amounts of the trade receivables and other receivables acquired amounted to HK\$6,488,000 at the date of acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

41. ACQUISITION OF BUSINESS (Continued)

Year ended 31st December, 2019 (Continued)

Acquisition of subsidiaries – 鄭州益之泉 and its subsidiary (Continued)

Goodwill arising on acquisition:

	HK\$'000
Consideration transferred	127,439
Add: Non-controlling interests (10.5% in 鄭州益之泉 and 23.33% in 濮陽中裕) (Note)	44,832
Less: Fair value of identifiable net assets acquired	(147,815)
	24,456

Note: The non-controlling interests in 鄭州益之泉 and 濮陽中裕 recognised at the date when the Group obtained control over 鄭州益之泉 and 濮陽中裕 was measured at their proportionate share of net assets acquired.

Goodwill arose in the acquisition of 濮陽中裕 because the consideration paid for the acquisition included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforce arising from the acquisition of 濮陽中裕. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

Net cash outflow on acquisition of 鄭州益之泉 and its subsidiary during the year ended 31st December, 2019:

	HK\$'000
Total cash consideration	127,439
Less: bank balances and cash acquired	(1,513)
	125,926

Included in the profit for the year ended 31st December, 2019 is profit of HK\$5,305,000 attributable to 鄭州益之泉 and its subsidiary. Revenue for the year ended 31st December, 2019 includes HK\$96,706,000 generated from 鄭州益之泉 and its subsidiary.

Had the acquisition of 鄭州益之泉 been completed on 1st January, 2019, total group revenue for the year would have been HK\$8,530,597,000 and profit for the year would have been HK\$504,962,000. 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 on 1st January, 2019, nor is it intended to be a projection of future results.

41. ACQUISITION OF BUSINESS (Continued)

Year ended 31st December, 2018

Acquisition of a subsidiary – Tongshan

On 26th July, 2018, the Group acquired 100% of the registered share capital of 銅山縣恒信嘉業燃氣有限公司 (“Tongshan”) for a consideration of RMB21,583,000 (equivalent to HK\$24,948,000) from independent third parties, on that date, control in Tongshan was passed to the Group. This acquisition has been accounted for using the purchase method. Tongshan is principally engaged in the sales of piped gas and gas pipeline construction. Tongshan was acquired so as to continue the expansion of the Group’s operations.

Consideration transferred:

	HK\$'000
Cash	24,948

Assets acquired and liabilities of Tongshan recognised at the date of acquisition are as follows:

	HK\$'000
Property, plant and equipment	22,059
Other intangible assets – exclusive right of operation in sales of piped gas	94,871
Trade receivables	5,442
Inventories	5,116
Deposits, prepayments and other receivables	7,573
Bank balances and cash	2,722
Trade payables	(12,588)
Other payables and accrued charges	(83,415)
Contract liabilities	(18,972)
Deferred taxation	(23,718)
	(910)

The fair value as well as the gross contractual amounts of the trade receivables and other receivables acquired amounted to HK\$9,864,000 at the date of acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

41. ACQUISITION OF BUSINESS (Continued)

Year ended 31st December, 2018 (Continued)

Acquisition of a subsidiary – Tongshan (Continued)

Goodwill arising on acquisition:

	HK\$'000
Consideration transferred	24,948
Add: Fair value of identifiable net liabilities acquired	910
	25,858

Goodwill arose in the acquisition of Tongshan because the consideration paid for the acquisition included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforce arising from the acquisition of Tongshan. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

Net cash outflow on acquisition of Tongshan during the year ended 31st December, 2018:

	HK\$'000
Total cash consideration	24,948
Less: bank balances and cash acquired	(2,722)
	22,226

Included in the profit for the year ended 31st December, 2018 is profit of HK\$14,763,000 attributable to Tongshan. Revenue for the year ended 31st December, 2018 includes HK\$38,168,000 generated from Tongshan.

Had the acquisition of Tongshan been completed on 1st January, 2018, total group revenue for the year would have been HK\$7,645,473,000 and profit for the year would have been HK\$677,541,000. 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 on 1st January, 2018, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

41. ACQUISITION OF BUSINESS (Continued)

Year ended 31st December, 2018 (Continued)

Acquisition of subsidiaries – Beijing Energy-Net De. and its subsidiaries

On 30th July, 2018, the Group acquired 70% of the registered share capital of Beijing Energy-Net De. for consideration of RMB2,340,000 (equivalent to HK\$2,692,000) from independent third parties, on that date control in Beijing Energy-Net De. was passed to the Group. This acquisition has been accounted for using the purchase method. Beijing Energy-Net De. is principally engaged in design and consulting of energy projects. Beijing Energy-Net De. was acquired so as to continue the expansion of the Group's operations.

Consideration transferred:

	HK\$'000
Cash	2,692

Assets acquired and liabilities of Beijing Energy-Net De. and its subsidiaries recognised at the date of acquisition are as follows:

	HK\$'000
Property, plant and equipment	3,998
Other intangible assets – technology know-how	21,970
Interest in an associate	2,301
Trade receivables	1,797
Deposits, prepayments and other receivables	5,817
Bank balances and cash	92
Trade payables	(128)
Other payables and accrued charges	(10,654)
Deferred taxation	(3,296)
Borrowings	(38,465)
	(16,568)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

41. ACQUISITION OF BUSINESS (Continued)

Year ended 31st December, 2018 (Continued)

Acquisition of subsidiaries – Beijing Energy-Net De. and its subsidiaries (Continued)

The fair value as well as the gross contractual amounts of the trade receivables and other receivables acquired amounted to HK\$2,901,000 at the date of acquisition.

Goodwill arising on acquisition:

	HK\$'000
Consideration transferred	2,692
Add: Non-controlling interests (30% in Beijing Energy-Net De.) (Note)	(4,970)
Add: Fair value of identifiable net liabilities acquired	16,568
	14,290

Note: The non-controlling interests in Beijing Energy-Net De. recognised at the date when the Group obtained control over Beijing Energy-Net De. was measured by reference to the fair value of 30% equity interest in Beijing Energy-Net De..

Goodwill arose in the acquisition of Beijing Energy-Net De. because the consideration paid for the acquisition included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforce arising from the acquisition of Beijing Energy-Net De.. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

Net cash outflow on acquisition of Beijing Energy-Net De. during the year ended 31st December, 2018:

	HK\$'000
Total cash consideration	2,692
Less: bank balances and cash acquired	(92)
	2,600

41. ACQUISITION OF BUSINESS (Continued)

Year ended 31st December, 2018 (Continued)

Acquisition of subsidiaries – Beijing Energy-Net De. and its subsidiaries (Continued)

Included in the profit for the year ended 31st December, 2018 is loss of HK\$4,556,000 attributable to Beijing Energy-Net De.. Revenue for the year ended 31st December, 2018 includes HK\$3,212,000 generated from Beijing Energy-Net De..

