2020
ANNUAL REPORT

The Hong Kong and China Gas Company Limited
(STOCK CODE: 3)

Go Green Every Day

CONTENTS

ENERGISING
EVERY DAY

2020 AWARDS AND RECOGNITIONS

1 **Hong Kong Awards for Environmental Excellence**
GOLD AWARD – PUBLIC AND COMMUNITY SERVICES SECTOR
by Environmental Campaign Committee

2 **Constituent Companies of the Hang Seng Corporate Sustainability Index Series**
by Hang Seng Indexes Company Limited
| TOWNGAS AND TOWNGAS CHINA |

3 **IFAPC Outstanding Listed Company Award 2020**
by The Hong Kong Institute of Financial Analysts and Professional Commentators Limited

4 **Hong Kong Business Sustainability Index**
EXEMPLAR RATING
Greater Bay Area Business Sustainability Index
EXEMPLAR RATING
by Centre for Business Sustainability, The Chinese University of Hong Kong Business School

5 **Global 2000**
by *Forbes*

6 **The 8th Hong Kong Volunteer Award**
CORPORATE AWARD
by Agency for Volunteer Service

BUSINESS COVERAGE IN 2020

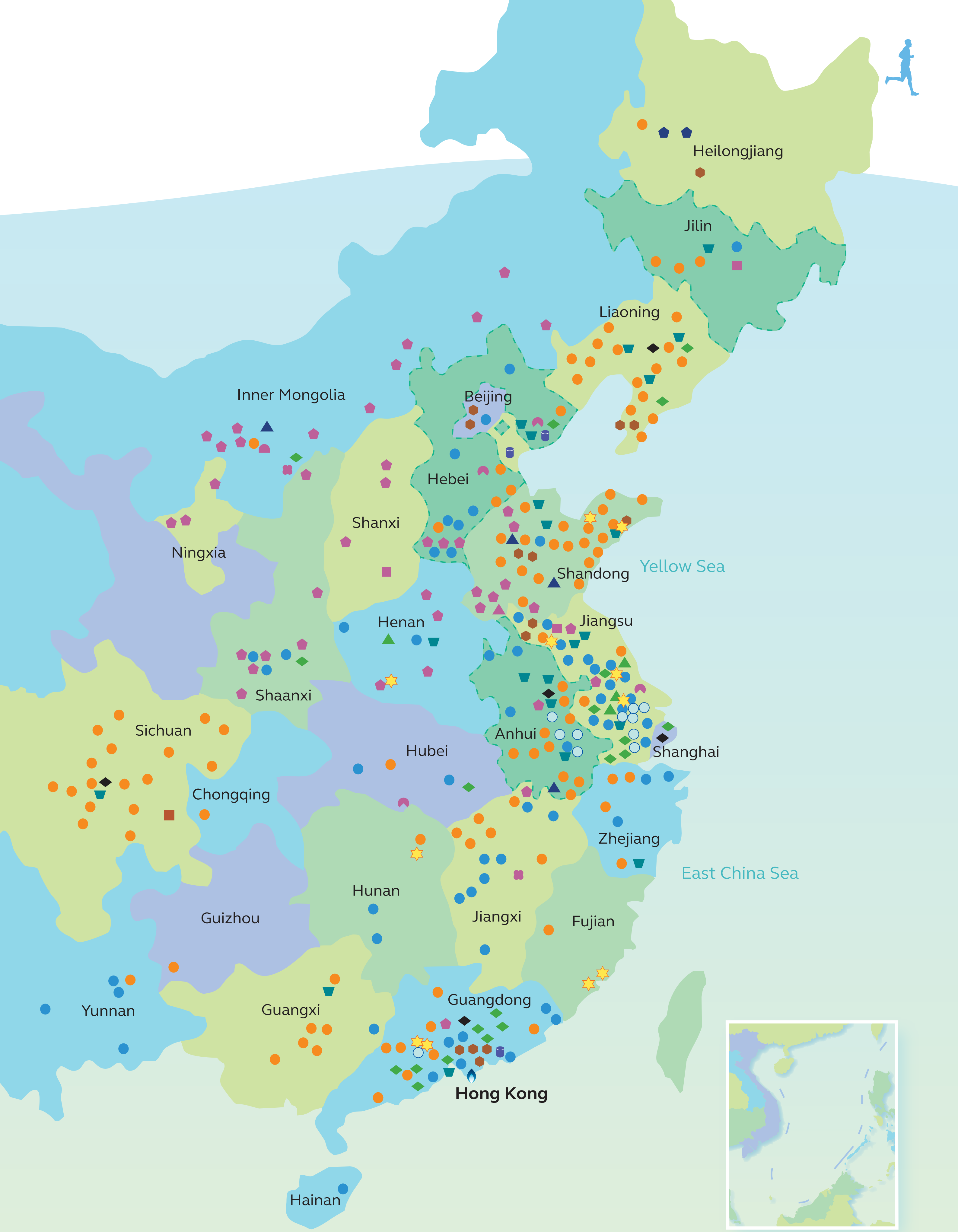
Based in Hong Kong, our portfolio currently includes

436 projects*

in 27 provinces, autonomous regions and municipalities in mainland China, as well as one in Thailand.

- Towngas Group Hong Kong headquarters
- Piped city-gas projects (Towngas)
- Piped city-gas projects (Towngas China)
- Liquefied natural gas receiving stations
- Provincial natural gas pipeline networks
- City high pressure pipeline networks/ Underground gas storages (Towngas)
- City high pressure pipeline networks (Towngas China)
- Upstream projects (Towngas)
- Upstream project (Towngas China)
- Smart energy
- Distributed energy systems
- CNG/LNG refilling stations (Towngas)
- CNG refilling stations (Towngas China)
- Water/Waste treatment
- Telecommunications
- Coal mining
- Coal-based chemicals
- Coal logistics
- Biomass
- Oilfield
- Others (Towngas)
- Others (Towngas China)

* *2019 year end: 406 projects, inclusive of city-gas projects re-invested by the Group's companies*


Heilongjiang
Jilin
Liaoning
Inner Mongolia
Beijing
Hebei
Shanxi
Ningxia
Shandong
Yellow Sea
Henan
Jiangsu
Shaanxi
Sichuan
Hubei
Anhui
Shanghai
Chongqing
Zhejiang
East China Sea
Hunan
Jiangxi
Fujian
Guizhou
Yunnan
Guangxi
Guangdong
Hong Kong
Hainan

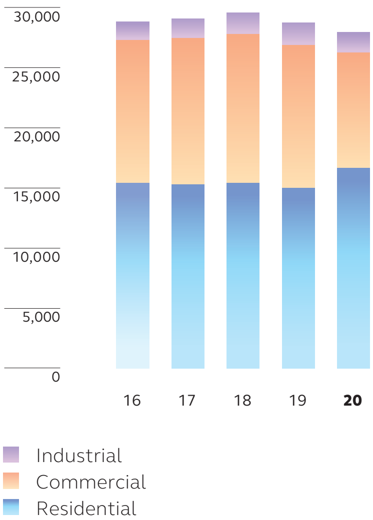
BUSINESS HIGHLIGHTS

	2020	2019	Change %
Operating (Company)			
Number of Customers as at 31st December	**1,943,777**	1,933,727	+1
Number of Customers per km of Mains	**564**	565	–
Installed Capacity, thousand m^3 per hour	**525**	525	–
Peak Hourly Demand, thousand m^3	**511**	473	+8
Town Gas Sales, million MJ	**27,947**	28,712	–3
Number of Employees as at 31st December	**2,130**	2,096	+2
Number of Customers per Employee	**913**	923	–1
Financial			
Revenue, HK million dollars	**40,927**	40,628	+1
Profit Attributable to Shareholders, HK million dollars	**6,007**	6,966	–14
Dividends, HK million dollars	**6,220**	5,924	+5
Shareholders			
Issued Shares, million of shares	**17,771**	16,925	+5
Shareholders' Funds, HK million dollars	**66,759**	64,209	+4
Earnings per Share, HK cents	**33.8**	39.2*	–14
Dividends per Share, HK cents	**35.0**	33.3*	+5
Shareholders' Funds, HK dollars per share	**3.76**	3.61*	+4
Number of Shareholders as at 31st December	**13,965**	13,945	–

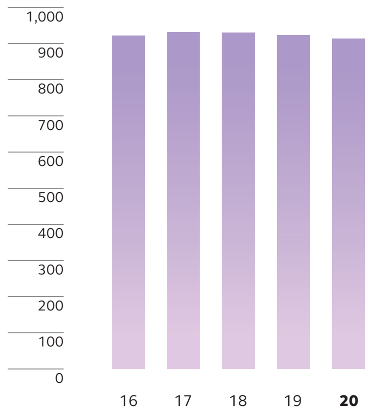
* *Adjusted for the bonus share issue in 2020*

Town Gas Sales

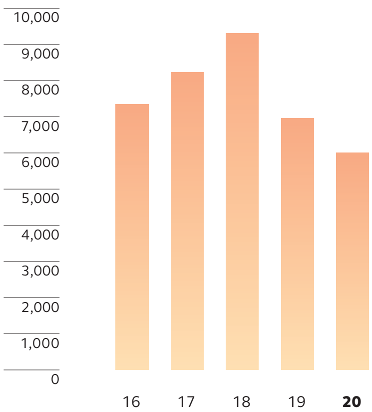
Company (million MJ)



Number of Customers per Employee Company

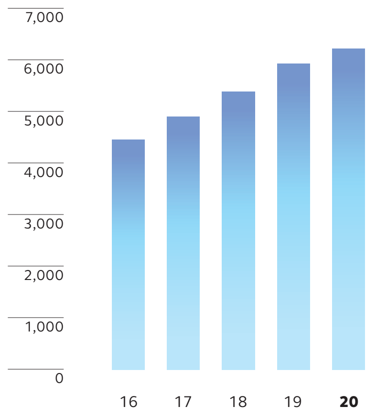


Profit Attributable to Shareholders (HK$ million)



Dividends

(HK$ million)



CHAIRMEN'S STATEMENT

The Year's Results

The coronavirus disease causing pneumonia (COVID-19) spread globally and severely hit the world economy in 2020. Following the implementation of effective measures to prevent and control the epidemic, mainland China has gradually resumed steady economic growth since the second quarter of last year. Despite the epidemic affecting the Group's businesses in mainland China and Hong Kong, the Group's active response, by increasing revenue and reducing expenditure, has been effective, thus mitigating the impact of the epidemic on its businesses. Furthermore, benefiting from the commissioning of new projects during the year, the Group's businesses maintained sustainable development.

The Group's operating profit of principal businesses after taxation for the year amounted to HK$7,256 million, an increase of HK$243 million, up by approximately 3 per cent, compared to 2019. The Group's profit after taxation (exclusive of the Group's share of a decrease in revaluation from an investment property, the International Finance Centre complex) amounted to

Lee Ka-shing

Lee Ka-kit

HK$6,484 million, a decrease of HK$282 million, down by approximately 4 per cent, compared to 2019. Inclusive of the decrease in revaluation of the investment property, profit after taxation attributable to shareholders of the Group for the year amounted to HK$6,007 million, a decrease of HK$958 million, down by approximately 14 per cent, compared to 2019. Earnings per share for the year amounted to HK33.8 cents.

During the year under review, the Group invested HK$7,295 million in production facilities, pipelines, plants and other fixed assets for the sustainable development of its various existing and new businesses in Hong Kong and mainland China.

Development Strategy of the Group

As a common challenge facing the world, climate change is receiving unanimous attention from governments around the world. By setting a clear goal to limit the increase in global average temperature, the Paris Agreement signed in 2016 advocates reducing greenhouse gas emissions and accelerating transition to a green and sustainable growth model. All participating countries have now set out their own goals and policies to reduce carbon emissions, forming a global climate governance framework.

At a critical moment when the world was facing the dual challenges of the coronavirus pandemic and climate change, President Xi Jinping announced at the United Nations General Assembly in September 2020 that China's goal, in response to climate change, would be to strive to have carbon dioxide emissions peak before 2030 and achieve carbon neutrality before 2060.

The Group has always taken clean energy as a focus in formulating its development policy. Over the years, the Group has developed natural gas markets on the mainland, effectively helping to reduce air pollution and carbon emissions, and thus promote transformation of the national energy mix. As natural gas is the cleanest fossil energy source, mainland China has developed large-scale natural gas infrastructure facilities and accelerated the establishment of natural gas production, supply, storage and marketing systems to enhance gas supply capabilities. Therefore, in the process of striving to achieve carbon neutrality, high-quality development and broad market prospects for city-gas are foreseeable.

Meanwhile, renewable energy sources such as photovoltaics, wind energy, hydrogen energy and biomass energy, which are in line with the country's long-term goal of carbon neutrality, are poised to enter a state of rapid development.

Leveraging on the huge market and customer resource advantages of city-gas businesses, alongside the support of national policies, the Group has actively developed a distributed energy system business over the past few years, creating energy-efficient applications and enhancing customer benefits. More recently, the Group has broadened its revenue sources by launching a smart energy business, using photovoltaic power generation on the rooftops of large factory buildings, and combining this with power storage functions, the Internet and big data analytics and dispatch management platforms, to effectively reduce demand for purchasing electricity from the grid. Besides, energy innovation is a development trend encouraged by national policies. The Group has set up research and development bases in Shanghai city and Suzhou city, focusing on the conversion and utilisation of biomass to produce advanced biofuels using agricultural waste and inedible bio-grease feedstock. The Group's project, located in Jiangsu province, which converts bio-grease feedstock into hydro-treated vegetable oil ("HVO") using its self-developed technology, with an annual production capacity of 250,000 tonnes, was fully commissioned during the third quarter of 2020. Our HVO has been accredited under the "International Sustainability and Carbon Certification Scheme" of achieving a 90 per cent emission reduction.

It is qualified as an advanced biofuel for the European markets, generating good environmental and economic benefits with promising prospects. As the next step to realise research and development achievement, the Group is planning to put into trial production sustainable aviation fuel (SAF) using biofuels as a base within this year in order to foster new market growth area.

In summary, the Group's future development strategy is to harness its city-gas businesses to, corresponding to the country's energy plan, promote natural gas as a clean energy for different applications as a substitute for high-emission fossil fuels such as coal and petroleum. Concurrently, the Group will accelerate the development of renewable energy production and utilisation by, on one side, taking photovoltaic power generation as a focus to develop smart energy, and, on the other side, by producing biofuels, environmentally-friendly chemical products and materials on a commercial scale using agricultural waste through innovative research and development, thereby paving the way towards greater use of renewable energy.

To conclude, the Group's development strategy is to be in line with both global environmental protection trends and mainland China's goals and policies for carbon neutrality. The Group's development experience of over 20 years in mainland China, with businesses now spread across 27 provincial areas, will facilitate sizeable growth of other new businesses. Coupled with innovative research and development and favourable operating resources across different areas, the Group foresees long-term and broad development prospects. Furthermore, the Group has always paid attention to strengthening and improving its ability to perform well in the three aspects of environmental, social and governance ("ESG") sustainability and has formulated guiding policies and goals for implementation of an holistic strategy over the years. The Group's core business development, in particular, is linked to environmental protection focused on clean energy, sewage treatment and coal-to-gas conversion, amongst others, to realise its vision of blue skies, white clouds, green mountains and clear water. In 2020, the Group was presented with the "Gold Award in the Public and Community Service sector" in the "Hong Kong Awards for Environmental Excellence", and was also ranked in the "Exemplar tier of the Greater Bay Area Business Sustainability Index", demonstrating the Group's leading position in ESG performance. The Group will continue to invest resources in the research and development of more environmentally-friendly innovative technologies to fulfill its responsibilities for protecting the environment, and to create a better future for the next generation.

Town Gas Business in Hong Kong

The Hong Kong economy was severely impacted by the coronavirus pandemic in 2020. With inbound tourism coming to a standstill and restaurant, retail and hotel sectors strongly hit, the local economy contracted sharply by 6.1 per cent in 2020 compared to 2019. As a result, during 2020, volume of commercial and industrial gas sales decreased notably, whilst volume of residential gas sales increased owing to a rise in both household cooking and use of hot water, both compared to 2019. Overall, total volume of gas sales in Hong Kong for 2020 was approximately 27,947 million MJ, a slight decrease of 2.7 per cent, whilst the number of appliances sold also decreased by 12.7 per cent due to a drop in people moving into new properties and lower consumer sentiment impacted by the epidemic, both compared to 2019. Despite this, with an effective market strategy, appliance sales decreased only slightly by 8.3 per cent compared to 2019.

The Company proactively supported the catering sector, which was significantly hit by the epidemic, by extensively assisting eateries to implement infection control and by launching a "Supporting F&B and the Economy" campaign in May 2020, aiming to help recovery of this sector when the epidemic eased.

Given the slowdown in people moving into new properties due to the epidemic, the number of customers was 1,943,777 as at the end of 2020, a slight increase of 10,050 compared to 2019.