Had the acquisition of Beijing Energy-Net De. been completed on 1st January, 2018, total group revenue for the year would have been HK\$7,636,185,000 and profit for the year would have been HK\$707,552,000. 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 on 1st January, 2018, nor is it intended to be a projection of future results.

42. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES

Acquisition of Energy-Net De. (Shenqiu)

On 18th May, 2018, the Group acquired 80% of the registered share capital of 恩耐特(沈丘)分布式能源有限公司 (“Energy-Net De. (Shenqiu)”) for a consideration of RMB1,408,000 (equivalent to HK\$1,722,000) from independent third parties. The principal assets of Energy-Net De. (Shenqiu) are prepaid lease payments. Energy-Net De. (Shenqiu) has not commenced business at the date of acquisition.

	HK\$'000
Net assets acquired	
Prepaid lease payments	2,434
Bank balances and cash	2
Other payables	(283)
	2,153
Non-controlling interest	(431)
	1,722
Net cash outflow arising on acquisition	
Cash consideration paid	1,722
Less: cash and cash equivalents balances acquired	(2)
	1,720

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

42. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition of Energy-Net De. (Shenqiu) (Continued)

In the opinion of the Directors, the above acquisition did not constitute a business combination in accordance with HKFRS 3 “Business Combinations” as Energy-Net De. (Shenqiu) has not commenced business at the date of acquisition and requires additional resources to enable it to start the business. The acquisition has been accounted for as acquisition of assets and liabilities through acquisition of a subsidiary.

Acquisition of Zhengzhou Paicheng

On 31st December, 2018, the Group acquired 100% of the registered share capital of 鄭州派誠新能源發展有限公司 (“Zhengzhou Paicheng”) for a consideration of RMB1,638,000 (equivalent to HK\$1,874,000) from independent third parties. The principal assets of Zhengzhou Paicheng are land and buildings and equipment. Zhengzhou Paicheng has not commenced business at the date of acquisition.

	HK\$'000
Net assets acquired	
Property, plant and equipment	8,961
Prepayments and other receivables	3,268
Bank balances and cash	2
Other payables	(10,357)
	<hr/> 1,874
Net cash outflow arising on acquisition	
Cash consideration paid	1,874
Less: bank balances and cash acquired	(2)
Unsettled consideration (included in other payables and accrued charges as at 31st December, 2018)	(1,302)
	<hr/> 570

In the opinion of the Directors, the above acquisition did not constitute a business combination in accordance with HKFRS 3 “Business Combinations” as Zhengzhou Paicheng has not commenced business at the date of acquisition and requires additional resources to enable it to start the business. The acquisition has been accounted for as acquisition of assets and liabilities through acquisition of a subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

43. OPERATING LEASES

The Group as lessee

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

	2018 HK\$'000
Within one year	9,911
In the second to fifth year inclusive	12,928
Over five years	5,119
	<hr/> 27,958

Operating lease payments represent rental payable by the Group in respect of leasehold land and buildings and equipment. Leases for rented premises and equipment are negotiated for a period of one to twenty-five years with fixed rental.

The Group as lessor

Fixed lease payments receivables on leases over non-cancellable periods are as follows:

	2019 HK\$'000
Within one year	1,287
In the second year	329
In the third year	269
In the fourth year	282
In the fifth year	296
After five years	921
	<hr/> 3,384

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

43. OPERATING LEASES (Continued)

The Group as lessor (Continued)

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises and equipment which fall due as follows:

	2018 HK\$'000
Within one year	650
In the second to fifth year inclusive	1,160
Over five years	987
	2,797

Leases are negotiated for an average term of five years (2018: five years).

The Group's investment properties with a carrying amount of HK\$9,180,000 (2018: HK\$42,940,000) are held for rental purposes. All of the properties held have committed tenants for the next one to ten years (2018: one to ten years).

44. RETIREMENT BENEFITS PLANS

The Group had joined the Mandatory Provident Fund Scheme under the rules and regulations of the Hong Kong Mandatory Provident Fund Schemes Authority. The Group's employees in Hong Kong are required to join the scheme. The Group and each employee employed in Hong Kong are required to make a contribution of 5% on the employees' monthly relevant income with a maximum monthly contribution of HK\$1,500 per person.

The Company's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in various central pension schemes operated by the relevant municipal and provincial governments. These subsidiaries are required to make defined contributions to these schemes at rates ranging from 15% to 30% of their covered payroll. The Group has no other material obligation for the payment of its staff's retirement and other post-retirement benefits other than the contributions described above.

45. RELATED PARTY TRANSACTIONS

During the year ended 31st December, 2018, the Group purchased gas and kitchen appliances of RMB11,742,000 (equivalent to HK\$13,906,000) from Gasbo Electrical and Gas Appliance Co., Ltd. and RMB1,493,000 (equivalent to HK\$1,768,000) from 蕪湖中燃滕燃商貿有限公司 respectively. Both of them are subsidiaries of the shareholder of the Company. Details of the outstanding balances with these related companies are set out in note 32.

Details of the outstanding balances due from/to an associate are set out in note 29 and 33 respectively.

Compensation of key management personnel

The Directors considered that they are the only key management personnel of the Group. Their emoluments are set out in note 12.

46. CAPITAL AND OTHER COMMITMENTS

As at 31st December, 2019, the capital expenditure in respect of the acquisition of property, plant and equipment and right-of-use assets (2018: prepaid lease payments) contracted for but not provided in the consolidated financial statements is HK\$94,110,000 (2018: HK\$167,297,000).

47. MAJOR NON-CASH TRANSACTION

During the year, the Group entered into new lease agreements for the use of leased properties for one year to two years. On the lease commencement, the Group recognised HK\$7,575,000 of right-of-use assets and HK\$7,575,000 of lease liabilities.

The consideration relating to issuance of shares through exercise of share options of HK\$582,970,000 have been settled through loans to employees.

48. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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 shareholders 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 net debt, which includes borrowings and lease liabilities/obligations under finance leases disclosed in notes 34, 35, and 36 net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, accumulated profits and other reserves.

The management of the Group reviews the capital structure on a continuous basis taking into account the cost of capital and the risks associated with the capital. The Group will balance its overall capital structure through new share issues, repurchase of shares and the issue of new debt or the redemption of the existing debt.

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For the year ended 31st December, 2019

48. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Categories of financial instruments

	2019 HK\$'000	2018 HK\$'000
Financial assets		
Financial assets at FVTOCI	78,898	23,310
Financial assets at FVTPL	77,556	75,676
Financial assets at amortised cost (including cash and cash equivalents)	4,392,623	3,476,616
Financial liabilities		
Amortised cost	12,619,599	9,830,520

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, refundable deposits, other receivables, amounts due from an associate and a related party, pledged bank deposits and bank balances and cash, trade payables, other payables, accrued charges, amounts due to an associate and related parties, borrowings and lease liabilities/obligations under finance leases. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and 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.

Market risk

Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate amounts due from an associate and a related company, fixed-rate loans to employees, fixed-rate bank borrowings and fixed-rate lease liabilities (2018: fixed-rate obligations under finance leases). Currently, the Group has not used any derivative contracts to hedge this exposure to interest rate risk. However, management monitors interest rate exposure and will consider hedging significant fixed rate borrowings should the need arise.

The Group's cash flow interest rate risk primarily relates to variable-rate bank balances and variable-rate bank borrowings. The Group has not used any interest rate swaps to mitigate its exposure to cash flow interest rate risk. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated. The interest rates of variable bank borrowings are based on (1) a range of multiples of PBOC Prescribed Interest Rate; or (2) interest rate at LIBOR plus a premium; or (3) interest rate at HIBOR plus a premium.

48. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Interest rate risk (Continued)

The sensitivity analysis has been determined based on the exposure to the variable-rate bank balances and bank borrowings at the end of the reporting period and management's assessment of the reasonably possible change interest rates. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. If interest rates on bank borrowings and bank balances had been 50 basis points and 20 basis points respectively (2018: 50 basis points for bank borrowings and 20 basis points for bank balances) higher/lower and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by HK\$36,075,000 (2018: decrease/increase HK\$28,051,000).

Foreign currency risk

The Group collects most of its revenue in RMB and incurs most of the expenditures as well as capital expenditures in RMB. The Directors consider that the Group's exposure to foreign currency exchange risk is insignificant, except for certain bank balances and bank borrowings which are denominated in US\$ or HK\$, as the majority of the Group's transactions are denominated in the functional currency of the respective group entities. The equivalent amount of HK\$ are set out below:

	Assets		Liabilities	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
US\$	296,742	223,146	2,182,081	2,955,476
HK\$	255,730	123,462	6,747,937	2,543,983
	552,472	346,608	8,930,018	5,499,459

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

48. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Foreign currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to the foreign currency risk in HK\$ and US\$.

The following table details the Group's sensitivity to a 5% (2018: 5%) increase and decrease in RMB against US\$ or HK\$. 5% (2018: 5%) represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes respective US\$ and HK\$ bank balances and bank borrowings, and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates increase in post-tax profit where RMB strengthen 5% against the relevant currencies. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit or loss.

	2019 HK\$'000	2018 HK\$'000
US\$	70,700	102,463
HK\$	243,458	90,770

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Credit risk and impairment assessment

As at 31st December, 2019, the Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at the end of reporting period, in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

Trade receivables and contract assets arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 on trade receivables and contract assets based on provision matrix except for the debtors with credit-impaired balances which are assessed individually.

Deposits and other receivables and amount due from a related party

The Group has taken into account the economic outlook of the industries in which the debtors operate, and concluded that there has been no significant increase in credit risk since initial recognition. The ECL on deposits and other receivables and amount due from a related party are considered to be insignificant except for the other receivables of HK\$5,516,000 (2018: HK\$4,732,000) which are considered as credit-impaired and fully provided.

48. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Amount due from an associate

The Group has assessed the financial position of an associate as well as the economic outlook of the industry in which the associate operates, and concluded that there has been no significant increase in credit risk since initial recognition. The ECL on amount due from an associate is considered to be insignificant.

Pledged bank deposits and bank balances

The credit risk on liquid funds is limited because the counterparties are reputable banks in the PRC or banks with high credit-ratings assigned by international credit-rating agencies and the Group has limited exposure to any single financial institution.

As at 31st December, 2019, the Group performed impairment assessment on bank balances by reference to the average loss rates for respective credit rating grades published by international credit-rating agencies and concluded that the ECL is insignificant.

As at 31st December, 2019, other than the concentration of credit risk on the amounts due from an associate and a related party and loans to employees (2018: other than the concentration of credit risk on the amounts due from an associate and a related party), the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

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

Internal credit rating	Description	Trade receivables/ Contract assets	Other financial assets/other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

48. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The tables below detail the credit risk exposures of the Group's financial assets and contract assets, which are subject to ECL assessment:

2019	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount 2019 HK\$'000	2018 HK\$'000
Financial assets at amortised cost						
Other long-term deposits and other receivables	20	N/A	Low risk	12-month ECL (not credit-impaired and assessed individually)	598,503	13,727
Trade receivables – contracts with customers	27	N/A	(Note)	Lifetime ECL (not credit-impaired and provision matrix)	1,331,588	1,669,455
				Lifetime ECL (credit-impaired)	15,593	16,332
					1,347,181	1,685,787
			Loss	Lifetime ECL (credit-impaired)	5,516	4,732
					500,367	131,515
Amount due from an associate	29	N/A	Low risk	12-month ECL (not credit-impaired and assessed individually)	55,972	57,195
Amount due from a related party	29	N/A	Low risk	12-month ECL (not credit-impaired and assessed individually)	8,396	8,579
Pledged bank deposits	31	A1	Low risk	12-month ECL (not credit-impaired and assessed individually)	–	5,720
Bank balances	31	Aa2 to Baa3	Low risk	12-month ECL (not credit-impaired and assessed individually)	1,901,720	1,593,370
Other Item						
Contract assets	30	N/A	(Note)	Lifetime ECL (not credit-impaired and provision matrix)	509,321	185,698
				Lifetime ECL (credit-impaired)	47,346	56,735
					556,667	242,433

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

48. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Note: For trade receivables and contract assets, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with credit-impaired balances which are assessed individually, the Group determines the ECL on these items grouped by past due status for trade receivables and the status of the relevant projects of the contract assets. When there are indicators that the relevant contract assets may be credit-impaired, the relevant amount will be assessed for ECL individually.

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 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 31st December, 2019, the Group made a reversal of HK\$739,000 (2018: HK\$95,000) and HK\$9,389,000 (2018: allowance of HK\$16,390,000) on trade receivables and contract assets respectively and recognise HK\$784,000 (2018: nil) of impairment loss allowance on other receivables, based on the individual assessment.