Businesses in Mainland China

The Group's mainland businesses continued to progress steadily during 2020. Overall, inclusive of projects of the Group's subsidiary, Towngas China Company Limited ("Towngas China"; stock code: 1083.HK), the Group had 436 projects (2019 year end: 406 projects, inclusive of city-gas projects re-invested by the Group's companies) on the mainland, as at the end of 2020, spread across 27 provincial regions. These projects encompass upstream, midstream and downstream natural gas sectors, environmentally-friendly energy, smart energy, water sectors and city-waste treatment, as well as telecommunications.

Utility Businesses

During the first quarter of 2020, the coronavirus epidemic led to city lockdowns and suspension of work, production and transportation in most regions on the mainland, all negatively impacting economic activity. By March 2020, mainland China was gradually bringing the epidemic under control with work and production resuming in an orderly manner throughout the country. The mainland economy has since gradually recovered, with gross domestic product turning from contraction in the first quarter of 2020 to positive growth in the three consecutive quarters thereafter, recording a 2.3 per cent increase for the year 2020 compared to 2019.

During the coronavirus epidemic on the mainland, enterprises under the Group actively responded to full deployment. This was particularly important for the Group's public utility businesses which had to ensure a safe supply of both city-gas and water alongside provision of services, whilst also making sterling efforts to ensure epidemic prevention and control measures were properly implemented within its enterprises. The Group's various businesses on the mainland have gradually resumed normal operations since the second quarter of last year. However, the epidemic worldwide reached "pandemic" status by mid-March 2020 and continues to fluctuate in a number of countries, leading to periodic city lockdowns to prevent its spread. The pandemic has, therefore, severely hit the global economy, leading to a fall in demand for commodities. Coupled with an adverse business environment arising from various factors, including trade disputes between mainland China and the United States, gas and water demand in commercial and industrial sectors on the mainland were adversely affected. In addition, as local governments on the mainland have launched measures to support small and medium-sized enterprises, public utility enterprises have been required to reduce fees, defer fee payments, etc. and these temporary measures have impacted the results of the Group for the year 2020.

As at the end of 2020, inclusive of Towngas China, the Group had a total of 282 city-gas projects on the mainland (2019 year end: 273 projects, inclusive of city-gas projects re-invested by the Group's companies). The total volume of gas sales for these projects in 2020 was approximately 26,900 million cubic metres, an increase of 5 per cent compared to 2019. As at the end of 2020, the Group's mainland gas customers stood at approximately 31.81 million, an increase of 7 per cent over 2019.

The Group added several smart energy projects to its portfolio in 2020, including installation of solar photovoltaic power generation systems on rooftops of large production plants and logistics warehouses, and establishing energy storage facilities. With substantial demand for these renewable energy facilities, business prospects are promising. Coupled with application of big data, artificial intelligence and the Internet to enhance energy utilisation and dispatch efficiency, the Group is endeavouring to achieve energy conservation and emission reduction, whilst also generating economic benefits.

Construction of the Group's natural gas storage facility in underground salt caverns in Jintan district, Changzhou city, Jiangsu province, is progressing in phases. This project, the first of its kind built by a city-gas enterprise, will eventually comprise a total of 25 wells with a total storage capacity of 1.1 billion cubic metres, to be built in two phases, four wells of which have now been commissioned and successfully interconnected with the West-to-East Gas Pipeline and the Sichuan-to-East Gas Pipeline, being two large-scale national-level natural gas transmission pipelines. Located in economically active eastern China with a superior geographical location, the Group's storage facility enables city-gas projects to supplement gas supplies in this region during the peak winter period. In the longer term, it is planned that the facility will supply gas to other regions through interconnected pipeline networks. As the mainland's national pipeline network has already been officially commissioned, this is also an opportunity to explore a new means of commercially operating the Group's gas storage facilities.

During the year, the Group also acquired a storage tank project at the liquefied natural gas ("LNG") receiving terminal in Tangshan city, Hebei province. The Group has been granted the right to use two storage tanks of 400,000 cubic metres in total alongside a jetty for importing 1 million tonnes of LNG per annum for a contract term of 50 years. Use of the storage tanks will start before the end of 2023 but use of the jetty will be exercised earlier – by the end of 2022. This project will significantly enhance the Group's gas storage capacity and reduce the need to build separate gas storage facilities by different companies under the Group. The Group can also purchase gas directly from overseas to reduce costs.

Environmental governance businesses have broad development prospects. Leveraging on the rich experience in sewage treatment gained from the Group's water sector "Hua Yan Water", the Group successfully developed an urban organic waste resource utilisation project in Suzhou Industrial Park, Jiangsu province in 2019. This project has cumulatively processed more than 170,000 tonnes of organic wastes and produced nearly 5 million cubic metres of bio-natural gas. Construction of phase two of this project, to increase daily processing capacity from 500 to 800 tonnes, is in progress, expecting to commence operation in the second quarter of 2021. Furthermore, in order to coordinate the development of its environmental governance businesses, the Group has formed an investment platform company, "Hua Yan Environmental", in Changzhou city, Jiangsu province, to develop a waste incineration business in the city. A food waste resource utilisation project already operating in Tongling city, Anhui province has also been successfully acquired. The Group is also developing food waste treatment, waste incineration power generation, industrial wastewater and sewage treatment projects in other cities so as to further bolster the Group's environmental protection businesses.

Operation and management of businesses encompassing midstream natural gas, city-gas, water and municipal environmental protection businesses are creating ever-greater synergy. Furthermore, these businesses generate stable incomes. The Group will therefore keep on investing in high-quality utility projects of these kinds.

Emerging Environmentally-Friendly Energy Businesses

The research and development team of ECO Environmental Investments Limited ("ECO") under the Group has long been striving hard for breakthroughs in the field of biomass utilisation. Several patented technologies which target on the utilisation of inedible bio-grease and agricultural waste as two different feedstocks, are now gradually being implemented in a number of projects.

The first project, located in Jiangsu province, which converts inedible bio-grease feedstock into HVO using ECO's self-developed technology, with an annual production capacity of 250,000 tonnes, was fully commissioned during the third quarter of 2020. Having gained the accreditation under the "International Sustainability and Carbon Certification Scheme" and thus qualified as an advanced biofuel defined by the European Union, ECO's HVO is entirely exported to European markets. With European countries paying keen attention to climate change and setting specific emission reduction policies, the market potential for advanced biofuel is substantial. Successful implementation of our project in Jiangsu province has laid a solid foundation for ECO's further development of its biomass utilisation business.

ECO's another set of patented technologies is to refine agricultural waste through pyrolysis and hydrolysis into a product scope encompassing biofuels, biochemicals and biomaterials. For this, ECO is now developing two pilot projects in Hebei province – one producing furfural and paper pulp as main products expected to commence trial production in the second quarter of 2021, followed by another one producing furfural and cellulosic ethanol expected to commence trial production in the fourth quarter of 2021. Cellulosic ethanol is yet another highly demanded advanced biofuel as defined by the European Union.

Following its formulated new energy business strategy, ECO is now in full swing to develop green and sustainable low-carbon businesses founded on its self-developed innovative technologies.

Towngas China Company Limited
(Stock Code: 1083.HK)

Towngas China, a subsidiary of the Group, recorded profit after taxation attributable to its shareholders for the year amounting to HK$1,447 million, an increase of approximately 11 per cent compared to 2019. As at the end of December 2020, the Group held approximately 2,025 million shares in Towngas China, representing approximately 68.21 per cent of Towngas China's total issued shares.

Facing the sudden outbreak of the coronavirus epidemic in 2020, staff at all levels in Towngas China actively responded to and performed their duties diligently to ensure a safe supply of gas, aiming to fight the epidemic alongside their customers. Despite great challenges, the business as a whole continued to record steady growth for the year.

Following the execution of a capital increase agreement among Towngas China, Shanghai Gas Co., Ltd. ("Shanghai Gas") and Shenergy (Group) Company Limited in October 2020, all parties are now liaising on various business aspects to proceed further as scheduled. With a population of over 24 million, Shanghai city is a huge gas market. Shanghai Gas has a customer base of 6.3 million with natural gas sales reaching over 9,000 million cubic metres per annum. Through this cooperation, Towngas China will not only extend its city-gas business to Shanghai city, the most economically developed city on the mainland, but will also create extensive synergy for its businesses in Shanghai city with those in eastern China and the entire Yangtze River Delta region, helping to expand the company's business scale and enhance the quality of its business development. In addition, Towngas China will be able to expand its channels for purchasing natural gas directly from overseas through the LNG receiving terminal at Yangshan Port operated by Shanghai Gas.

Apart from continuing to pursue in-depth development of city-gas markets and to explore distributed energy and smart energy sectors, Towngas China will also proactively advocate development of its extended businesses to achieve economies of scale with the Internet platform as a backbone to enhance value-added service capabilities, thus fostering new horizons.

Towngas China added five new projects to its portfolio during 2020, of which three are centralised heating projects located in Eastern Park of Tongling Economic and Technological Development Zone, Anhui province, and in Fuxin Industrial Park and Xiliu Textile Industrial Park, Haicheng city, both in Liaoning province. The other two comprise a shale gas project and an extended business project, both in Sichuan province.

Financing Programmes

In order to tap funding in a timely and flexible manner, the Group established a medium term note programme in 2009 under HKCG (Finance) Limited, a wholly-owned subsidiary of the Group. Medium term notes totalling HK$5,986 million, with a tenor of 3 to 30 years, were issued in 2020. In line with the Group's long-term business investments, as at 31st December 2020, the total nominal amount of medium term notes issued has reached HK$20.7 billion with tenors ranging from 3 to 40 years, mainly at fixed interest rates with an average of 3.0 per cent per annum and an average tenor of 15 years.

Furthermore, the Group also made use of perpetual securities for long term funding. As at 31st December 2020, the Group had Perpetual Subordinated Capital Securities (the "Perpetual Securities") of US$300 million, issued in February 2019, with a coupon rate at 4.75 per cent per annum. The Perpetual Securities are redeemable at the option of the Group in February 2024 or thereafter every six months on the coupon payment date.

Employees and Productivity

As at the end of 2020, the number of employees engaged in the town gas business in Hong Kong was 2,130 (2019 year end: 2,096), the number of customers was 1,943,777, and each employee served the equivalent of 913 customers. Inclusive of employees engaged in local businesses such as telecommunications, liquefied petroleum gas vehicular refilling stations and engineering contractual works, the total number of the Group's employees engaged in businesses in Hong Kong was 2,495 as at the end of 2020 compared to 2,474 as at the end of 2019. Related manpower costs amounted to HK$1,233 million for 2020. In 2020, there was an approximately 2 per cent average increase in remuneration over 2019. The Group will continue to offer employees rewarding careers based on their capabilities and performance and arrange a variety of training programmes in order to constantly enhance the quality of the Group's customer services.

Exclusive of businesses in Hong Kong, the total number of the Group's employees in mainland China and other places outside Hong Kong was approximately 51,270 as at the end of 2020, an increase of approximately 860 compared to 2019.

On behalf of the Board of Directors, we would like to thank all our employees for their dedication and hard work in creating value for shareholders and customers. During the coronavirus epidemic, in particular, staff at all levels have performed their duties diligently and tackled different challenges proactively to ensure the safe operation of the Group's public utility businesses in both Hong Kong and mainland China, and to maintain the stable and sustainable development of the Group's other businesses.

Bonus Issue of Shares

The Directors propose to make a bonus issue of one new share for every twenty existing shares held by shareholders whose names are on the Register of Members of the Company as at 10th June 2021. The necessary resolution will be proposed at the forthcoming Annual General Meeting on 2nd June 2021, and if passed, share certificates will be posted on 21st June 2021.

Final Dividend

The Directors are pleased to recommend a final dividend of HK23 cents per share payable to shareholders whose names are on the Register of Members of the Company as at 10th June 2021. Including the interim dividend of

HK12 cents per share paid on 14th September 2020, the total dividend payout for the whole year shall be HK35 cents per share.

Barring unforeseen circumstances, the forecast dividends per share for 2021 after bonus share issue shall not be less than the interim and final dividends for 2020.

Business Outlook for 2021

A number of countries worldwide have successively launched coronavirus vaccination programmes since the end of last year. The Government of the Hong Kong Special Administrative Region began to arrange vaccinations for its citizens in late February this year. Although the pandemic is expected to stabilise, to a certain extent, uncertainties still remain at this stage. Despite this, the Company predicts steady growth in its number of customers in Hong Kong during 2021. The Group is adopting measures to broaden sources of revenue, cut expenditure and costs appropriately and optimise work flow, and is also endeavouring to promote smart innovation to enhance customer services and operational efficiency whilst also continuously developing new town gas applications to increase volume of gas sales. All these aim at maintaining a stable development for its gas business in the territory.

In respect of mainland businesses, Towngas China under the Group will acquire a 25 per cent equity interest in Shanghai Gas after the latter's increase of registered capital in 2021 as planned, thereby increasing the Group's gas customers to 40 million, making the Group a more sizeable city-gas enterprise overall. This project will also increase channels for the Group to import LNG. Through this project, the Group can also participate in the long-term integration development of the Yangtze River Delta. With public utilities forming its core business, the Group has a relatively strong resilience to the impact of economic downturns. It is expected that when the epidemic is over, the Group's businesses will return to better growth within a relatively short period of time. ECO's self-developed advanced biofuel business is operating well, expecting to generate stable revenue growth for the Group. With its HVO project located in Jiangsu province successfully commissioned in August 2020 and seeing the ever-increasing demand in European countries for low carbon emission fuels, ECO is taking steps to enhance its HVO production capacity within the year 2021. The agricultural waste utilisation projects located in Hebei province will construct a sophisticated feedstock supply chain to implement the comprehensive and efficient use of agricultural waste by transforming it into biomass products that help reduce carbon emissions and alleviate pollution problems caused by incineration, thus contributing to the improvement of the local environment.

Mainland China's Fourteenth Five-Year Plan commenced in 2021. The central government has also set a long-term vision for up to 2035, aiming at enhancing the country's economic and technological strength and fostering a new development paradigm featuring "dual circulations", with domestic circulation as the mainstay and domestic and international circulations reinforcing each other. Under a national policy of green development, support for natural gas, smart energy, renewable energy and biofuels sectors, etc. is expected through corresponding environmental protection policies, which in turn are predicted to bring long-term growth for the Group's related businesses. The Group thus anticipates a more prosperous development for its various businesses in the future.

Lee Ka-kit	**Lee Ka-shing**
Chairman	*Chairman*

Hong Kong, 19th March 2021

BOARD OF DIRECTORS

Dr. Lee Ka-kit
G.B.S., J.P., D.B.A. (Hon.),
Chairman & Non-executive Director

Aged 57. Dr. Lee was appointed to the Board of Directors of the Company in 1990 and subsequently appointed Chairman in May 2019. He was educated in the United Kingdom. He is a Chairman and Managing Director of Henderson Land Development Company Limited ("Henderson Land Development") and a Vice Chairman of Henderson Investment Limited. Dr. Lee was previously a Non-executive Director of The Bank of East Asia, Limited and an Independent Non-executive Director of Xiaomi Corporation. All the above companies are listed public companies. He is also a Vice Chairman of Henderson Development Limited ("Henderson Development") and a Director of Hopkins (Cayman) Limited ("Hopkins"), Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"). Henderson Land Development, Henderson Development, Hopkins, Rimmer and Riddick have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance (please refer to the notes on "Substantial Shareholders and Others" on page 68 of this Annual Report for details). Dr. Lee is a Member of the Standing Committee of the 13th National Committee of the Chinese People's Political Consultative Conference and a Member as well as the Chairman of the Board of Directors of One Country Two Systems Research Institute. He was appointed as a Justice of the Peace by the Government of the Hong Kong Special Administrative Region (the "HKSAR") in 2009, and was awarded the Gold Bauhinia Star by the Government of the HKSAR in 2015. Dr. Lee was awarded an Honorary University Fellowship by The University of Hong Kong in 2009, and was also awarded an Honorary Degree of Doctor of Business Administration by Edinburgh Napier University in 2014. He is the son of Dr. Lee Shau-kee, a controlling

from left to right

John Ho Hon-ming

Alfred Chan Wing-kin

Moses Cheng Mo-chi

David Li Kwok-po

Lee Ka-kit *Chairman*

Lee Ka-shing *Chairman*

Poon Chung-kwong

Colin Lam Ko-yin

Peter Wong Wai-yee

shareholder of the Company and the brother of Mr. Lee Ka-shing, a Chairman and Non-executive Director of the Company.

Mr. Lee Ka-shing

J.P.,

Chairman & Non-executive Director

Aged 49. Mr. Lee was appointed to the Board of Directors of the Company in 1999 and subsequently appointed Chairman in May 2019. He was educated in Canada. He is a Chairman and Managing Director of Henderson Land Development Company Limited ("Henderson Land Development"), the Chairman and Managing Director of Henderson Investment Limited as well as the Chairman and Chief Executive Officer of Miramar Hotel and Investment Company, Limited, all of which are listed public companies. Mr. Lee is also a Vice Chairman of Henderson Development Limited ("Henderson Development") and a Director of Hopkins (Cayman) Limited ("Hopkins"), Rimmer (Cayman) Limited ("Rimmer"), Riddick (Cayman) Limited ("Riddick"), Disralei Investment Limited ("Disralei Investment"), Medley Investment Limited ("Medley Investment"), Faxson Investment Limited ("Faxson Investment"), Chelco Investment Limited ("Chelco Investment"), Macrostar Investment Limited ("Macrostar Investment") and Timpani Investments Limited ("Timpani Investments"). Henderson Land Development, Henderson Development, Hopkins, Rimmer, Riddick, Disralei Investment, Medley Investment, Faxson Investment, Chelco Investment, Macrostar Investment and Timpani Investments have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance (please refer to the notes on "Substantial Shareholders and Others" on page 68 of this Annual Report for details). Mr. Lee was appointed as a Justice of the Peace by the Government of the Hong Kong Special Administrative Region in 2017. He is a Member of The Court of The Hong Kong Polytechnic University and a member of the Council of City University of Hong Kong. He is also a Committee Member of the 13th Beijing Committee of the Chinese People's Political Consultative Conference. Mr. Lee is the son of Dr. Lee Shau-kee, a controlling shareholder of the Company and the brother of Dr. Lee Ka-kit, a Chairman and Non-executive Director of the Company.

Dr. Colin Lam Ko-yin

S.B.S., F.C.I.L.T., F.H.K.I.o.D., D.B. (Hon.),

Non-executive Director

Aged 69. Dr. Lam was appointed to the Board of Directors of the Company in 1983. He has more than 47 years' experience in banking and property development. He is the Deputy Chairman of The University of Hong Kong Foundation for Educational Development and Research, a Director of Fudan University Education Development Foundation, an honorary Court member of Hong Kong Baptist University, a member of the Court of The Hong Kong University of Science and Technology and a member of the Court of City University of Hong Kong. Dr. Lam was awarded the Silver Bauhinia Star by the Government of the Hong Kong Special Administrative Region in 2017. He was also awarded an Honorary University Fellowship by The University of Hong Kong in 2008, an Honorary Fellowship by The Chinese University of Hong Kong in 2019 and was conferred a degree of Doctor of Business (Honoris Causa) by Macquarie University in 2015. He is a Fellow of The Chartered Institute of Logistics and Transport in Hong Kong and a Fellow of The Hong Kong Institute of Directors. Dr. Lam is a Vice Chairman of Henderson Land Development Company Limited ("Henderson Land Development") and Henderson Investment Limited, the Chairman of Hong Kong Ferry (Holdings) Company Limited, and an Executive Director of Miramar Hotel and Investment Company, Limited, all of which are listed public companies. Dr. Lam is a Director of Henderson Development Limited ("Henderson Development"), Hopkins (Cayman) Limited ("Hopkins"), Rimmer (Cayman) Limited ("Rimmer"), Riddick (Cayman) Limited ("Riddick"), Disralei Investment Limited ("Disralei Investment"), Medley Investment Limited ("Medley Investment") and Macrostar Investment Limited ("Macrostar Investment"). Henderson Land Development, Henderson Development, Hopkins, Rimmer, Riddick, Disralei Investment, Medley Investment and Macrostar Investment have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance (please refer to the notes on "Substantial Shareholders and Others" on page 68 of this Annual Report for details).

Dr. the Hon. Sir David Li Kwok-po

GBM, GBS, OBE, JP, MA Cantab. (Economics & Law), Hon. LLD (Cantab), Hon. DSc. (Imperial), Hon. LLD (Warwick), Hon. DBA (Edinburgh Napier), Hon. D.Hum.Litt. (Trinity, USA), Hon. LLD (Hong Kong), Hon. DSocSc (Lingnan), Hon. DLitt (Macquarie), Hon. DSocSc (CUHK), FCA, FCPA, FCPA (Aust.), FCIB, FHKIB, FBCS, CITP, Officier de l'Ordre de la Couronne, Grand Officer of the Order of the Star of Italian Solidarity, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Commandeur dans l'Ordre National de la Légion d'Honneur,

Independent Non-executive Director

Aged 82. Sir David was appointed to the Board of Directors of the Company in 1984. Sir David is the Executive Chairman of The Bank of East Asia, Limited. He is an Independent Non-executive Director of Guangdong Investment Limited, The Hongkong and Shanghai Hotels, Limited, San Miguel Brewery Hong Kong Limited and Vitasoy International Holdings Limited. He was previously an Independent Non-executive Director of PCCW Limited. All the above companies are listed public companies. Sir David is a Member of the Council of the Treasury Markets Association. He is Founding Chairman of The Friends of Cambridge University in Hong Kong Limited, Chairman of the Advisory Board of The Salvation Army, Hong Kong and Macau Command, Chairman of the Executive Committee of St. James' Settlement and a Fellow of the Hong Kong Academy of Finance. He was a Member of the Executive Council of Hong Kong from 2005 to 2008 and the Legislative Council of Hong Kong from 1985 to 2012.

Prof. Poon Chung-kwong

G.B.S., J.P., Ph.D., D.Sc.,

Independent Non-executive Director

Aged 81. Prof. Poon was appointed to the Board of Directors of the Company in 2009. Prof. Poon is currently the Chairman of Virya Foundation Limited (a registered non-profit charitable organisation). Prof. Poon is an Emeritus Professor and the President Emeritus of The Hong Kong Polytechnic University. He had devoted 40 years of his life to advancing university education in Hong Kong before he retired in January 2009 from his 18-year presidency at The Hong Kong Polytechnic University. Prof. Poon is

a Non-executive Director of Lee & Man Paper Manufacturing Limited and an Independent Non-executive Director of Henderson Land Development Company Limited ("Henderson Land Development") and Chevalier International Holdings Limited. He was previously an Independent Non-executive Director of Hopewell Highway Infrastructure Limited (now known as Shenzhen Investment Holdings Bay Area Development Company Limited).
All the above companies are listed public companies. Henderson Land Development has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance (please refer to the notes on "Substantial Shareholders and Others" on page 68 of this Annual Report for details).
Prof. Poon was appointed as a Justice of the Peace in 1989 and received the OBE award in 1991, the Gold Bauhinia Star award in 2002 and also the "Leader of the Year Awards 2008 (Education)".
In addition, he was appointed as a member of the Legislative Council (1985 – 1991) and a member of the National Committee of the Chinese People's Political Consultative Conference (1998 – 2013). Prof. Poon obtained a Bachelor of Science (Honours) Degree from The University of Hong Kong, a Doctor of Philosophy Degree and a Higher Doctor of Science Degree from the University of London. He was a Postdoctoral Fellow at the California Institute of Technology, University of Southern California and University of Toronto. He also held the Honorary Degree of Doctor of Humanities from The Hong Kong Polytechnic University in 2009.

Dr. Moses Cheng Mo-chi

G.B.M., G.B.S., O.B.E., J.P.,

Independent Non-executive Director

Aged 71. Dr. Cheng was appointed to the Board of Directors of the Company in January 2019. Dr. Cheng is a practising solicitor and the consultant of Messrs. P.C. Woo & Co. after serving as its senior partner from 1994 to 2015. Dr. Cheng was a member of the Legislative Council of Hong Kong. He is the founder chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. Dr. Cheng is now also serving as the Chairman of the Insurance Authority. In addition, he is a Fellow of the Hong Kong Academy of Finance. Dr. Cheng has been an independent non-executive director of Towngas China Company Limited, a subsidiary of the Company, since May 2007. He also currently holds directorships in China Mobile Limited, China Resources Beer (Holdings) Company Limited, Guangdong Investment Limited, K. Wah International Holdings Limited, Liu Chong Hing Investment Limited and Tian An China Investments Company Limited. All the above companies are listed public companies. He was previously a Non-executive Director of Kader Holdings Company Limited.

Mr. Alfred Chan Wing-kin

B.B.S., Hon.F.E.I., Hon.F.I.I.U.S., C.Eng., F.H.K.I.E., F.I.Mech.E., F.I.G.E.M., M.Sc. (Eng), B.Sc. (Eng),

Managing Director

Aged 70. Mr. Chan joined the Company as the General Manager – Marketing in 1992 and was appointed as the General Manager – Marketing & Customer Service in 1995. He was appointed to the Board of Directors of the Company in January 1997 and as the Managing Director in May 1997.
Mr. Chan is a director of major local and overseas subsidiary companies of the Company. He is also the Chairman and President of Hong Kong & China Gas Investment Limited, an investment holding company in mainland China and chairman, vice chairman or a director of a number of the project companies in mainland China.
Mr. Chan is the Chairman of Towngas China Company Limited, and the Vice Chairman of Shenzhen Gas Corporation Ltd. and Foran Energy Group Co., Ltd., and was previously a Non-executive Director of the tenth session of the board of directors of Shanghai Dazhong Public Utilities (Group) Co., Ltd., all of which are listed public companies. He is an Honorary President of The Hong Kong Management Association and a Vice Chairman of China Gas Association. Mr. Chan is a Member of the Standing Committee on Judicial Salaries and Conditions of Service of the Government of the Hong Kong Special Administrative Region. He was previously the Deputy Chairman of the Council of The Hong Kong Institute of Education (now known as The Education University of Hong Kong) and a Member of the Board of Stewards of The Education University of Hong Kong Foundation. Mr. Chan received the Executive Award under the DHL/SCMP Hong Kong Business Awards 2005, the Director of the Year Awards – Listed Companies (SEHK – Hang Seng Index Constituents) Executive Directors from The Hong Kong Institute of Directors in 2006,

the Leadership Award in Gas Industry Award 2015 from the Institution of Gas Engineers & Managers and the Energy and Utilities Alliance of the United Kingdom, "The CEO of the Year 2017" Award from China Newsweek in 2017 and was named consecutively as one of "The 100 Best-Performing CEOs in the World" by Harvard Business Review from 2015 to 2019. He was awarded an Honorary Fellowship by The Hong Kong Institute of Education (now known as The Education University of Hong Kong) in 2016. Mr. Chan, a Chartered Engineer, is also Honorary Fellow of the Energy Institute of the United Kingdom, Fellow of The Hong Kong Institution of Engineers; Fellow of The Institution of Mechanical Engineers, Fellow of the Institution of Gas Engineers & Managers of the United Kingdom and Honorary Fellow of International Institute of Utility Specialists.

Mr. Peter Wong Wai-yee

C.P.A. (CANADA), C.M.A., C.P.A. (HK), A.C.G., A.C.S., F.I.G.E.M., F.H.K.I.o.D., M.B.A.,

Deputy Managing Director

Aged 69. Mr. Wong joined the Group in 1997, initially as its Financial Controller. Since 2002, he has been deeply involved in the development of the Group's mainland utilities business, operating from its headquarters in Shenzhen, China. Mr. Wong was appointed to the Board of Directors of the Company in February 2013 and was appointed as Deputy Managing Director of the Company with effect from 1st April 2021. Mr. Wong holds directorships in various subsidiaries of the Group. He is also an Executive Director and the Chief Executive Officer of Towngas China Company Limited and a director of Shenzhen Gas Corporation Ltd.. He was previously the Vice Chairman of Foshan Gas Group Co., Ltd. (now known as Foran Energy Group Co., Ltd.) and a director of China-Singapore Suzhou Industrial Park Development Group Co., Ltd. ("CSSD") until his retirement at CSSD on 29th June 2020. All of which are listed public companies. He is a Member of the Mainland Business Advisory Committee of the Hong Kong Trade Development Council. He was named consecutively as one of "The Best CEO of Chinese Listed Companies" by Forbes in 2012 and 2013. He is a chartered professional accountant of Canada, a certified public accountant of Hong Kong and a chartered company secretary in both Hong Kong and the United Kingdom. Mr. Wong is a Fellow of The Hong Kong Institute of Directors and a Fellow of the Institution of Gas Engineers & Managers of the United Kingdom. He completed the Advanced Management Program from Harvard Business School in the United States. Mr. Wong was formerly a director of the Certified Management Accountants Society of British Columbia, Canada and the president of its Hong Kong branch, a member of the Advisory Board of the Department of Accounting of Hong Kong Shue Yan University. He is a member of the Advisory Committee of the College of Professional and Continuing Education, The Hong Kong Polytechnic University. Mr. Wong has over 44 years of experience in corporate finance, management and international working experience.

Mr. John Ho Hon-ming

F.C.A., F.C.P.A., F.H.K.I.o.D., B.A.(Hons.),

Executive Director, Chief Financial Officer and Company Secretary

Aged 64. Mr. Ho joined the Company in 2002. Mr. Ho was appointed to the Board of Directors of the Company in October 2020. Mr. Ho is currently the Executive Director, Chief Financial Officer and Company Secretary of the Company, and also holds directorships in various subsidiaries of the Group. He is also an Executive Director and the Company Secretary of Towngas China Company Limited and a director of Changchun Gas Co., Ltd., Shenzhen Gas Corporation Ltd. and Foran Energy Group Co., Ltd., all of which are listed public companies. Mr. Ho is the Vice Chairman of the General Committee of the Chamber of Hong Kong Listed Companies and the Vice Chairman of the Taxation Committee of the Hong Kong General Chamber of Commerce. He is a Fellow of the Institute of Chartered Accountants in England and Wales, a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Hong Kong Institute of Directors. Mr. Ho graduated from the University of Manchester in the United Kingdom with an honorable Bachelor of Arts degree in Economics and Social Studies (Accounting and Finance). He completed the Advanced Management Program from Harvard Business School in the United States, the Senior Executive Program offered by Harvard Business School, Tsinghua University School of Economics and Management and China Europe International Business School, and the Chief Executive Program from Singapore Institute of Management. Mr. Ho has over 42 years of experience in accounting, corporate finance and investments.

EXECUTIVE COMMITTEE

from left to right

Martin Kee Wai-ngai
Executive Vice President, Hong Kong and China Gas Investment Limited and Hua Yan Water

Simon Ngo Siu-hing
Head of Engineering – Hong Kong Utilities

Philip Siu Kam-shing
Chief Operating Officer – New Energy Business

Peter Wong Wai-yee
Deputy Managing Director

Alfred Chan Wing-kin
Managing Director

John Ho Hon-ming
Executive Director, Chief Financial Officer and Company Secretary

Fan Kit-yee
Head of Corporate Human Resources

Daniel Fung Man-kit
Head of Strategy & Innovation and Commercial – Hong Kong Utilities

CLEAN ENERGY FOR ALL

MAINLAND UTILITY BUSINESSES

In 2020, Towngas China signed a capital increase agreement with Shanghai Gas Co., Ltd (Shanghai Gas) and Shenergy (Group) Company Limited (Shenergy Group), which is expected to give us access to 6.3 million more customers and increase our customer base to a total of about 40 million households in mainland China.

MAINLAND UTILITY BUSINESSES

For more than 25 years, Towngas has been providing people in mainland China with a clean, reliable and economic supply of fuel as well as other products that contribute to a more comfortable life and promote a sustainable future. Our businesses today cover 282 city-gas projects serving around 31.81 million customers in 23 provinces, autonomous regions and municipalities (2019 year end: 273 projects, inclusive of city-gas projects re-invested by the Group's companies). Through these businesses, we are meeting the growing demand for energy that will power the nation's economy while assuring a cleaner environment for all.

Progress amid Challenges

In 2020, trade disputes between mainland China and the United States continued to have a negative impact on exports as a whole. Our gas sales in mainland market were also affected in the early part of the year by the outbreak of COVID-19. As some cities went into lockdown, most industrial and commercial activities came to a halt in the first quarter of the year and overall gas volume fell. Once the epidemic began to come under control in March, our commercial and industrial (C&I) clients resumed normal operation and production in an orderly manner. The mainland economy has also gradually recovered since then.

During the period, local governments issued a series of measures to support small and medium-sized enterprises. As a responsible utility group, Towngas provided special offers on tariffs in some cities for customers in need. We also ensured our gas supply would remain uninterrupted and continued to carry out safety inspections. At the same time, we collaborated closely with our C&I clients to help them resume production or get back to work as soon as possible after the lockdown was lifted.

For the year as a whole, total sales of our city-gas amounted to approximately 26,900 million cubic metres, which was 5 per cent higher than in 2019. The margin on gas sales was also better than the year before, as the Government had lowered the city gate price, which contributed to increased gas use.

This auto parts factory in Xuzhou, Jiangsu province uses natural gas for drying, controlling indoor temperature and treating exhaust fumes.

A LANDMARK PARTNERSHIP WITH SHANGHAI GAS

In October 2020, Towngas China signed a capital increase agreement with Shanghai Gas and Shenergy Group to acquire a 25 per cent stake in Shanghai Gas, one of the largest city-gas operators in mainland China, with a customer base of 6.3 million accounts and annual gas sales of over 9,000 million cubic metres.

The partnership will help the Group to expand into Shanghai and recently developed surrounding areas, including Lingang New District, Qingpu New District and the Yangtze River Delta Integrated Development Demonstration Zone. As a result, our market position in the eastern part of mainland China is set to be further strengthened.