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

	Trade receivables Lifetime ECL (credit-impaired) HK\$'000	Contract assets Lifetime ECL (credit-impaired) HK\$'000	Other receivables Lifetime ECL (credit-impaired) HK\$'000
As at 1st January, 2018	16,427	40,345	4,732
Net remeasurement of impairment losses allowance	(95)	16,390	–
As at 31st December, 2018	16,332	56,735	4,732
Net remeasurement of impairment losses allowance	(739)	(9,389)	784
As at 31st December, 2019	15,593	47,346	5,516

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

48. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk

As at 31st December, 2019, the Group has net current liabilities of HK\$1,558,870,000. As explained in note 1, the Directors are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future, taking into account that the new bank borrowings facilities amounting to US\$500,000,000 (equivalent to HK\$3,896,450,000) have been approved by a bank subsequent to 31st December, 2019, in which the borrowings are due after one year from the date of draw down.

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 Group relies on bank borrowings as significant sources of liquidity. The management monitors the utilisation of bank borrowings and ensures compliance with the relevant covenants.

The following table details the Group's remaining contractual maturity based on the agreed repayment terms for its financial liabilities and lease liabilities/obligations under finance leases. The table has been drawn up based on the undiscounted cash flows of financial liabilities and lease liabilities/obligations under finance leases based on the earliest date on which the Group can be required to pay. The table includes both interest (estimated based on interest rate at the end of the reporting period) and principal cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

48. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity tables

	Weighted average effective interest rate %	On demand or less than 3 months HK\$'000	3 months to 1 year HK\$'000	1 – 5 years HK\$'000	More than 5 years HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount at 31.12.2019 HK\$'000
2019							
Trade payables	-	1,219,726	-	-	-	1,219,726	1,219,726
Other payables and accrued charges	-	377,662	-	-	-	377,662	377,662
Amount due to an associate	-	1,001	-	-	-	1,001	1,001
Bank borrowings							
– fixed rate	4.44	49,399	522,839	78,069	13,102	663,409	639,813
– variable rate	4.39	1,371,556	2,468,927	7,807,726	13,840	11,662,049	10,381,397
Lease liabilities	4.74	33,339	37,459	10,501	4,485	85,784	81,422
		3,052,683	3,029,225	7,896,296	31,427	14,009,631	12,701,021

	Weighted average effective interest rate %	On demand or less than 3 months HK\$'000	3 months to 1 year HK\$'000	1 – 5 years HK\$'000	More than 5 years HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount at 31.12.2018 HK\$'000
2018							
Trade payables	-	1,206,316	-	-	-	1,206,316	1,206,316
Other payables and accrued charges	-	311,860	-	-	-	311,860	311,860
Amount due to an associate	-	1,023	-	-	-	1,023	1,023
Amounts due to related parties	-	81,102	-	-	-	81,102	81,102
Bank borrowings							
– fixed rate	5.31	-	99,519	6,724	19,095	125,338	111,908
– variable rate	4.56	1,153,304	3,412,424	4,163,658	-	8,729,386	8,118,311
Obligations under finance leases	4.73	100,063	92,839	62,823	-	255,725	247,254
		2,853,668	3,604,782	4,233,205	19,095	10,710,750	10,077,774

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

48. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity tables (Continued)

Note: The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Bank borrowings with a repayment on demand clause are included in the “on demand or less than 3 months” time band in the above maturity analysis. As at 31st December, 2019 the aggregate carrying amounts of these bank loans amounted to HK\$773,645,000 (2018: HK\$807,674,000). Taking into account the Group’s financial position, the Directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The Directors believe that such bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

Maturity Analysis – Bank borrowings with a repayment on demand clause based on scheduled repayments

	Less than 3 months	3 months to 1 year	1-5 years	Total undiscounted cash flow	Carrying amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
31st December, 2019	52,890	391,896	365,524	810,310	773,645
31st December, 2018	23,386	134,758	708,882	867,026	807,674

Fair value

The fair value of financial assets and financial liabilities carried at amortised cost are determined by in accordance with generally accepted pricing models based on discounted cash flow analysis.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

48. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Fair value (Continued)

Fair value measurement recognised in the consolidated statement of financial position

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

Some of the Group's financial assets 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 are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- 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); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets/financial liabilities in the consolidated statement of financial position	Fair value as at 31.12.2019	Fair value as at 31.12.2018	Fair value hierarchy	Valuation techniques and key inputs
1) Investments in unlisted equity investments classified as financial assets at FVTOCI	Assets – HK\$76,178,000	Assets – HK\$20,590,000	Level 3	Asset-Based approach – reference to fair values of the underlying assets and liabilities held by the investee
2) Investment components of life insurance contracts classified as financial assets at FVTPL (note)	Assets – HK\$77,556,000	Assets – HK\$75,676,000	Level 3	Discounted cash flows – reference to expected cash flows and applied appropriate discount rate

Note: The returns of these investments are at the discretion of the insurer and the surrender charge is for termination of both the insurance and investment components. Accordingly, the Directors consider the account value as at 31st December, 2018 and 2019 is an appropriate estimate of fair value.

The Directors considers such exposure for fair value changes in financial assets are not significant. Accordingly, no sensitivity analysis is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

49. 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.

	Amount due to an associate HK\$'000	Lease liabilities/ obligations under finance leases HK\$'000 (Note 35, 36)	Dividend payables HK\$'000	Dividend payables to non-controlling interests of subsidiaries HK\$'000	Interest payables HK\$'000	Borrowings HK\$'000 (Note 34)	Total HK\$'000
At 1st January, 2018	1,236	446,956	-	-	4,290	5,258,785	5,711,267
Financing cash flows	(165)	(206,815)	(33,103)	-	(269,673)	3,046,853	2,537,097
Dividend declared	-	-	126,250	81,102	-	-	207,352
Issue of shares as scrip dividend	-	-	(93,147)	-	-	-	(93,147)
Acquisition of a subsidiary	-	-	-	-	-	38,465	38,465
Exchange adjustments – profit or loss	-	-	-	-	(432)	307,084	306,652
Exchange adjustments – other comprehensive income	(48)	(13,225)	-	-	-	(459,068)	(472,341)
Interest expenses	-	20,338	-	-	281,233	38,100	339,671
At 31st December, 2018	1,023	247,254	-	81,102	15,418	8,230,219	8,575,016
Adjustment upon application of HKFRS 16	-	24,245	-	-	-	-	24,245
As at 1st January, 2019	1,023	271,499	-	81,102	15,418	8,230,219	8,599,261
Financing cash flows	-	(206,965)	(228,439)	(132,034)	(363,274)	2,665,803	1,735,091
Cash inflow from discounted bills with recourse	-	-	-	-	-	118,457	118,457
Dividend declared	-	-	228,439	51,512	-	-	279,951
Recognition of lease liabilities	-	7,575	-	-	-	-	7,575
Acquisition of a subsidiary	-	-	-	-	-	3,326	3,326
Exchange adjustments – profit or loss	-	-	-	-	(214)	252,821	252,607
Exchange adjustments – other comprehensive income	(22)	(3,095)	-	(580)	-	(302,583)	(306,280)
Interest expenses	-	12,408	-	-	357,915	53,167	423,490
At 31st December, 2019	1,001	81,422	-	-	9,845	11,021,210	11,113,478