Moreover, Shanghai Gas and Shenergy Group have two liquefied natural gas (LNG) receiving terminals at Wuhaogou and Yangshan Port. Combined with our underground salt cavern gas storage facility in Jintan, Changzhou, Jiangsu province, the receiving terminals will create synergy and assurance for the Group's gas supply, thereby establishing a solid foundation for our entry into the natural gas trading market.

Shanghai is a wealthy municipality, with a population of over 24 million. Through our partnership, we have an opportunity to extend our businesses to the strong customer base of Shanghai Gas, including space heating systems, insurance services, gas appliances and kitchen and bathroom products.

Igniting a Low-carbon Economy

Natural gas, the cleanest fossil fuel with much lower carbon emissions than coal or oil, will continue to be our main business focus in the foreseeable future. At the same time, we have also been exploring other opportunities for our continued business growth, such as renewable energy and smart energy.

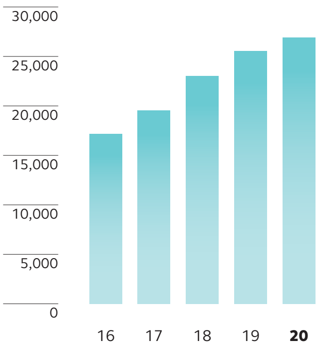
This strategy aligns with the Chinese government's Fourteenth Five-Year Plan, which calls for the development of intelligent, green production technologies that help to reduce carbon emissions. We are also contributing towards mainland China's goal of peaking carbon emissions before 2030 and achieving carbon neutrality before 2060, as announced in September 2020 at the United Nations General Assembly.

During the year we continued to vigorously promote coal-to-gas conversion in line with the Chinese government's environmental policies and commitment to carbon neutrality. The annual gas consumption among our coal-to-gas customers increased by 17 per cent from last year to reach 3.4 billion cubic metres.

Customers benefitting from our high-efficiency gas applications can be found in a wide range of trades and industries, including steel manufacturing, ceramics, glass, textiles and food, as well as hotel, restaurant and theme park businesses. During the year, we continued to look for business opportunities by initiating new projects for our gas applications. One example is the laundry business we started in 2019, which is currently in operation in Hangzhou, Chengdu, Shaoguan and Guilin. More new projects in Nanjing, Tangshan and other cities are expected to be commissioned in 2021.

In addition, we have been involved in the Distributed Energy Systems (DES) business since 2017. Widely acclaimed by our C&I customers, DES offers a decentralised energy supply for generating electricity as well as producing hot water, steam and chilled water using waste heat. The economies of scale available with DES have enabled us to extend these efficient, cost-saving systems into residential districts for space heating and industrial development zones for steam supply. In 2020, we recorded a total of 260 million cubic metres in DES gas sales, an increase of 76 per cent compared with 2019.

China Joint Ventures Gas Sales (million m³)



In order to expand our sustainable energy business, we have developed a Smart Energy system that utilises artificial intelligence (AI), big data and the Internet to achieve higher energy efficiency and lower emissions. The system covers a portfolio of electricity, steam, natural gas, renewable energy and energy storage. During the year, we acquired 40 solar photovoltaic power generation projects and five energy storage projects, with a total capacity of 300 megawatts and total storage capacity of over 100 megawatt-hours respectively.

Strengthening Our Midstream and Upstream Businesses

Securing a reliable supply of natural gas is critical for the success of our businesses in mainland China. This is achieved through our investments in midstream facilities, including long-haul pipelines, gas storage facilities and joint purchases of gas directly from upstream gas sources, in accordance with our diversified gas sourcing strategy.

In Jintan, Changzhou, Jiangsu province, we operate an underground salt-cavern gas storage facility, which is the first of its kind built by a city-gas enterprise on the mainland. With four wells now in operation, it will eventually comprise 25 wells with a total storage capacity of 1.1 billion cubic metres and a working capacity of 660 million standard cubic metres. This facility will increase our gas storage capacity and help us to regulate gas supply and prices more effectively, while opening up business opportunities for gas trading.

During the year, we acquired two storage tanks at the LNG receiving terminal in Tangshan, Hebei province. With a total capacity of 400,000 cubic metres, they are targeted for use before the end of 2023. We have also been granted the right to use the jetty at the terminal for importing 1 million tonnes of LNG per year. Under a 50-year contract, this project will both enhance the Group's gas storage capacity and reduce the cost of building separate gas storage facilities by individual companies under the Group.

We also maintained a presence in Sichuan province by establishing a company in Weiyuan to invest in a shale gas liquefaction plant and gas storage tanks. The facilities will serve our many Sichuan city-gas companies and provide another reliable source of supply for our nearby projects.

With the encouraging development of our food waste project in Suzhou Industrial Park, Jiangsu province, plans were made for a new food waste treatment line to serve residential districts.

In 2019, the Government integrated the national oil and gas pipeline network under China Oil & Gas Pipeline Network Corporation, enabling us to purchase LNG directly from overseas suppliers or trade it on the Shanghai Petroleum and Natural Gas Exchange for our city-gas projects or gas storage facilities. This has further diversified our gas supply channels and provided new opportunities for our businesses.

Water and Environmental Business

Our wholly-owned subsidiary, Hong Kong & China Water Limited (Hua Yan Water), currently operates seven urban water projects in mainland China. These businesses include tap water supply and wastewater treatment, purified water production and sales, water quality and meter testing, as well as smart water services. The performance of the water business in 2020, despite COVID-19, remained stable with sales of 917 million tonnes of water, a slight decrease of about 1 per cent.

As a public utility company, Hua Yan Water considers the safety of its water supply to be its highest priority. Accordingly, the company started two projects for water quality analysis and intelligent water management during the year. One of these offers comprehensive water testing services at a laboratory that has obtained China Inspection Body and Laboratory Mandatory Approval and China National Accreditation Service for Conformity Assessment. The other new project is involved in developing technologies and software for building smart water systems and upgrading management systems for water supply companies.

Capitalising on our rich experience in sewage treatment, we established Hong Kong and China Environmental Holdings Company Limited (Hua Yan Environmental) to coordinate the development of our environmental governance businesses.

Our urban organic waste resource utilisation project in Suzhou Industrial Park, Jiangsu province made satisfactory progress during the year. The project has cumulatively processed more than 170,000 tonnes of organic waste to date and produced nearly 5 million cubic metres of bio-natural gas. Plans were also made for a new food waste treatment line to serve residential districts with a designed daily capacity of 300 tonnes of food waste. It is expected to go into operation in the second quarter of 2021.

We also acquired a food waste resource utilisation project in Tongling, Anhui province in July 2020. With a working capacity of 100 tonnes per day, the plant has already processed 25,000 tonnes of food waste during the year. We are currently expanding the project to increase its annual capacity to a total of 73,000 tonnes by the second half of 2021.

Another new food waste project was secured in Xinbei, Changzhou, Jiangsu province, where we plan to construct a treatment plant with a working capacity of 300 tonnes per day. Commissioning of this plant is expected in 2024.

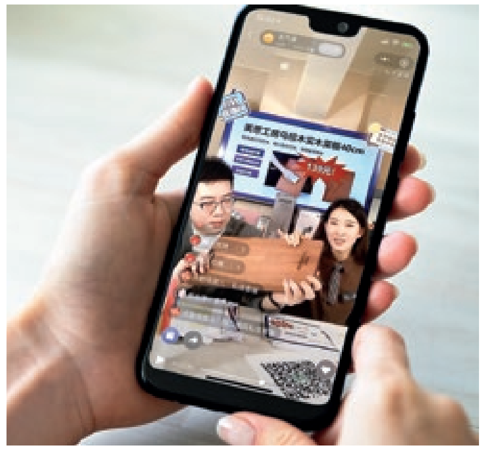
Moreover, in Changzhou we expanded into an environmental and sanitation business that will convert urban solid waste into valuable products in order to build a total recycling system that includes domestic waste incineration, waste screening, kitchen waste treatment and a garbage disposal network. Construction of an incineration treatment facility in Jiashan, Changzhou will begin by the end of 2021. Upon its completion, the facility will be capable of producing 320,000 megawatt-hours of electricity each year.

Looking further ahead, we will expand the urban organic waste and sanitation market and develop the appropriate infrastructure for this business, with the aim of constructing a smart sanitation system for more hygienic cities.

Services beyond Gas

At Towngas we are in not just the business of supplying a safe and reliable source of energy, but also a lifestyle business catering to customers' everyday needs. With a strong customer base of over 30 million accounts, we have expanded into new markets, including smart appliances, kitchen cabinets, insurance, home care and other services, for a better, more comprehensive customer experience.

Live-streaming on Towngas Lifestyle makes increased interactions possible with customers and helps stimulate sales of products.



Products under our Bauhinia brand, mainly gas appliances, continued to be popular among customers in 2020, due mostly to the brand's growing reputation for high quality and safety features. During the year, approximately 800,000 appliances were sold, with sales of combi boilers achieving an increase of nearly 50 per cent to about 45,000 units.

In 2020, we launched additional smart Bauhinia kitchen products in the market. Smart appliances in this line include stoves, water heaters, range hoods and space heaters. All are equipped with Internet of Things functions that customers can control with an app. Another smart appliance launched during the year was a cooking appliance with an intelligent temperature control function for enhanced safety, which will automatically shut off when the temperature exceeds a pre-set level.

Mia Cucina, our Total Kitchen Solution of premium kitchen equipment and cabinets, achieved sales of over 9,400 sets in 2020 at a value of more than RMB90 million. Our marketing focus continued to be on residential projects during the year, and we negotiated with major property developers to install kitchen cabinets in residential complexes in provinces such as Jiangsu, Shandong and Guangdong.

We also enhanced our online services for the greater convenience of our customers. On our online platforms, customers can now manage their gas accounts, make maintenance appointments, pay gas bills and enjoy other services, or even go e-shopping. In addition, we have adopted new technologies to provide smart kitchen solutions, such as an Intelligent Kitchen Helper service that we pilot tested in 2020. With this new service, customers can "talk" to our smart speaker and gain access to our online services, monitor their appliances or shut off gas valves.

During the COVID-19 epidemic, we saw a surge in demand for online shopping. This benefitted our e-commerce platform, Towngas Lifestyle, which achieved total sales of RMB18.78 million in 2020, a nearly fourfold increase over the previous year.

With Towngas Lifestyle, we offer a total home solution ranging from cooking and health tips to high quality home accessories, kitchenware, seasonal and festive food, insurance and a new housework service that includes cooking and cleaning.

Providing high quality service has always been our competitive advantage as we take care of our customers along the journey from purchase to delivery and offline interactions. During the year, we set up a Home Lifestyle Centre in Suzhou for offline engagement with our customers and as a business sharing platform for training the staff of our service providers and partners. In future, we plan to launch more outlets to reach a total of 50 outlets in 2021.

Ensuring Gas Safety

Safety, as always, is our greatest priority. This was particularly challenging in 2020 with the outbreak of COVID-19 and its associated risks to our stakeholders. In accordance with our enhanced health and safety guidelines, we not only offered adequate protective equipment for our employees but also implemented a variety of measures on our premises. These included stepping up our cleaning procedures and limiting access to our offices and plants by visitors in order to minimise the risk of infection.

To ensure the safety of our customers, we continued to carry out proactive gas inspections in their homes and businesses, although the number of these inspections was lower than in previous years due to the epidemic. We also utilised online channels, including popular social media platforms such as WeChat and Tiktok, to promote gas safety to the public.

With “Preventing Risks and Ensuring Safety” as our theme for 2020, we made every effort to strengthen our safety management and maintain the highest standards of safety. In 2020, the number of general managers’ safety inspections increased from once a month to twice a month. In total, 45 safety audits were conducted to identify potential risks for rectification, with public health information added as one of the inspection and audit items. To demonstrate our commitment to safe production, we also promoted responsibility for production safety, which all project companies were required to implement.

During the year, no serious gas incidents were reported. The number of cases per 100 km of third-party damage and gas pipe network leakages declined by 14 per cent and 11 per cent respectively.

Even during the COVID-19 epidemic, our technicians continued to carry out regular inspections of our gas infrastructure to ensure public safety.

SPREADING GOOD VIBES

HONG KONG GAS BUSINESS

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Following the outbreak of COVID-19, more and more of our customers went online for shopping and cooking tips. Our new e-commerce platform, Towngas Fun, and the top-of-the-town Towngas Cooking YouTube channel featuring celebrity chefs were especially popular.

The outbreak of COVID-19 in early 2020 deeply affected our commercial customers, particularly those in the catering, hospitality and tourism sectors. Despite this challenging environment, we continued to supply our customers with reliable, clean energy for their needs. As a socially responsible company, we also helped businesses experiencing financial difficulties because of the pandemic and extended our care to those in need through our community initiatives.

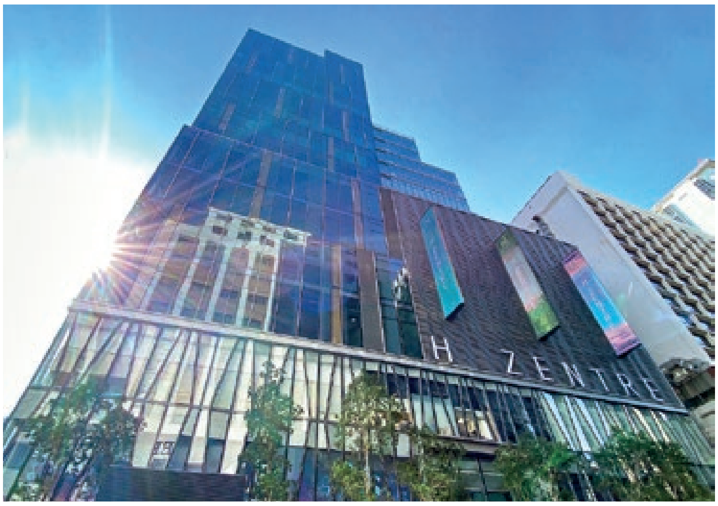
A Year of Continuing Challenges

Year 2020 was again remarkably difficult. The Hong Kong tourism and hospitality sectors were severely affected by the COVID-19 pandemic, as tourist arrivals dropped substantially. Social distancing and venue closures also dealt a heavy blow to companies in the restaurant trade as well as the clubhouse and party room business, many of which are consumers of town gas. At the same time, we saw a significant increase in residential gas demand with large numbers of people working from home, many of whom used gas for cooking and heating water.

During the year, the volume of commercial and industrial (C&I) gas sales decreased notably, but this was partially offset by an increase in residential sales. Total volume of gas sales was approximately 27,947 million MJ, a slight decrease of 2.7 per cent from the previous year. The number of new customers in 2020 rose only by 10,050 accounts to over 1.94 million, as a result of delays in new housing move-ins.

Exploring Opportunities in a Demanding Market

In the tourism sector, travel restrictions led to a drastic decline of 93.6 per cent in the number of visitors, while hotel occupancy rates experienced a precipitous drop from 79 per cent in 2019 to 46 per cent. Both trends had a serious impact on our gas sales, particularly to our C&I customers who prepare in-flight meals or provide laundry services.



Our integrated Primary Air-handling Unit was installed at H Zentre to help reduce energy consumption and improve indoor air quality.

SUPPORT

FOR THE CATERING INDUSTRY DURING COVID-19

Among the most affected by COVID-19 were our C&I clients, especially those in the catering and restaurant industry. To assist these mostly small and medium-sized businesses, we distributed about 40,000 bottles of nano photocatalytic spray so that they could disinfect their premises and help restore customer confidence about dining-in.

In May 2020, we launched the Supporting F&B and the Economy campaign. We distributed complimentary dining coupons under our newly launched loyalty programme, Towngas Fun, to increase patronage. Also, we provided aid to qualifying restaurants in the form of an interest-free kitchen equipment rental and purchase scheme.

Despite the negative business environment for hotel operators, new hotels continued to open in 2020, such as The Hari Hong Kong and Sheraton Hong Kong Tung Chung Hotel, along with several other new hotel development projects that secured the installation of gas applications for hot water, cooking as well as dehumidification.

In a similar vein, the social gathering ban during the pandemic led to school suspensions and the closure of venues such as two theme parks, public swimming pools and sport stadiums. The expansion of the two theme parks was also delayed, while a project was temporarily put on hold. Nevertheless, we continued to identify emerging opportunities in our C&I business with the conversion of ageing diesel boilers to use town gas.

An exceptionally promising market is for a gas-fired desiccant dehumidification system we developed, which enhances humidity control and provides significant improvements to indoor air quality. This compact integrated Desiccant+Primary Air-handling Unit (D-PAU) has already been installed at H Zentre

Towngas Fun, our new membership programme combined with online redemption platform, allows members to earn points and redeem special offers.

Our top-of-the-town professional flame cooking platform, the Towngas Cooking YouTube channel, was launched to help audiences become culinary experts.

on Middle Road and in the patient ward area of Hong Kong Baptist Hospital. The system can meet higher hygiene standards by integrating other air quality control devices for filtering fine particles and eliminating microbes.

Potential users for our D-PAU system include hospitals with hydrotherapy pools and operating theatres, hotels, office buildings, pharmacies, laundries, rehabilitation centres and homes for the elderly. As Hong Kong has a massive plan for hospital development, the potential for gas dehumidification application will be substantial.

Building a Contemporary Home

Our branded gas appliances are favoured for their quality and smart features as well as the backing of our service professionals.

Our kitchen appliances are especially well received among customers for their convenience and safety. In keeping with our Smart Kitchen concept, we have developed a cooking appliance with anti-scorch function as well as another series of models that can be remotely controlled through a mobile app. As the demand for Internet of Things-enabled smart home grows, we will continue to launch more innovative products with smart features.

In 2020, we achieved satisfactory sales for our Mia Cucina line of kitchen cabinets, which are popular among residential customers as well as property developers for their high quality. To promote sales, we showcased different Mia Cucina kitchen projects and shared design tips on digital platforms in addition to conventional channels, with the aim of providing design inspiration and increasing brand awareness among customers planning to renovate their kitchens.

Our desiccant dehumidifier entered the residential market for the first time during the year. We see the market potential for this new gas consumption application in the luxury residential sector. In addition to protecting cloakrooms, wine cellars, furniture and valuable works of art, our desiccant dehumidification system improves indoor air quality and comfort levels, while reducing electrical load and overall energy costs.

Marketing under the New Normal

During a challenging year when people's lifestyles changed as a result of the COVID-19 pandemic, our sales and marketing teams came up with a variety of innovative promotions to keep Towngas top of mind among consumers.

To build customer loyalty and generate additional online revenue, we launched an exciting new membership programme titled Towngas Fun with redemption offers. The programme is designed to provide not only value-added services to our customers but also publicity exposure for participating merchants.

2020 RESULTS OF TOWNGAS SERVICE PLEDGE

Reliability

Uninterrupted gas supply *(over 99.99%)*
99.99%

3 days' prior notification in case of supply interruption on account of maintenance or engineering work
100%

Restoration of gas supply within 12 hours
99.99%

Safety

Emergency Team average arrival time *(within 25 minutes)*
Average 21.57 minutes

Appointments

Availability of maintenance and installation services within 2 working days
Average 1.21 days

Service Quality

Efficiency*
9.00

Courteous and friendly attitude*
8.98

Speed and Convenience

Customer Service Hotline *(calls answered within 4 rings)*
96.10%

Connect or disconnect gas supply within 1 working day *(upon customer's request)*
100%

Deposit refunded at Customer Centres 2 hours after disconnection of gas supply *(upon customer's request)*
100%

Handling Suggestions

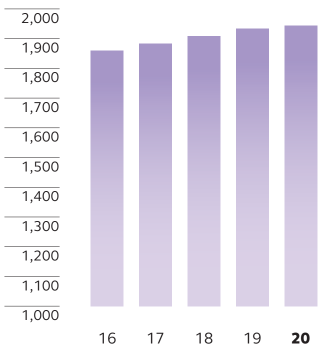
Reply within 3 working days
100%

Resolution, or a statement of how and when the matter will be resolved, within 2 weeks
100%

* *The result was based on surveys conducted by an independent research company. Our target is to exceed a score of 8.5 out of 10.*

Number of Customers

Company (Thousand)



In 2020, we unveiled the top-of-the-town Towngas Cooking YouTube channel as a platform for flame cooking with celebrity chefs and experts. Topics included green and healthy diets, training for domestic helpers, and cooking tips for parents. Additionally, under the "new normal" of social distancing, the Towngas Cooking Centre offered a series of live cooking classes online, with ingredients for the courses delivered to participants' homes in advance.

Achieving Service Excellence

Innovation continued to play a key role in improving our productivity and service quality. One of our innovations is our artificial intelligence (AI) Chatbot that can handle customer enquiries and requests for gas services regardless of location and time. For the convenience of our customers, we introduced a new Wi-Fi/BLE (Bluetooth low energy) series during the year as an upgrade of our Smart Metering System. With this new device, meter readings can be done automatically and sent to our system via home Wi-Fi or Bluetooth.

During the year, we received over 5,800 compliment letters. In recognition of our service excellence, we received the Sing Tao Service Awards – After Sales Services award for the 12th year, and East Week's Hong Kong Service Awards – Public Utilities for the 10th year.

Expanding Gas Supply Network

Our comprehensive network infrastructure is well regarded for its safe and reliable supply. To maintain a high level of supply reliability, we have been forming a ring-feed transmission network in the New Territories. The last 9 km of transmission pipelines linking Tuen Mun and Tsuen Wan were mostly completed in 2020, with commissioning expected in 2021.

The announcement of two new railway developments, the Tung Chung West Extension and Tuen Mun South Extension, in 2020 will ultimately bring us about 20,000 potential customers. Work on these two projects is scheduled to commence in 2023.

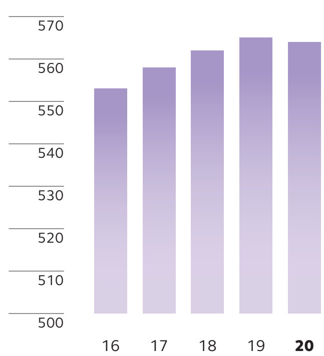
We are also undertaking the construction of a ring-feed supply network to the Airport Island and Ocean Park in order to increase supply security. Despite COVID-19, works progressed smoothly during the year. Additionally, in 2021 we will start a network upgrading project for all of Wong Chuk Hang District.

Innovation and Safety

During the year, we continued to conduct regular gas leakage surveys, monitor third-party construction activities and replace ageing pipes in our network. The number of leaks reported by the public in 2020 again reached a record low for a third consecutive year. Third-party damage dropped to the single-digit level again, as compared with approximately 100 cases per year two decades ago.

Number of Customers per km of Mains

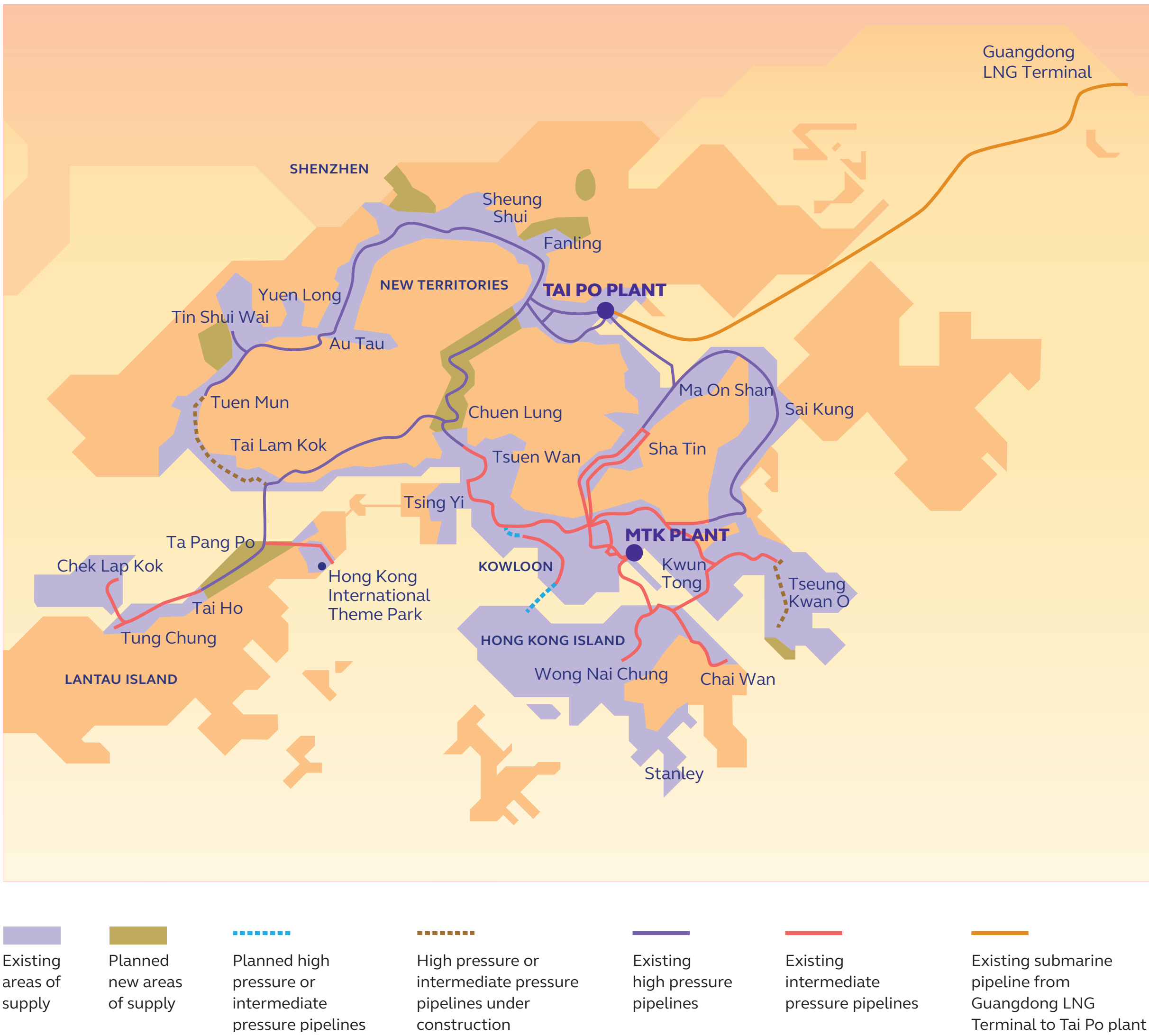
Company



To maintain a high level of safety, we use the sophisticated Supervisory Control and Data Acquisition system for monitoring and controlling our pressure-regulating stations and network. Other advanced gas detection technologies include the use of drones to scan and take videos to identify potential risks of pipe corrosion.

When analysing X-ray films of weld joints on steel pipes, we have been exploring the use of machine learning and AI to help identify any welding defects and improve the efficiency of quality checks. AI is also being used to monitor third-party construction works carried out in the vicinity of strategic gas pipelines.

Towngas Network in Hong Kong



FROM WASTE INTO TREASURE

NEW ENERGY AND DIVERSIFIED BUSINESSES

ECO is refining its technology to produce cellulosic ethanol, an advanced biofuel, from agricultural waste. When this process is proven successful at a pilot plant now under construction, ECO will become a world leading producer of advanced biofuels, including hydro-treated vegetable oil and cellulosic ethanol.

NEW ENERGY AND DIVERSIFIED BUSINESSES

The demand for sustainable energy as a means of combatting climate change is growing across the world. ECO's business is helping to meet this demand by turning low-value waste-based feedstock from renewable sources into high-value products. Through our proprietary technologies, we are providing sustainable solutions that will help to decarbonise our world and make it a better place for future generations.

ECO: A Leader in Green Energy

ECO Environmental Investments Limited (ECO) was established in Hong Kong in 2000 under the concept of "turning waste into treasure". Starting with early initiatives to produce clean energy from waste sources, ECO has extended its range of clean products to cover fuels, chemicals and other renewable materials.

Guided by the vision of a carbon neutral world, our business development is powered by the innovative endeavours at our research and development bases in Shanghai and Suzhou. As several of our key research projects come into fruition, ECO is emerging as a global forerunner in the green industry, with solutions that address the environmental challenges associated with climate change.

ECO is focusing on businesses related to the development of clean, renewable energy from biomass, including inedible bio-grease and agricultural waste. At present, these businesses comprise a bio-grease utilisation project in Jiangsu province and two biomass utilisation projects in Hebei province.

In the third quarter of 2020, our hydro-treated vegetable oil (HVO) project went into full production. This project has been performing well despite the challenges of COVID-19.

Using patented technologies developed in-house, ECO produces HVO accredited under the International Sustainability and Carbon Certification Scheme that is capable of reducing carbon emissions by 90 per cent. The product is exported to EU markets, where it helps to meet the EU's latest targets under Renewable Energy Directive (RED) II and its commitment to reduce emissions under the Paris Agreement.

ECO established research and development bases in Shanghai and Suzhou to develop products related to advanced biofuels and eco-friendly materials.

The second phase of the HVO project in Zhangjiagang, Jiangsu province was fully commissioned, expanding its annual production capacity to 250,000 tonnes of HVO.

After only a few months in operation, the HVO facility produced around 88,000 tonnes of HVO, of which 90 per cent was sold to customers in Europe in 2020. With the proven success of our processes and technologies, we are now planning to further increase our HVO production capacity.

Additionally, we plan to upgrade the processes at our HVO facility to enable the production of sustainable aviation fuel (SAF). We believe that SAF will become one of the key pillars for achieving carbon neutrality in a global context and thus has huge market potential.

Also during the year, two new plants were under construction in Hebei province. Both facilities will make use of our patented hydrolysis and saccharisation technologies to convert locally collected agricultural waste, such as corn cobs and straw, into a wide variety of useful bio-chemical products.

The first plant will commence trial production in the second quarter of 2021, when it will begin producing furfural and paper pulp. This will create a solid foundation for a whole new range of bio-products.

The second plant, also in Hebei, is expected to commence trial production of furfural and cellulosic ethanol in the fourth quarter of 2021. Cellulosic ethanol is yet another advanced biofuel, as defined under the EU RED II framework, which can be added to gasoline to reduce its carbon emissions. With the successful completion of this facility, ECO will emerge as a forerunner in the economical production of cellulosic ethanol on a commercial scale and will likely be the only company worldwide capable of producing both HVO and cellulosic ethanol.

Recognising that the world is looking for a viable supply of green hydrogen, we are now exploring the possibility of adapting our patented biomass gasification technology to produce hydrogen-rich gas from agricultural waste. The success of this technology will have profound implications for a hydrogen-based economy, as green hydrogen will then become readily available wherever agricultural waste can be conveniently collected in fields surrounding urban areas.

Going forward, ECO will continue to pursue the expansion of its low-carbon business, powered by its ground-breaking technological innovations.

Telecommunications

We operate telecommunications businesses in both Hong Kong and mainland China through Towngas Telecommunications Company Limited, a wholly-owned subsidiary of the Group, and its subsidiaries (collectively known as "TGT"). With solid infrastructure and resources, TGT provides services for Hong Kong, mainland China and international telecommunications service providers, operators, and corporations.

Today, TGT has grown into a company with seven world-class data centres across Hong Kong and mainland China, offering

Together with Henderson Land Development, TGT launched the Smart Mall service to provide customers with a stable, high speed 5G mobile communication experience at a shopping mall in Ma On Shan.

strong connectivity and advanced data services such as fog and cloud computing.

One of TGT's strongest competitive advantages is its Glass-In-Gas technology, which allows optical fibres to be installed within our extensive gas pipe network for a more cost-effective, interference-free alternative to traditional road opening methods. This technology is now also being applied in mainland China, where we obtained approval from the China Gas Association for our Technical Standards for Laying Fibre Casing Pipe in Gas Pipeline.

In April 2020, TGT cooperated with Henderson Land Development Company Limited (Henderson Land Development) to introduce the 5G Sharing System at nine shopping malls of Henderson Land Development. The system offers high speed, low latency and stable 5G mobile services as well as related applications for the convenience of customers. The project earned the Best 5G Connected Arena – Gold Award in the 2020 CAHK STAR Awards. TGT is currently preparing to develop 5G services for use in the public areas of residential premises.

Information Technology

Our wholly-owned subsidiary, S-Tech Technology Holdings Limited (S-Tech), was established to provide our city-gas companies with information technology that supports customer service management. Today, this business is engaged in cloud software development, solutions implementation and systems integration services, which enable our city-gas businesses to manage their advanced customer service and gas piping network systems more efficiently.

The Towngas Customer Information System (TCIS) developed by S-Tech covers 87 per cent of the Group's city-gas companies on the mainland. Of these, 89 per cent are using the latest cloud version of the system, which helps them reduce operational costs, shorten development cycles and provide quality services to more than 17 million customers. The TCIS has now been updated to accommodate data uploads and downloads from millions of smart meters. In 2020, the cloud and non-cloud based versions of TCIS3.0 were implemented in 126 city-gas companies, achieving 100 per cent availability (service-level agreement: 99 per cent).

During the year, S-Tech launched the TCIS3.0 and mobile application project with Changchun Gas Co., Ltd. (Changchun Gas), a major city-gas project of the Group in Jilin province serving more than 1.6 million customers. Changchun Gas plans to adopt S-Tech's mobility application, paperless customer service office and Artificial Intelligence Call Centre system with the TCIS3.0 for their Smart Gas projects and Towngas Total Solution+.

Civil and Building Services Engineering

U-Tech Engineering Company Limited (U-Tech) is a wholly-owned subsidiary of the Group providing consultancy and engineering contractor services in Hong Kong and Macao. These services include utilities installation, infrastructure construction and civil and building services engineering for public and private projects.

During the year, U-Tech acquired a landfill gas pipe construction contract from Chun Wo Construction and Engineering Company Limited for South East New Territories Landfill Extension in Tseung Kwan O. Other contracts were secured in 2020, including a fire services installation works project for a residential development at Un Chau Street by Henderson Land Development under the Urban Renewal Authority, as well as the supply and installation of electrical works for Henderson Land Development's residential development on Seymour Road.