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

50. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

As at 31st December, 2019 and 2018

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				2019 %	2018 %	
Zhongyu Gas Investment Limited	Hong Kong	Limited liability company	1 ordinary share of HK\$1 each	100 [#]	100 [#]	Investment holding
Zhongyu Gas Investment Limited ^{###}	British Virgin Islands	Incorporated	1 ordinary share of US\$1 each	100 [#]	100 [#]	Investment holding
Zhongyu Gas Investment (Beijing) Limited ^{###}	British Virgin Islands	Incorporated	1 ordinary share of US\$1 each	100 [#]	100 [#]	Investment holding
China City Gas Construction Holdings Co., Ltd. ^{###}	British Virgin Islands	Incorporated	100 ordinary shares of US\$1 each	100 ^{##}	100 ^{##}	Investment holding
China City Gas Construction Explore Co., Ltd. ^{###}	British Virgin Islands	Incorporated	100 ordinary shares of US\$1 each	100 ^{##}	100 ^{##}	Investment holding
China Gas Construction Expansion Co., Ltd. ^{###}	British Virgin Islands	Incorporated	1,330,000 ordinary shares of US\$1 each	100 ^{##}	100 ^{##}	Investment holding
China City Gas Construction Development Co., Ltd. ^{###}	British Virgin Islands	Incorporated	100 ordinary shares of US\$1 each	100 ^{##}	100 ^{##}	Investment holding
China City Gas Construction Investment Co., Ltd. ^{###}	British Virgin Islands	Incorporated	100 ordinary shares of US\$1 each	100 ^{##}	100 ^{##}	Investment holding
浙江中裕燃氣有限公司	PRC	Wholly-foreign owned enterprise	Registered capital US\$10,000,000	100 ^{##}	100 ^{##}	Trading of natural gas, gas pipeline construction and operation of CNG/LNG vehicle filling stations
中裕城市能源投資控股(深圳)有限公司	PRC	Wholly-foreign owned enterprise	Registered capital US\$100,000,000	100 ^{##}	100 ^{##}	Investment holding
三門峽中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital HK\$50,000,000	90 ^{##}	90 ^{##}	Trading of natural gas and liquefied petroleum gas and gas pipeline construction

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

50. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

As at 31st December, 2019 and 2018 (Continued)

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				2019 %	2018 %	
新密中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital HK\$15,000,000	97 [#]	97 [#]	Trading of natural gas and gas pipeline construction
新密中裕壓縮氣有限公司	PRC	Limited liability company	Registered capital RMB63,000,000	99.8 [#]	99.8 [#]	Operation of CNG/LNG vehicle filling stations
偃師中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital HK\$25,000,000	95 [#]	95 [#]	Trading of natural gas and liquefied petroleum gas and gas pipeline construction
永城中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital HK\$50,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
永城中裕運輸有限公司	PRC	Limited liability company	Registered capital RMB600,000	100 [#]	100 [#]	Dangerous goods transportation
臨沂中裕能源有限公司	PRC	Wholly-foreign owned enterprise	Registered capital HK\$290,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
臨沂中裕能源壓縮天然氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100 [#]	100 [#]	Operation of CNG/LNG vehicle filling stations
臨沭中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB15,160,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
東海縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB79,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
濟源中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital RMB40,280,000	92.9 [#]	92.9 [#]	Trading of natural gas and gas pipeline construction
漯河中裕燃氣有限公司 ("Luohe Zhongyu")	PRC	Sino-foreign joint venture	Registered capital RMB95,468,511	77.3 [#]	77.3 [#]	Trading of natural gas and gas pipeline construction

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For the year ended 31st December, 2019

50. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

As at 31st December, 2019 and 2018 (Continued)

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				2019 %	2018 %	
漯河中裕燃氣工程安裝有限公司	PRC	Sino-foreign joint venture	Registered capital RMB5,000,000	73.4 [#]	73.4 [#]	Gas pipeline construction
焦作中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital RMB84,800,000	93.2 [#]	93.2 [#]	Trading of natural gas, coal gas and liquefied petroleum gas and gas pipeline construction
焦作中裕燃氣工程安裝有限公司	PRC	Limited liability company	Registered capital RMB100,000,000	93.2 [#]	93.2 [#]	Gas pipeline construction
修武中裕燃氣發展有限公司	PRC	Limited liability company	Registered capital RMB40,000,000	99.2 [#]	99.2 [#]	Trading of natural gas and gas pipeline construction
臨沂中裕燃氣有限公司 ("Linyi Zhongyu")	PRC	Sino-foreign joint venture	Registered capital RMB50,000,000	51 [#]	51 [#]	Trading of natural gas and gas pipeline construction
中裕(河南)能源控股有限公司	PRC	Wholly-foreign owned enterprise	Registered capital HK\$1,225,000,000	100 [#]	100 [#]	Investment holding
邵武中裕壓縮氣投資有限公司	PRC	Limited liability company	Registered capital RMB6,000,000	100 [#]	100 [#]	Operation of CNG/LNG vehicle filling stations
濟源中裕壓縮氣有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100 [#]	100 [#]	Operation of CNG/LNG vehicle filling stations
三門峽中裕能源有限公司	PRC	Limited liability company	Registered capital RMB50,000,000	100 [#]	100 [#]	Operation of CNG/LNG vehicle filling stations
南京晶橋中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction

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For the year ended 31st December, 2019

50. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

As at 31st December, 2019 and 2018 (Continued)

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				2019 %	2018 %	
西平中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	100 [#]	100 [#]	Research and development of natural gas technology
鄭州中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB200,000,000	100 [#]	100 [#]	Not yet commenced business
靈寶中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB35,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
德州中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB25,000,000	100 [#]	100 [#]	Trading of natural gas, gas pipeline construction and operation of CNG/LNG vehicle filling stations
溫縣中裕壓縮氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
深圳市騰凱吉星貿易有限公司	PRC	Limited liability company	Registered capital RMB100,000	100 [#]	100 [#]	Not yet commenced business
沁陽中裕燃氣有限公司	PRC	Wholly-foreign owned enterprise	Registered capital RMB10,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
武夷山中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB30,000,000	99.8 [#]	99.8 [#]	Trading of natural gas and gas pipeline construction
武陟中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB26,000,000	100 [#]	100 [#]	Trading of natural gas, gas pipeline construction and operation of CNG/LNG vehicle filling stations

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For the year ended 31st December, 2019

50. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

As at 31st December, 2019 and 2018 (Continued)

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				2019	2018	
				%	%	
鐵力中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
焦作中裕壓縮氣有限公司	PRC	Limited liability company	Registered capital RMB15,000,000	100 [#]	100 [#]	Operation of CNG/LNG vehicle filling stations
修武縣寧城能源利用有限公司	PRC	Limited liability company	Registered capital RMB5,500,000	100 [#]	100 [#]	Trading of stoves and equipments
漯河中裕壓縮氣有限公司	PRC	Sino-foreign joint venture	Registered capital RMB10,000,000	100 [#]	100 [#]	Operation of CNG/LNG vehicle filling stations
漯河裕聯加氣站經營有限公司	PRC	Limited liability company	Registered capital RMB9,300,000	-	100 [#]	Operation of CNG/LNG vehicle filling stations
上海宣閩能源投資管理有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100 [#]	100 [#]	Investment holding
邵武中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
河南怡誠大有燃氣有限公司	PRC	Limited liability company	Registered capital RMB50,000,000	70 [#]	70 [#]	Trading of natural gas and gas pipeline construction
泗洪沃金燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
漯河中裕能源有限公司	PRC	Limited liability company	Registered capital RMB100,000,000	88.9 [#]	88.9 [#]	Not yet commenced business
樂清中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB50,000,000	85 [#]	85 [#]	Trading of natural gas and gas pipeline construction
故城明華燃氣有限公司	PRC	Limited liability company	Registered capital RMB47,600,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

50. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

As at 31st December, 2019 and 2018 (Continued)

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				2019 %	2018 %	
臨江中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100 [#]	100 [#]	Not yet commenced business
河南中裕燃氣工程設計有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100 [#]	100 [#]	Design of gas pipeline construction project
中裕(河南)能源貿易有限公司	PRC	Limited liability company	Registered capital RMB50,000,000	100 [#]	100 [#]	Trading of natural gas
偃師中裕能源有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100 [#]	100 [#]	Trading of stoves and equipments
原陽縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB55,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
輝縣市中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	100 [#]	100 [#]	Trading at natural gas and gas pipeline construction
河南中裕智慧能源有限公司	PRC	Limited liability company	Registered capital RMB200,100,000	-	100 [#]	Not yet commenced business
灌南中裕燃氣有限公司	PRC	Limited liability company	Registered capital HK\$150,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
中裕聯合(深圳)供應鏈有限公司	PRC	Limited liability company	Registered capital RMB30,000,000	100 [#]	100 [#]	Provision of management services to group companies
中裕(深圳)智慧能源有限公司	PRC	Limited liability company	Registered capital RMB200,000,000	100 [#]	100 [#]	Investment holding
中裕智慧科技(深圳)有限公司	PRC	Limited liability company	Registered capital RMB50,000,000	100 [#]	100 [#]	Provision of management services to group companies
恩耐特(沈丘)分布式能源有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	80 [#]	80 [#]	Not yet commenced business

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

50. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

As at 31st December, 2019 and 2018 (Continued)

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				2019 %	2018 %	
邢台南宮裕聯天然氣管道有限公司	PRC	Limited liability company	Registered capital RMB30,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
北京恩耐特分布式能源技術有限公司	PRC	Limited liability company	Registered capital RMB50,000,000	70 [#]	70 [#]	Design and consulting of energy projects
龍口恩耐特峻和新能源有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	49 [#]	49 [#]	Design and consulting of energy projects
北京恩耐特分布式能源工程技術有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	70 [#]	70 [#]	Design and consulting of energy projects
北京恩耐特藍天能源技術服務有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	70 [#]	70 [#]	Design and consulting of energy projects
恩耐特(蘇州)新能源有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	70 [#]	70 [#]	Design and consulting of energy projects
恩耐特(寧波)新能源有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	63 [#]	63 [#]	Design and consulting of energy projects
漯河中裕政融智慧能源科技有限公司	PRC	Limited liability company	Registered capital RMB142,968,700	58 [#]	58 [#]	Not yet commenced business
鄭州派誠新能源發展有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100 [#]	100 [#]	Design and consulting of energy projects
山東中裕智慧能源有限公司	PRC	Limited liability company	Registered capital RMB200,100,000	100 [#]	100 [#]	Not yet commenced business
焦作中裕智慧能源有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100 [#]	100 [#]	Not yet commenced business
臨沂恒安化學危險貨物運輸有限公司	PRC	Limited liability company	Registered capital RMB500,000	51 [#]	–	Dangerous goods transportation
溫縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB48,000,000	100 [#]	–	Trading of natural gas and gas pipeline construction

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

50. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

As at 31st December, 2019 and 2018 (Continued)

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				2019 %	2018 %	
孟州中裕燃气有限公司	PRC	Limited liability company	Registered capital RMB56,000,000	100 [#]		- Trading of natural gas and gas pipeline construction
玉田縣盛和燃气有限公司	PRC	Limited liability company	Registered capital RMB30,000,000	100 [#]		- Trading of natural gas and gas pipeline construction
新河縣綠源天然氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	100 [#]		- Trading of natural gas and gas pipeline construction
鄭州益之泉新能源有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	89.5 [#]		- Investment holding
濮陽中裕燃气有限公司	PRC	Limited liability company	Registered capital RMB30,000,000	69.7 [#]		- Trading of natural gas and gas pipeline construction
濮陽中裕能源有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100 [#]		- Trading of natural gas and gas pipeline construction
深圳和眾信息科技有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100 [#]		- Digital and information technology development and provision of related consultancy services
靈寶中裕能源有限公司	PRC	Limited liability company	Registered capital RMB100,000,000	70 [#]		- Trading of natural gas and gas pipeline construction
宿遷中裕鴻城燃气有限公司	PRC	Limited Liability company	Registered capital HK\$66,670,000	70 [#]		- Trading of natural gas and gas pipeline construction
Zhongyu Gas Energy Investment Limited ^{###}	British Virgin Islands	Incorporated	50,000 ordinary shares of US\$1 each	100 [#]		- Investment holding
Harmony Gas Holdings Limited ^{###}	Cayman Islands	Limited liability company	78,287,805 ordinary shares of US\$0.0001 each	100 [#]	100 [#]	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

50. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

As at 31st December, 2019 and 2018 (Continued)

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				2019 %	2018 %	
Prosperity Gas Holdings Ltd.***	Cayman Islands	Limited liability company	201 ordinary shares of US\$1 each	100**	100**	Investment holding
Prosperity Gas 2 Co., Ltd.	Hong Kong	Limited liability company	1 ordinary shares of HK\$1 each	100**	100**	Investment holding
Sino Gas International Holdings, Inc.***	United States of America	Incorporated	1,000 common stock without par value	100**	100**	Investment holding
Gas Investment China Co., Ltd.***	British Virgin Islands	Incorporated	21,500,001 ordinary shares of US\$1 each	100**	100**	Investment holding
Tong Yuan International Holding Limited	Hong Kong	Limited liability company	10,000 ordinary shares of HK\$1 each	51**	51**	Investment holding
Sino Gas Construction Limited***	British Virgin Islands	Incorporated	1,909,730 ordinary shares of US\$1 each	97.3**	97.3**	Investment holding
北京中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB206,000,000	100**	100**	Trading of natural gas
泗洪中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB40,000,000	100**	100**	Trading of natural gas and gas pipeline construction
五河中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100**	100**	Trading of natural gas and gas pipeline construction
泗縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100**	100**	Trading of natural gas and gas pipeline construction
北京晨光燃氣有限公司	PRC	Limited liability company	Registered capital RMB35,239,600	100**	100**	Trading of natural gas and gas pipeline construction
昌黎中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100**	100**	Trading of natural gas and gas pipeline construction

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

50. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

As at 31st December, 2019 and 2018 (Continued)

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				2019 %	2018 %	
玉田縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB30,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
蔚縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
張家口下花園中裕燃氣有限責任公司	PRC	Limited liability company	Registered capital RMB5,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
石家莊市藁城區偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
石家莊鹿泉區晨光燃氣有限公司	PRC	Limited liability company	Registered capital RMB6,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
成安中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
白山中裕城市燃氣有限公司	PRC	Limited liability company	Registered capital RMB80,000,000	100 [#]	100 [#]	Trading of natural gas and liquefied petroleum gas and gas pipeline construction
白山市偉業管道天然氣有限公司	PRC	Limited liability company	Registered capital RMB50,000,000	-	100 [#]	Not yet commenced business
白山市偉業燃氣物資有限公司	PRC	Limited liability company	Registered capital RMB1,000,000	-	100 [#]	Sales of gas equipment and materials
白山中裕車用燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100 [#]	100 [#]	Operation of CNG/LNG vehicle filling stations
撫松中裕城鎮燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

50. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

As at 31st December, 2019 and 2018 (Continued)

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				2019 %	2018 %	
白山市意和建設工程有限公司	PRC	Limited liability company	Registered capital RMB6,000,000	100 [#]	100 [#]	Gas pipeline construction
河北中燃偉業燃氣集團有限公司	PRC	Limited liability company	Registered capital RMB95,579,270	100 [#]	100 [#]	Trading of natural gas
吳橋中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
寧晉縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB30,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
臨漳中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
衡水中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
隆堯中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
行唐中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
故城中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB45,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
南宮中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
鷄澤中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
新河縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

50. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

As at 31st December, 2019 and 2018 (Continued)

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				2019 %	2018 %	
廊坊開發區偉業危險貨物運輸有限公司	PRC	Limited liability company	Registered capital RMB1,000,000	100 [#]	100 [#]	Dangerous goods transportation
徐州中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB30,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
邢台中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
邢台裕發天然氣管道有限公司	PRC	Limited liability company	Registered capital RMB50,000,000	100 [#]	100 [#]	Not yet commenced business
平山縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
銅山縣恒信嘉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB40,000,000	100 [#]	100 [#]	Trading of natural gas and gas pipeline construction
南宮市恒燃天然氣有限公司	PRC	Limited liability company	Registered capital RMB50,000,000	100 [#]	-	Trading of natural gas and gas pipeline construction

The nominal value of issued share capital/registered capital directly held by the Company.

The nominal value of issued share capital/registered capital indirectly held by the Company.

The place of operation of the company is Hong Kong.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

51. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) for the year attributable to non-controlling interests		Accumulated non-controlling interests	
		2019	2018	2019	2018	2019	2018
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Linyi Zhongyu	PRC – Shangdong province	49%	49%	35,438	29,186	234,170	216,228
Luohe Zhongyu	PRC – Henan province	22.71%	22.71%	17,824	35,500	114,754	123,080
Individually immaterial subsidiaries with non-controlling interests, including Harmony Gas' subsidiaries				266	28,985	311,780	242,342
				53,528	93,671	660,704	581,650

Summarised financial information in respect of each of the Group's subsidiaries that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

51. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS (Continued)

(i) Linyi Zhongyu

	2019 HK\$'000	2018 HK\$'000
Current assets	251,110	258,288
Non-current assets	623,580	620,530
Current liabilities	(361,562)	(403,865)
Non-current liabilities	(35,230)	(33,672)
Equity attributable to owners of the Company	243,728	225,053
Non-controlling interests	234,170	216,228
Revenue	486,090	534,987
Expenses	(413,767)	(475,422)
Profit for the year	72,323	59,565
Profit attributable to owners of the Company	36,885	30,379
Profit attributable to the non-controlling interests	35,438	29,186
Profit for the year	72,323	59,565

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

51. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS (Continued)

(i) Linyi Zhongyu (Continued)

	2019 HK\$'000	2018 HK\$'000
Other comprehensive expense attributable to owners of the Company	(5,954)	(9,696)
Other comprehensive expense attributable to the non-controlling interests	(5,720)	(9,314)
Other comprehensive expense for the year	(11,674)	(19,010)
Total comprehensive income attributable to owners of the Company	30,931	20,683
Total comprehensive income attributable to the non-controlling interests	29,718	19,872
Total comprehensive income for the year	60,649	40,555
Dividends declared to non-controlling interests	-	78,472
Net cash generated from operating activities	50,566	88,020
Net cash generated (used in) from investing activities	(34,794)	17,614
Net cash generated (used in) from financing activities	(19,273)	42,528
Net cash (outflow) inflow	(3,501)	148,162

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

51. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS (Continued)