In addition, U-Tech continued to construct district cooling mains for the Electrical and Mechanical Services Department at Kai Tak Development Area.

Manufacturing

M-Tech Metering Solutions Company Limited (M-Tech) is a wholly-owned subsidiary of the Group that develops and markets smart gas meters. It takes advantage of rapid developments in advanced technology, including Micro-Electro Mechanical Systems (MEMS) and Narrowband Internet of Things (NB-IoT), to provide products with wider measuring ranges and smart features.

In 2020, M-Tech incorporated NB-IoT into its residential and commercial MEMS meters. Connected seamlessly with the TCIS3.0 platform, the NB-IoT meters allow mobile payments, automatic meter readings, remote valve shut-off and other safety monitoring functions. These smart meters have become widely accepted by household users and restaurant clients. During the COVID-19 epidemic, they enabled gas companies to obtain meter readings without accessing customers' premises.

U-Tech's advanced trenchless approach to tunnel boring is being used to install cooling pipes for the District Cooling System at Kai Tak Development Area.

M-Tech is also developing other advanced meters and meter accessories such as filters and connecting pipes, to offer customers a complete solution package.

Another wholly-owned subsidiary of the Group, G-Tech Piping System (Zhongshan) Company Limited (G-Tech), supplies high-quality polyethylene (PE) piping and related ancillary products with the support of GH-Fusion Corporation Limited, a joint venture between Towngas and Fusion Group (United Kingdom) specialising in PE fittings.

G-Tech has a wide range of quality products to meet the different needs of national and international markets. The PE ball valve fittings we launched in 2019 achieved satisfactory sales among our city-gas projects. Although the COVID-19 pandemic in Europe slowed down export sales of PE fittings in 2020, market growth in mainland China made up the shortfall.

G-Tech's production sites are located in Zhongshan, Guangdong province and Maanshan, Anhui province, which had a total production capacity of up to 20,000 tonnes of pipes at the end of 2020. Together with its two logistics centres, G-Tech offers quality products, high distribution efficiency and excellent customer service.

SHARING THE WARMTH

SUSTAINABILITY

–

As financial pressures mounted during the COVID-19 pandemic, we launched the Towngas Love on Delivery programme and distributed 30,000 fresh food packs to 1,000 families who required immediate relief with food expenses.

馨
家庭服務
amily Service

As a leading utility company in Hong Kong and mainland China, we take our responsibilities to stakeholders very seriously. Guided by our Environmental, Social and Governance (ESG) framework, Towngas has a commitment to sustainability that extends to how we conduct our business, ensure health and safety, protect the environment, serve the community and strengthen corporate governance. Our aspiration is to become one of the greenest and most esteemed companies in Hong Kong and mainland China.

A Leader in Sustainability

In recognition of our sustainability efforts, Towngas has received an average of over 50 awards each year since 2015. In 2020, we were ranked first on both the Greater Bay Area Business Sustainability Index (GBABSI) and the Hong Kong Business Sustainability Index organised by The Chinese University of Hong Kong Business School's Centre for Business Sustainability. We were also the only company on the GBABSI to be ranked at the highest Exemplar tier. These rankings acknowledge our commitment to ESG.

Our corporate governance and business practices are guided by sound business ethics. During

GREEN PROMOTION

DURING COVID-19

During the year, working from home as well as online shopping and learning became the "new normal". To engage our customers and the public on the subject of environmental protection, we made greater use of digital platforms such as Facebook, Instagram and other social media. One example is our *Towngas Low Carbon Action!* page on Facebook for sharing green information, tips and recipes, as well as promoting green events by our company and environmental groups. Workshops, quizzes and thematic webinar were also held online to promote environmental awareness.

KEY ENVIRONMENTAL PERFORMANCE IN 2020 (HONG KONG)

All major legal requirements relating to environmental protection were fully complied with.

Air Quality

Total NOx output was **4 kg/TJ** of town gas

–

Total SOx output was **0.01 kg/TJ** of town gas

–

Total CO_2 output was **11.9 metric tonnes/TJ** of town gas

Greenhouse Gas Emissions

Greenhouse gas emissions from major gas production equipment were **344,549 metric tonnes** in terms of CO_2 equivalent

–

Carbon Intensity of Gas Production

0.592 kg CO_2e/ unit of town gas; **reduced by 23%** compared with 2005

Ozone Layer Protection

All of our vehicle air conditioning systems now operate with refrigerant R134A

–

All BCF portable fire extinguishers have been replaced with dry powder extinguishers

–

The central chiller plant system in our North Point headquarters and Ma Tau Kok building are operated with HCFC-free refrigerants

Chemical Waste

Total chemical waste output was **2 kg/TJ** of town gas

Water Quality

Total waste water output was **3.5 m³/TJ** of town gas

Noise

All installations and operations complied with the statutory requirements

–

No noise abatement notice has ever been received

the year, we complied with laws and regulations that have a significant impact on the Group.

Protecting the Environment

With the growing concerns about climate change across the world, many global leaders have set out strategies for reducing carbon emissions in accordance with the Paris Agreement signed in 2016. At the United Nations General Assembly in September 2020, mainland China declared it would aim to peak its carbon dioxide emissions before 2030 and achieve carbon neutrality before 2060.

At Towngas, we are committed to this vision through our core businesses of providing cleaner forms of energy, in many cases by assisting our customers to switch from fuels such as coal to natural gas, which lowers carbon emissions by about 40 per cent. With our focus on innovation, we have also pioneered a number of alternative energy projects, such as advanced biofuels, that help to conserve resources and reduce pollution.

Our Journey to a Low-carbon Future

Our environmental policy guides us in how we conduct our business. Since the 1970s, we have been utilising naphtha, a clean oil product, to replace coal and heavy oil as our production fuel in Hong Kong. We have also introduced natural gas and landfill gas in our fuel mix, which has further reduced our carbon footprint. Greenhouse gas emissions from the production and consumption of town gas represent only about 1 per cent and 3.8 per cent of Hong Kong's total emissions respectively.

In mainland China, our city-gas projects help the country to build a cleaner environment by providing low-carbon, highly efficient and economical energy solutions. One such initiative is our business in Distributed Energy Systems, which offer an energy efficiency rate of up to 80 per cent and can supply power and heat for both industrial parks and residential districts. We are also developing a smart energy business, which combines photovoltaic power generation with power storage functions and harnesses the Internet and big data in analytics and management systems in order to achieve higher energy efficiency and reduce emissions.

As the first energy utility in Hong Kong to issue a green bond, we have dedicated considerable resources towards the development of green technologies. These include converting waste into energy or other valuable materials, such as biomass-based vehicular fuels and chemical products. Our plant in Jiangsu province is currently in full operation with an annual production capacity of 250,000 tonnes of hydro-treated vegetable oil. Given the success of this project, we plan to upgrade our facilities with the capability to produce sustainable aviation fuel. We are also exploring the possibility of using our patented biomass gasification technology to produce hydrogen-rich gas from agricultural waste.

During the year, the Group incurred over HK$180 million in total research and development related expenditures in Hong Kong and mainland China.

In the future, we will bring more green projects that contribute to a carbon neutral world on stream.

Additionally, we have implemented the recommendations of the Task Force on Climate-related Financial Disclosures and conducted a gap analysis to examine our current practices against these recommendations. Various risk assessments and management exercises were also conducted to ensure we remain resilient to climate change.

Promoting Green Awareness

On an ongoing basis, we support education initiatives and events by environmental groups, although many were either postponed or cancelled due to social distancing during the pandemic. We also continued our Plantation Enrichment Project with The Green Earth to maintain biodiversity in country parks at a new planting site at Shing Mun Country Park. Other green programmes in which we

Our agricultural waste utilisation pilot project in Tangshan, Hebei province, produces high-value chemical products with patented biomass gasification technology.

The Towngas Volunteer Service Team joined over 100 welfare organisations to deliver mooncakes to the elderly and disadvantaged.

We distributed fresh food packs to families in need during the Towngas Love on Delivery programme.

CARING INITIATIVES IN 2020

Towngas Concession Schemes

benefit the elderly, people with disabilities, and single-parent and low-income families

Total gas concessions:
HK$26 million

Total beneficiaries:
Over 45,000 households

Festive Foods for the Community

Rice dumplings distributed:
154,300

Mooncakes delivered:
130,500

Donations to Support Community Activities

HK$7.9 million

Number of volunteer hours

Hong Kong: **16,633**
Mainland China: **714,300**

participated included WWF's Earth Hour, which calls on the public to switch their lights off for one hour to combat climate change, and the Used Clothes Recycling Bin Design Competition for primary and secondary students with Friends of the Earth (Hong Kong).

Serving the Community

We make every effort to care for the community and provide services that improve public health, social integration and personal wellbeing. During the COVID-19 pandemic, we maintained our caring intiatives through a wide range of volunteer and philanthropic activities to serve the elderly and help the disadvantaged.

Love on Delivery

Together with the Christian Family Service Centre, Towngas launched the Love on Delivery programme for underprivileged families suffering financial hardship as a result of job loss or underemployment due to COVID-19. From May to December 2020, 30,000 fresh food packs were distributed to 1,000 families. As volunteer visits were not possible during the pandemic, we offered our voluntary services online. We also organised small-scale interactive contests and published information on Towngas job openings, health, gas safety, and home repairs.

Unemployed Support Scheme

To help people in the community who had lost their jobs as a result of the economic downturn, we set up the Unemployed Support Scheme. Short-term employment opportunities were offered under the scheme to about 60 job seekers. Selected candidates who demonstrated outstanding performance were offered a one-year contract after completing their short-term jobs with us.

Mad Dog Café Charity Programme

In the past, our employees prepared foods to raise funds for the annual Mad Dog Café charity programme. Although the event had to be cancelled in 2020 due to the pandemic, the Company contributed funds towards the purchase of air purifiers, which were much in need for sanitising care homes for the elderly and disabled.

Mainland Caring Initiatives

To deal with the challenges of COVID-19, we donated health supplies and medicine to mainland hospitals as well as medical staff and their families. These included supplies such as face masks, medical gloves, protective clothing, goggles and disinfectant as well as financial assistance. Health education programmes were also organised in local districts across the country.

Our project companies also rolled out various initiatives in their cities. In Anhui, Guangdong, Liaoning and Shandong provinces, for instance, they waived gas bills or donated appliances for medical staff who had been dispatched to Hubei province, while in Suzhou our volunteer team distributed food to the families of medical workers. When discovering that blood banks were understocked during the epidemic, our companies in cities such as Guangzhou, Tongling and Fuxin, initiated a blood donation drive and called on all healthy and eligible employees to participate. Another programme, the Bauhinia Action initiative, was launched to meet the basic needs of underprivileged families in 26 cities, including donations of gas appliances and daily necessities.

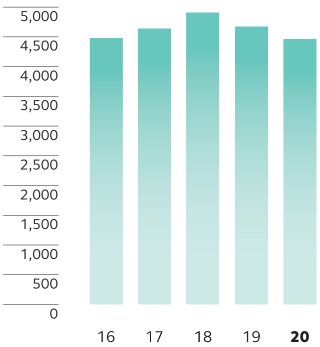
In 2020, we once again organised activities for the Gentle Breeze Movement programme. These included donations of school

Volunteers from our project companies participated in anti-epidemic work in communities during the early phase of the COVID-19 outbreak.

We donated stationery and teaching supplies to schools in Qijiang, Chongqing under the Gentle Breeze Movement programme.

Revenue per Employee

Company (HK$ thousand)



supplies and stationery in Qijiang, Chongqing, where we also distributed 2 tonnes of rice from our Towngas Bauhinia Farm to 22 primary schools. During a visit to a primary school in Qingyuan, Guangdong province, we delivered school supplies such as computers, desks, chairs and physical education necessities. Our volunteers also helped set up a Towngas China Charity Library and repaired the school's facilities.

Building a Sustainable Workforce

We strive to retain and nurture our people by providing a desirable work environment that enables them to develop a fulfilling career with us. To help our employees achieve better work-life balance, we implemented flexible working hours at the beginning of 2020. In addition, we enhanced our medical benefits in Hong Kong and provided additional insurance coverage in mainland China related to the coronavirus.

Protecting Our Staff against COVID-19

With the outbreak of COVID-19, our primary concern was to minimise the risk of infection among our staff and to keep them healthy.

For our employees and contractors, particularly frontline technicians who had to visit customers' homes, we provided appropriate protective gear and disinfectant supplies. To reduce employees' potential exposure at work and during their daily commutes, we introduced work-from-home arrangements and offered flexible working hours. Some non-emergency on-site services, such as regular safety inspections and meter readings, were suspended. We also required employees to quarantine themselves under specified circumstances and offered free tests if it was thought that they had come into contact with suspected COVID-19 cases.

During a year of global economic downturn and the worldwide COVID-19 pandemic, we organised training programmes under the theme of "Overcoming Challenges" to equip our staff with a positive mindset, skills and knowledge. In keeping with our work-from-home arrangements and social distancing practices, we replaced many of our face-to-face activities with online platforms and webinars or adopted blended training methods that combined online learning with smaller face-to-face classroom sessions. We also produced new in-house e-learning videos and online training programmes, which were shared on our Smart Learning System. Topics included work practices during COVID-19, coaching and communication skills, as well as sales skills, among others. In 2020, we provided an average of 17.5 hours of training per employee in Hong Kong.

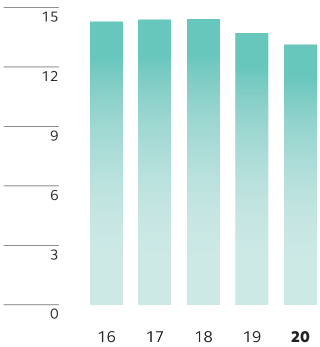
Developing the Talent Pipeline

To meet the demands of our business development, we are directing our recruitment efforts to candidates of different age groups in various job categories, including both technical and non-technical personnel. Through our apprenticeship training schemes, we continued to recruit and develop young talent to ensure a competent workforce. During the year, we expanded the scope of our sponsorships so that our apprentices could pursue further studies or academic qualifications.

In support of the Post-50 Internship Programme organised by the Employees Retraining Board, we offered a four-week internship for candidates aged 50

Town Gas Sales per Employee

Company (million MJ)



or above to help them develop new skills. For students, we provided the opportunity to gain real-life work experience as summer interns and co-operative trainees and, in 2020, recruited 95 of them for the programme. Moreover, we launched a graduate trainee programme for mainland China in which young candidates were selected to train as future managers in our mainland utility businesses.

The Towngas Engineering Academy provides professional training to our technical staff, gas technicians, contractors and new joiners. This training underlies our excellent reputation for gas safety and customer service and helps attract young people to the gas industry. During the year, the apprentices in our gas utilisation, network and mechanical engineering training schemes won the Outstanding Apprentice Award organised by the Vocational Training Council (VTC), which reaffirmed the high calibre of our apprentices and effectiveness of our training approach.

In addition, we sponsored apprentice graduates and frontline staff for the Diploma of Vocational Education in Gas Services Engineering. This diploma, which has been accredited by the Institution of Gas Engineers and Managers (IGEM), enables apprentices and our staff to acquire the professional EngTech MIGEM qualification. For our Professional Diploma in Gas Engineering programme, a second intake of 30 students started their studies in August 2020 at VTC.

Occupational Safety and Health

Our usual work of promoting health and safety did not come to a stop during the pandemic. In 2020, we strengthened our operational safety measures and improved our standards of health, safety and environmental management. We also continued our audits to identify hidden hazards for rectification in a timely and effective manner.

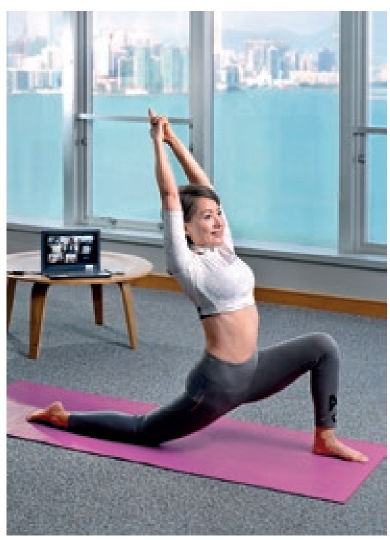
Our online fitness programmes featured yoga and Pilates exercises, encouraging our staff to maintain a healthy lifestyle while working from home.

During the year, we held a seasonal Occupational Safety and Health (OSH) Promotion series, with training sessions organised every quarter in topics such as infectious disease control, prevention of heat stroke, and work stress management. We also continued our subsidised flu prevention programmes in Hong Kong, with 326 employees and their family members participating in the vaccination programme.

For contractors, we organised OSH programmes, which included training courses and the Safe Foreman Award, to promote accident prevention and OSH focused supervision.

Engaging Stakeholders

We regularly engage in ongoing dialogues with our stakeholders as we understand that as a sustainable organisation we must have their support.