(ii) Luohe Zhongyu

	2019 HK\$'000	2018 HK\$'000
Current assets	451,598	721,284
Non-current assets	1,016,317	886,540
Current liabilities	(817,066)	(869,657)
Non-current liabilities	(191,622)	(250,799)
Equity attributable to owners of the Company	344,473	364,288
Non-controlling interests	114,754	123,080
Revenue	570,906	691,621
Expenses	(492,421)	(535,303)
Profit for the year	78,485	156,318
Profit attributable to owners of the Company	60,661	120,818
Profit attributable to the non-controlling interests	17,824	35,500
Profit for the year	78,485	156,318

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

51. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS (Continued)

(ii) Luohe Zhongyu (Continued)

	2019 HK\$'000	2018 HK\$'000
Other comprehensive expense attributable to owners of the Company	(11,363)	(19,689)
Other comprehensive expense attributable to the non-controlling interests	(3,339)	(5,785)
Other comprehensive expense for the year	(14,702)	(25,474)
Total comprehensive income attributable to owners of the Company	49,298	101,129
Total comprehensive income attributable to the non-controlling interests	14,485	29,715
Total comprehensive income for the year	63,783	130,844
Dividends paid to non-controlling interests	46,024	–
Net cash generated from operating activities	85,806	148,668
Net cash used in investing activities	(170,784)	(261,140)
Net cash generated from financing activities	26,039	341,191
Net cash (outflow) inflow	(58,939)	228,719

52. EVENT AFTER THE REPORTING PERIOD

As the outbreak of novel coronavirus epidemic continues to spread across the global, the Group will continue to closely monitor the development of the novel coronavirus epidemic and ensure a stable operation. By the date of this report, the impact of novel coronavirus epidemic on the Group's subsequent operating results is still under assessment. The actual financial effects, if any, will be reflected in the Group's financial statements in future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

53. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2019 HK\$'000	2018 HK\$'000
Non-current assets		
Unlisted investments in subsidiaries	1,362,366	1,374,190
Investments in life insurance contracts	80,333	78,693
Financial asset at FVTOCI	2,720	2,720
Amounts due from group companies	7,298,135	4,984,353
Long term other receivables	582,970	–
Right-of-use assets	513	–
	9,327,037	6,439,956
Current assets		
Other receivables	8,487	8,428
Tax recoverable	15,517	15,517
Bank balances and cash	559,654	342,761
	583,658	366,706
Current liabilities		
Other payables and accrued charges	14,259	16,392
Amount due to a group company	18,854	18,500
Borrowings	2,602,129	3,254,827
Tax payables	–	4,228
Lease liabilities	523	–
	2,635,765	3,293,947
Net current liabilities	(2,052,107)	(2,927,241)
Total assets less current liabilities	7,274,930	3,512,715
Capital and reserves		
Share capital (note 37)	26,448	25,372
Reserves (Note)	995,499	608,840
Total equity	1,021,947	634,212
Non-current liabilities		
Borrowings	6,252,983	2,878,503
	7,274,930	3,512,715

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2019

53. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

Reserves of the Company

	Share premium HK\$'000	Share option reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits/(loss) HK\$'000	Total HK\$'000
At 1st January, 2018	895,736	319	83,351	72,775	1,052,181
Loss for the year	–	–	–	(582,539)	(582,539)
Other comprehensive income for the year	–	–	126,614	–	126,614
Total comprehensive income (expense) for the year	–	–	126,614	(582,539)	(455,925)
Issue of shares as scrip dividend (notes 13 and 37)	93,001	–	–	(93,147)	(146)
Repurchase of shares (note 37)	(13,014)	–	–	–	(13,014)
Dividends paid in cash (note 13)	–	–	–	(33,103)	(33,103)
Recognition of share-based payments (note 39)	–	58,847	–	–	58,847
Transfer to accumulated profits upon forfeiture of share options (note 39)	–	(2,445)	–	2,445	–
At 31st December, 2018	975,723	56,721	209,965	(633,569)	608,840
Loss for the year	–	–	–	(21,266)	(21,266)
Other comprehensive income for the year	–	–	10,178	–	10,178
Total comprehensive income (expense) for the year	–	–	10,178	(21,266)	(11,088)
Exercise of share options (note 39)	668,926	(86,542)	–	–	582,384
Dividends paid in cash (note 13)	–	–	–	(228,439)	(228,439)
Recognition of share-based payments (note 39)	–	43,802	–	–	43,802
At 31st December, 2019	1,644,649	13,981	220,143	(883,274)	995,499

Note: In the current year, the Company has applied HKFRS 16 and other amendments to HKFRSs. There was no material impact on the Company's statement of financial position upon adoption of those new standards.

FINANCIAL SUMMARY

	For the year ended 31st December,				
	2019 HK\$'000 (note)	2018 HK\$'000 (note)	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
Turnover	8,143,771	7,627,088	5,048,100	3,722,507	3,276,666
Profit (loss) for the year attributable to					
Owners of the Company	430,121	620,684	557,959	206,150	93,390
Non-controlling interests	53,528	93,671	33,637	(102,549)	56,478
	483,649	714,355	591,596	103,601	149,868
	As at 31st December,				
	2019 HK\$'000 (note)	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
Assets and liabilities					
Total assets	20,289,099	16,281,354	11,800,731	9,623,663	8,709,309
Total liabilities	(14,853,026)	(11,761,185)	(8,077,514)	(6,817,732)	(6,436,915)
	5,436,073	4,520,169	3,723,217	2,805,931	2,272,394
Equity attributable to the owners of the Company	4,775,369	3,938,519	3,173,952	2,553,206	2,006,664
Non-controlling interests	660,704	581,650	549,265	252,725	265,730
	5,436,073	4,520,169	3,723,217	2,805,931	2,272,394

Note: For the year ended 31st December, 2018, the Group had applied HKFRS 15, HKFRS 9 and other amendments to HKFRSs and for the year ended 31st December, 2019, the Group has applied HKFRS 16 and other amendments to HKFRSs (see note 2 of the Notes to the Consolidated Financial Statements section for the summary of the corresponding financial impact). Accordingly, certain comparative information for the years ended 31st December, 2015, 2016 and 2017 may not be comparable to the year ended 31st December, 2018 and 2019 as such comparative information was prepared under HKAS 18, HKAS 11, HKAS 39 and HKAS 17. Accounting policies resulting from application of HKFRS 15, HKFRS 9 and HKFRS 16 are disclosed in the "Significant Accounting Policies" section.

逐梦同行 基业长青

BUILT TO LAST



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ZHONGYU GAS

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