KEY ENGAGEMENT INITIATIVES IN 2020

EMPLOYEES

- Innovation Funding to encourage employees to propose innovative ideas
- Annual Quality Festival including an online seminar and a visit to a pulp mill that recycles beverage cartons
- Internal newsletters

CONTRACTORS AND SUPPLIERS

- e-Tendering System that managed 5,000 global suppliers
- Supply Management and Research Topics Programme in mainland China, with awards to encourage suppliers to submit proposals that improve product competitiveness
- Seminars and workshops

CUSTOMERS

- Online channels such as our website, social media platforms and Towngas App
- Customer Focus Team with online safety talks
- Monthly surveys on our performance of services and products

LOCAL COMMUNITIES

- Green partnership and sponsorship programmes
- Charity and community programmes
- Towngas Volunteer Service Team

INVESTORS

- Annual General Meeting
- Investor and securities analyst briefings for annual and interim results
- Conferences and meetings with investors, securities analysts and credit rating agencies
- Local and overseas roadshow meetings

From what we learn in our discussions with stakeholders, we are able to formulate strategies that address their concerns, minimise our risks and align with their values. At the same time, our diverse communication channels enable our stakeholders to have a better understanding of us, and for our employees, contractors and suppliers in particular to share our values and follow the same principles and standards in how we deliver products and services.

Creating Long-term Value for Stakeholders

At Towngas, we are committed to delivering enhanced value for our stakeholders over the long term by addressing their needs and concerns.

We believe that our long-term focus on creating value will lead to more robust growth and better investment outcomes. This commitment is also reflected in our corporate culture and high standards of corporate governance, as well as the way we develop our human capital and promote innovation.

With our strong commitment to sustainability, we are confident that we can fulfil our vision of being "Asia's leading clean energy supplier and quality service provider, with a focus on innovation and environmental friendliness."

BUSINESS PROJECTS IN 2020

UTILITY BUSINESSES IN MAINLAND CHINA

(City-gas projects re-invested by the Group's Companies are excluded)

Towngas (Stock Code: 3)

Piped City-Gas Projects

Guangdong Province

Panyu
Zhongshan
Dongyong
Shenzhen
Chaoan
Chaozhou Raoping

Central China

Wuhan
Xinmi

Eastern China

Yixing
Taizhou
Zhangjiagang
Wujiang
Xuzhou
Suining
Fengxian
Peixian
Danyang
Jintan
Tongling
Suzhou Industrial Park
Changzhou
Nanjing
Fengcheng
Pingxiang
Jiangxi
Zhangshu
Yonganzhou
Hangzhou

Shandong Province

Jinan East

Northern China

Jilin
Beijing Economic-Technological Development Area
Hebei Jingxian

Northwestern China

Xi'an

Hainan Province

Qionghai

Midstream Projects

Guangdong LNG
Anhui NG
Hebei NG
Jilin NG
Henan NG
Jintan NG (Phase 1)
Jintan NG (Phase 2)
Huanghua Port LNG
Taizhou (District High Pressure Network)
Tangshan Caofeidian LNG Terminal (Storage Tanks)

LNG Refilling Station

Nanjing (Marine)

Smart Energy

Photovoltaic

Suqian
Changzhou
Qingdao
Weifang
Foshan
Zhaoqing
Nanyang
Xiamen
Quanzhou

Energy Storage

Dunhuang
Danyang

Energy Savings Management

Changsha

Water/Waste Treatment

Wujiang
Suzhou Industrial Park
Wuhu
Suzhou Industrial Park (Industrial Wastewater Treatment)
Maanshan
Jiangbei
Suzhou Industrial Park (Food & Green Waste Processing and Utilisation)
Foshan Water Environmental Protection
Tongling Food Waste Treatment
Changzhou Jiashan Waste Incineration and Power Generation
Changzhou Wujin Kitchen Waste Treatment

Towngas China (Stock Code: 1083)

Piped City-Gas Projects

Guangdong Province

Foshan
Shaoguan
Qingyuan
Yangdong
Fengxi

Eastern China

Nanjing Gaochun
Dafeng
Tongshan
Hubei Zhongxiang
Maanshan
Bowang
Zhengpugang Xin Qu Modern Industrial Zone
Wuhu Fanchang
Wuhu Jiangbei
Anqing
Chizhou
Tunxi
Huangshan
Huizhou
Tongxiang
Huzhou
Yuhang
Songyang
Changjiu
Fuzhou
Jiujiang
Wuning
Xiushui
Yifeng
Changting

Shandong Province

Jimo
Laoshan
Laoshan Bay
Zibo
Zibo Lvbo
Longkou
Jinan West
Weifang
Weihai
Taian
Chiping
Linqu
Laiyang
Zhaoyuan
Pingyin
Feicheng
Boxing Economic Development Zone
Yangxin
Wulian

Hunan Province

Miluo

Northeastern China

Benxi
Chaoyang
Tieling
Fuxin
Shenyang Coastal Economic Zone
Yingkou
Dalian Changxingdao
Dalian Economic and Technical Development Zone
Anshan
Lvshun
Kazuo
Beipiao
Wafangdian
Xinqiu
Jianping
Changchun
Gongzhuling
Siping
Qiqihar

Hebei Province

Qinhuangdao
Yanshan
Cangxian
Mengcun
Shijiazhuang

Inner Mongolia

Baotou

Southwestern China

Ziyang
Weiyuan
Pengxi
Lezhi
Pingchang
Dayi
Yuechi
Cangxi
Chengdu
Zhongjiang
Jianyang
Pengshan
Mianyang
Xinjin
Xindu
Mianzhu
Jiajiang
Qijiang
Guilin
Zhongwei (Fusui)
Xingyi
Luliang
Liujiang District, Liuzhou

UTILITY BUSINESSES IN MAINLAND CHINA (continued)

(City-gas projects re-invested by the Group's Companies are excluded)

Towngas China (Stock Code: 1083)

Midstream Projects

Xuancheng Huangshan
Taian Taigang
Inner Mongolia Transmission Pipeline
Jinan-Liaocheng Pipeline & Chiping South Citygate

Upstream Project

Sichuan Liquefaction of Shale Gas

CNG Refilling Stations

Qiqihar (Lianfu)
Qiqihar (Xingqixiang)

Distributed Energy Systems

Sichuan
Shenyang Economic and Technical Development Zone
Jiawang District, Xuzhou
Qingdao Jimo Chuangzhi New District
Yangxin Economic & Technological Development Zone, Binzhou
Changchun
Guilin
Tangshan Chengnan Economic Development Zone
Boxing Economic Development Zone, Binzhou
Xuzhou Biomedical Industrial Park
Maanshan Economic and Technological Development Zone South District
Zhengzhou Xinmi Yinji International Tourism Resort
Shenzhen Gas Building
Dangtu Economic Development Zone Northern District
Lishui Songyang Wangcun Industrial Park
Tangshan Fengnan Lingang Economic Development Zone
Anhui Electricity Company
Changzhou Photovoltaic Industrial Park
Eastern Park of Tongling Economic and Technological Development Zone
Fuxin Industrial Park
Haicheng Xiliu Textile Industrial Park

Others

Zhuojia Public Engineering
Towngas Natural Gas Sales
U-Tech (Guang Dong) Engineering
Liaoning Clean Energy Group
Towngas Cosy Home (Chengdu) Technological Services

NEW ENERGY AND OTHER PROJECTS

New Energy

Coal Mining

Inner Mongolia Ordos Kejian

Coal-Based Chemicals

Jiangxi Fengcheng
Inner Mongolia Ordos

CNG/LNG Refilling Stations

Shaanxi Xianyang
Shaanxi Huitai
Shaanxi Lueyang
Shaanxi Fengxiang
Shaanxi Shenmu
Shaanxi Baoji
Shaanxi Hancheng
Shanxi Yuanping
Shanxi Lingshi
Shanxi Xinfu
Shandong Chiping
Shandong Dongping
Shandong Jiaxiang
Shandong Weishan
Shandong Shanxian
Shandong Linqing
Shandong Heze
Hebei Shijiazhuang
Xingtai (Gangxing)
Xingtai (Xinghua)
Henan Kaifeng
Henan Linzhou
Henan Nanyang
Henan Wuyang
Inner Mongolia Huhhot
Inner Mongolia Wulatezhong Qi
Inner Mongolia Xiwuzhumuqin Qi
Inner Mongolia Chifeng
Inner Mongolia Chaha'eryouyiqian Qi
Inner Mongolia Xilingol League
Inner Mongolia Ulanqab Huade
Inner Mongolia Ulanqab Chahar
Inner Mongolia Bayannur Uradqian Qi
Inner Mongolia Bayannur Linhe
Inner Mongolia Bayannur Hanggin
Ningxia Jinyintan
Ningxia Zhongwei
Ningxia Zhongwei Haixing Development Zone
Jiangsu Xuzhou
Anhui Maanshan
Jiangxi Pengze
Guangdong Guangzhou

Upstream Projects

Shanxi LCBM
Jilin Tianyuan
Xuzhou COG

Coal Logistics

Shandong Jining Jiaxianggang Logistics Port

Biomass

Zhangjiagang
Hubei Jingzhou
Luanzhou
Cangzhou (Biofuel)

Oilfield

Phetchabun Province in Thailand

Telecommunications

Shandong Jinan
Shandong Jinan Chibo
Shandong Laiyang
Xuzhou Fengxian
Xuzhou Peixian
Liaoning Dalian DETA
Dalian Yida
Harbin
Beijing Zhongjing
Beijing Chibo
Dongguan
Shenzhen (Qianhai)
Shenzhen (Interlink Connectivity)
Yingtong TGT Network Services (Shenzhen)

Others

Shenyang Sanquan Construction Supervisory
ECO Engineering Management (Xi'an)
Suzhou Industrial Park Broad Energy Services
GH Yixing Ecology
Dalian (New Energy Technology)
M-Tech
GH-Fusion
G-Tech
S-Tech (Wuhan)
S-Tech (Zhuhai)
ECO Engineering Management (Shenzhen)
Towngas Lifestyle
Towngas Payment Technology (Shenzhen)
Hong Kong & China Gas International Energy Trading
Mia Cucina Kitchen Cabinets (Shenzhen)
Inner Mongolia Ordos Carbon Material
Towngas Agriculture Investment (Nanjing)
Tangshan Laundry Factory
Danyang Laundry Factory
Suzhou Industrial Park Suxiang Cooperation Zone Urban Utilities Development

RISK FACTORS

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

For further details on how the Group manages its risks, please refer to the "Risk Management and Internal Control" section of our Corporate Governance Report on pages 80 to 82.

Business Environment

In order to contain the rapid spread of COVID-19 in 2020, widespread global lockdowns were imposed. In many countries, businesses ranging from factories to restaurants closed, which dealt a heavy blow to the economy. Nearly all types of businesses were seriously affected, but the retail, travel and catering sectors were particularly hard hit.

COVID-19 triggered the deepest global economic recession in decades. While the ultimate outcome of the recession is still uncertain, the pandemic will result in contractions across the vast majority of emerging markets and developing economies. It will also affect labour productivity and industrial output.

Hong Kong is still suffering after two years of unprecedented economic weakness triggered by social unrest and the global pandemic. Annual GDP showed a record 6.1 per cent contraction in 2020, following the decline of 1.2 per cent in 2019. This was the first time Hong Kong had posted back-to-back annual contractions since 1962.

In 2020, tourism was almost non-existent. The number of visitors dropped by 93.6 per cent from the decrease of 14.2 per cent in 2019 due to social unrest. Arrival figures dropped to 3.6 million from 55.9 million a year before. The average hotel occupancy rate fell to 46 per cent in 2020, down from 79 per cent in 2019 (in December 2020, the rate was 58 per cent, mainly due to local staycations and visitors under quarantine). The consumer price index averaged just 0.3 per cent, the lowest in the past 15 years (2.9 per cent in 2019). The unemployment rate surged to a 16-year high of 6.6 per cent.

Mainland China experienced a very difficult beginning in 2020 but delivered satisfactory results by the end of 2020, after bringing COVID-19 under control. The country was the only major economy in the world to register growth for the year, with a GDP growth of 2.3 per cent. Despite continuing Sino-US trade tensions, mainland China's total export value increased 3.6 per cent, beating the 0.5 per cent increase in 2019. The Brent crude oil price dropped 35 per cent from an average of US$64 per barrel in 2019 to US$42 per barrel in 2020.

Business challenges faced by the Group included a slowdown in gas demand as a result of the global economic downturn, competition from providers of electricity in Hong Kong and direct sales by upstream gas companies, as well as suppliers of liquefied natural gas (LNG) and alternative energy sources in mainland China. Other threats to our business included drops in oil prices and changes in government policy (political, legal, regulatory, environmental or competition related), all of which could also affect our operations.

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

Furthermore, we are constantly exploring new gas applications and new business opportunities to achieve business diversification in both Hong Kong and mainland China, while maintaining close communication with our operational partners and governments whose support is essential for our business growth.

In response to the potential impact of COVID-19, a variety of counter measures has been put in place to alleviate the impact on our operations and relieve the operating pressure on our customers, including the granting of a credit period extension. In addition, special measures have been taken to minimise the impact of the pandemic on our workforce, as mentioned later in this section.

Despite the reduction in social unrest in 2020, we continued to put mitigating measures in place to enhance safety and security controls on our premises and gas facilities, while continuing to review and assess our contingency preparedness.

Reliability of Gas Supply

We secure multiple sources of feedstock for the production of town gas in our Hong Kong operations. These include natural gas transmitted from our LNG receiving terminal at Shenzhen to our gas production plant at Tai Po, naphtha imported from places such as Southeast Asia and Australia, and treated landfill gas obtained from our landfill project sites in Hong Kong.

A major risk of interruption to our feedstock supply for natural gas includes the possibility of inclement weather delaying LNG tankers. We have addressed this risk under our diversified production strategy, in which we have given our Tai Po plant the capability of switching between natural gas and naphtha for feedstock.

In mainland China, to facilitate more efficient gas inventory management and reduce supply bottlenecks during high demand periods, we have built LNG storage facilities as well as a natural gas storage facility at our underground salt caverns in Jiangsu province. A variety of energy sources have also been obtained, including natural gas supplied to northern and northeastern China from Russia as well as through the reinforcement of pipeline network interconnections.

To ensure reliable gas transmission, we have a sophisticated Supervisory Control and Data Acquisition (SCADA) system to monitor and control our pressure-regulating stations and network. We also have a comprehensive staff training programme, asset management systems, and contingency plans with regular practice drills, in preparation for unforeseen events that might affect our customers and the public. Moreover, the development of regulatory requirements for gas reserves applicable to our gas operations in mainland China are being closely monitored.

Production and Network Safety

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

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

Information Security

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

Ethics and Integrity

Maintaining strong corporate governance standards and operating ethically are among management's top concerns. Poor ethical behaviour by employees could damage our corporate reputation as well as adversely affect our long-established business relationships with stakeholders, including our customers and suppliers, which may have potential financial implications.

In order to provide an ethical workplace with integrity, we have policies on the standards of behaviour we expect of our employees and provide them with regular training in these policies. We have also established formal channels for reporting suspected cases of fraud and encourage our business partners to follow the same ethical principles that we promote in our Anti-Fraud Policy.

Health and Safety

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

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

In 2020, we put additional measures in place to protect our workforce during the outbreak of COVID-19. These included, but were not limited to, the adoption of a variety of special work arrangements to maintain social distancing and the provision of necessary personal protective equipment to our employees.

Liquidity and Capital Resources

As at 31st December 2020, the Group had a net current borrowings position of HK$3,224 million (31st December 2019: HK$1,233 million) and long-term borrowings of HK$31,286 million (31st December 2019: HK$28,696 million). In addition, banking facilities available for use amounted to HK$21,200 million (31st December 2019: HK$15,700 million).

The operating and capital expenditures of the Group are funded by cash flow from operations, internal liquidity, banking facilities, debt and equity financing. The Group has adequate and stable sources of funds and unutilised banking facilities to meet its future capital expenditures and working capital requirements.

Financing Structure

In May 2009, the Group established a US$1 billion Medium Term Note Programme (the "Programme") which gives the Group the flexibility to issue notes at favourable terms and timing. In July 2019, the Programme was updated with the size increased to US$3 billion. Up to 31st December 2020, the Group issued notes in the total nominal amount of HK$20,742 million (31st December 2019: HK$14,756 million) with maturity terms of 3 years, 10 years, 12 years, 15 years, 30 years and 40 years in Renminbi, Australian dollar, Japanese yen and Hong Kong dollar under the Programme (the "MTNs"). The carrying value of the issued MTNs as at 31st December 2020 was HK$20,165 million (31st December 2019: HK$14,049 million). Medium term notes of RMB535 million, equivalent to HK$621 million (net proceeds: RMB535 million, equivalent to HK$621 million) and HK$5,365 million (net proceeds: HK$5,328 million) were issued in 2020.

As at 31st December 2020, the Group's borrowings amounted to HK$42,139 million (31st December 2019: HK$37,936 million). While the notes mentioned above together with the bank and other loans of HK$8,139 million (31st December 2019: HK$6,862 million) had fixed interest rate and were unsecured, the remaining bank and other loans were unsecured and had a floating interest rate, of which HK$6,935 million (31st December 2019: HK$9,759 million) were long-term bank loans and HK$6,900 million (31st December 2019: HK$7,266 million) had maturities within one year on revolving credit or term loan facilities. As at 31st December 2020, the maturity profile of the Group's borrowings was 26 per cent within 1 year, 20 per cent within 1 to 2 years, 22 per cent within 2 to 5 years and 32 per cent over 5 years (31st December 2019: 24 per cent within 1 year, 15 per cent within 1 to 2 years, 36 per cent within 2 to 5 years and 25 per cent over 5 years).

The RMB, AUD and JPY notes issued are hedged to Hong Kong dollars by currency swaps. Except for some borrowings of certain subsidiaries are arranged in or hedged to their functional currency in Renminbi, the Group's borrowings are primarily denominated in Hong Kong dollars and local currency of subsidiaries in mainland China. The Group therefore has no significant exposure to foreign exchange risk.

In February 2019, the Group re-issued Perpetual Subordinated Guaranteed Capital Securities (the "Perpetual Capital Securities") of US$300 million and the proceeds were mainly used to refinance the 2014 first-issued perpetual capital securities redeemed in January 2019. The Perpetual Capital Securities are able to keep a distribution rate of 4.75 per cent per annum for the first five years and thereafter at fixed distribution rate. With no fixed maturity and the distribution payment can be deferred at the discretion of the Group, and the Perpetual Capital Securities are redeemable at the Group's option on or after 12th February 2024, they are accounted for as equity in the financial statements. The Perpetual Capital Securities are guaranteed by the Company. The issuance helps strengthen the Group's financial position, improve its financing maturity profile and diversify its funding sources.

The gearing ratio [net borrowing / (total equity + net borrowing)] for the Group as at 31st December 2020 remained healthy at 30 per cent (31st December 2019: 28 per cent).

Contingent Liabilities

As at 31st December 2020 and 2019, the Group did not provide any guarantee in respect of bank borrowing facilities made available to any associates, joint ventures or third parties.

Currency Profile

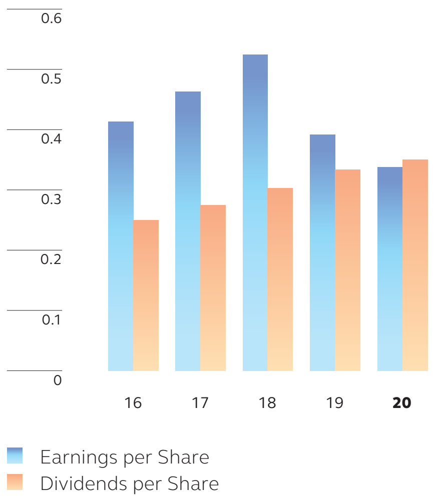
The Group's operations and activities are predominantly based in Hong Kong and mainland China. As such, its cash, cash equivalents or borrowings are mainly denominated in Hong Kong dollars, Renminbi or United States dollars, whereas borrowings for the Group's subsidiaries, associates and joint ventures in mainland China are predominantly denominated in the local currency, Renminbi, in order to provide natural hedging for the investment there.

Group's Financial Investments in Securities

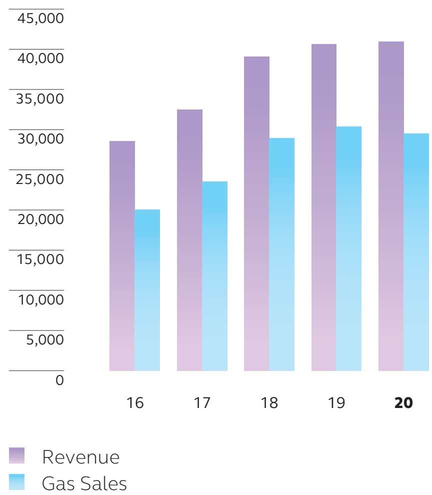
Under the guidance of the Group's Treasury Committee, financial investments have been made in equity and debt securities. As at 31st December 2020, the relevant investments in securities amounted to HK$685 million (31st December 2019: HK$705 million). The performance of the Group's financial investments in securities was satisfactory.

FIVE-YEAR FINANCIAL STATISTICS

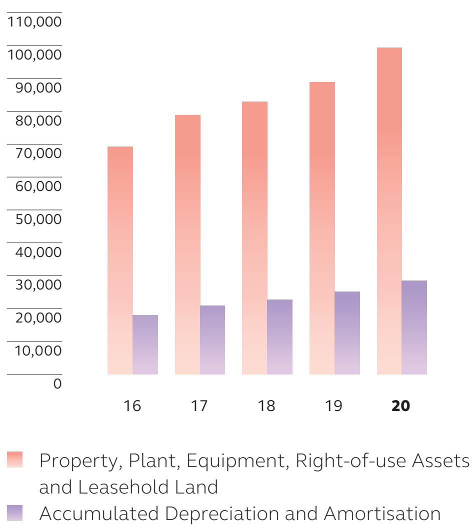
Earnings and Dividends per Share (HK$)



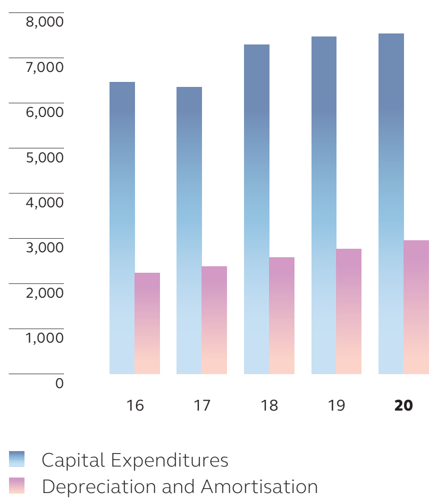
Revenue and Gas Sales (HK$ million)



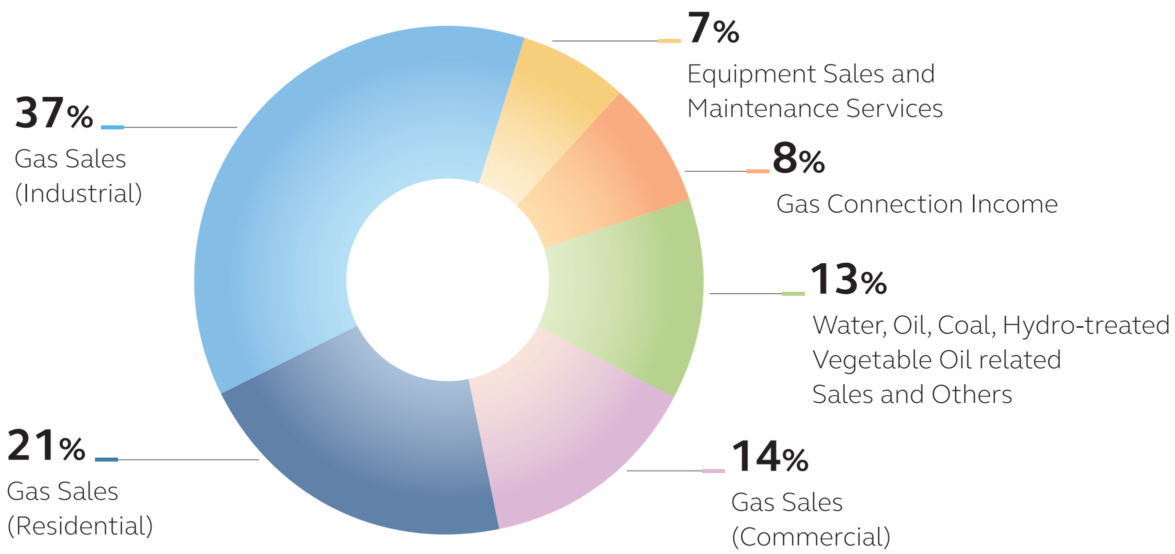
Property, Plant, Equipment, Right-of-use Assets and Leasehold Land (HK$ million)



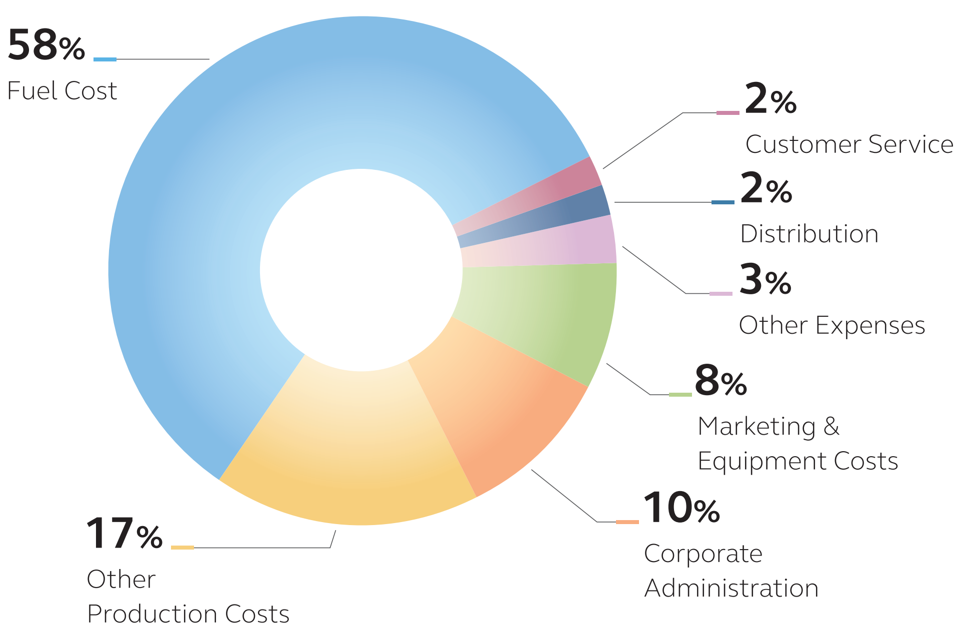
Capital Expenditures (HK$ million)



Analysis of Revenue



Analysis of Expenditures



COMPARISON OF TEN-YEAR RESULTS

	2020	2019	2018
Highlights (Company)			
Number of Customers as at 31st December	**1,943,777**	1,933,727	1,908,511
Town Gas Sales, million MJ	**27,947**	28,712	29,550
Installed Capacity, thousand m^3 per day	**12,596**	12,596	12,596
Maximum Daily Demand, thousand m^3	**5,859**	6,058	7,255
Revenue and Profit	**HK$'M**	HK$'M	HK$'M
Revenue	**40,927.0**	40,628.1	39,073.0
Profit before Taxation	**8,925.6**	10,403.9	12,339.5
Taxation	**(1,713.2)**	(2,289.6)	(1,907.6)
Profit for the year	**7,212.4**	8,114.3	10,431.9
Holders of Perpetual Capital Securities	**(110.3)**	(98.6)	(107.4)
Non-controlling Interests	**(1,094.8)**	(1,050.0)	(1,011.7)
Profit Attributable to Shareholders	**6,007.3**	6,965.7	9,312.8
Dividends	**6,220.0**	5,923.8	5,385.3
Assets and Liabilities			
Property, Plant, Equipment, Right-of-use assets and Leasehold Land	**70,936.1**	63,807.9	60,193.3
Investment Property	**827.0**	830.0	778.0
Intangible Assets	**5,462.9**	5,291.1	5,682.1
Associates	**28,670.3**	27,475.5	26,314.1
Joint Ventures	**11,981.2**	10,613.5	10,950.3
Non-current Financial Assets *	**7,180.1**	8,172.5	4,633.7
Other Non-current Assets	**5,066.0**	4,150.2	3,529.4
Current Assets	**20,156.6**	20,129.4	20,612.2
Current Liabilities	**(29,806.3)**	(26,167.5)	(26,150.9)
Non-current Liabilities	**(41,320.6)**	(38,905.9)	(36,348.9)
Net Assets	**79,153.3**	75,396.7	70,193.3
Capital and Reserves			
Share Capital	**5,474.7**	5,474.7	5,474.7
Share Premium	**–**	–	–
Reserves	**57,196.4**	54,841.9	53,387.1
Proposed Dividend	**4,087.4**	3,892.8	3,538.9
Shareholders' Funds	**66,758.5**	64,209.4	62,400.7
Perpetual Capital Securities	**2,384.0**	2,384.2	–
Non-controlling Interests	**10,010.8**	8,803.1	7,792.6
Total Equity	**79,153.3**	75,396.7	70,193.3
Earnings per Share, HK Dollar #	**0.34**	0.39	0.52
Dividends per Share, HK Dollar #	**0.35**	0.33	0.30
Dividend Cover	**0.97**	1.18	1.73

* *Non-current financial assets include available-for-sale financial assets, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss*

\# *Adjusted for the bonus share issue in 2020*

2017	2016	2015	2014	2013	2012	2011
1,883,407	1,859,414	1,839,261	1,819,935	1,798,731	1,776,360	1,750,553
29,049	28,814	28,404	28,835	28,556	28,360	28,147
12,596	12,596	12,596	12,260	12,260	12,260	12,260
6,191	6,964	6,172	6,571	6,283	6,403	6,742
HK$'M	HK$'M	HK$'M	HK$'M	HK$'M	HK$'M	HK$'M
32,476.5	28,557.1	29,591.3	31,614.7	28,245.9	24,922.5	22,426.8
11,096.7	9,845.7	9,906.0	9,874.6	9,410.8	9,885.6	8,068.7
(1,749.8)	(1,575.9)	(1,726.7)	(1,771.4)	(1,655.2)	(1,484.6)	(1,344.0)
9,346.9	8,269.8	8,179.3	8,103.2	7,755.6	8,401.0	6,724.7
(111.2)	(110.5)	(110.5)	(102.2)	–	–	–
(1,010.4)	(818.6)	(766.8)	(891.8)	(901.8)	(688.9)	(575.1)
8,225.3	7,340.7	7,302.0	7,109.2	6,853.8	7,712.1	6,149.6
4,895.7	4,450.9	4,046.6	3,679.7	3,345.9	3,041.7	4,147.8
58,056.7	51,226.2	49,417.5	51,353.6	47,002.3	41,914.1	33,606.3
764.0	729.0	713.0	683.0	646.0	540.0	518.0
5,883.6	5,572.4	5,819.5	5,858.5	5,253.3	3,845.4	3,434.8
23,393.4	20,485.0	19,591.9	17,572.5	17,015.1	16,307.1	12,706.8
10,889.2	9,226.5	9,288.2	9,033.8	8,939.0	9,103.6	8,964.7
4,289.9	4,967.1	4,567.0	2,599.7	2,937.3	3,078.6	3,110.6
3,419.3	3,366.3	2,533.3	2,668.3	2,913.5	2,710.6	2,734.5
24,365.8	21,170.9	23,632.9	24,641.5	21,688.7	21,437.8	19,955.1
(31,948.1)	(19,547.5)	(23,180.6)	(20,689.6)	(19,261.8)	(17,252.9)	(13,403.4)
(28,867.9)	(34,297.9)	(30,269.8)	(31,497.6)	(30,762.9)	(31,334.1)	(25,353.3)
70,245.9	62,898.0	62,112.9	62,223.7	56,370.5	50,350.2	46,274.1
5,474.7	5,474.7	5,474.7	5,474.7	2,389.9	2,172.6	1,975.1
–	–	–	–	2,861.0	3,078.3	3,275.8
51,746.9	45,532.6	44,707.7	44,735.7	42,418.0	37,952.1	33,075.4
3,217.2	2,924.9	2,659.0	2,417.8	2,198.7	1,998.8	3,199.7
60,438.8	53,932.2	52,841.4	52,628.2	49,867.6	45,201.8	41,526.0
2,354.1	2,353.8	2,353.8	2,353.8	–	–	–
7,453.0	6,612.0	6,917.7	7,241.7	6,502.9	5,148.4	4,748.1
70,245.9	62,898.0	62,112.9	62,223.7	56,370.5	50,350.2	46,274.1
0.46	0.41	0.41	0.40	0.39	0.43	0.35
0.28	0.25	0.23	0.21	0.19	0.17	0.23
1.68	1.65	1.80	1.93	2.05	2.54	1.48

The Directors have pleasure in submitting to shareholders their Report and the audited financial statements for the year ended 31st December 2020 which are to be presented at the Annual General Meeting to be held at Meeting Room N101 (Expo Drive Entrance), Hong Kong Convention and Exhibition Centre, 1 Expo Drive, Wanchai, Hong Kong on Wednesday, 2nd June 2021.

Principal Activities

The principal activities of the Company and its subsidiaries (collectively, the "Group") are the production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses in Hong Kong and mainland China. Particulars of the principal subsidiaries of the Company are shown from pages 176 to 187 of this Annual Report. Revenue and contribution to operating profit are mainly derived from activities carried out in Hong Kong and mainland China.

Results and Appropriations

The results of the Group for the year ended 31st December 2020 are set out in the consolidated income statement and the consolidated statement of comprehensive income on pages 92 and 93 of this Annual Report respectively.

An interim dividend of HK12 cents per share was paid to shareholders on 14th September 2020 and the Directors recommend a final dividend of HK23 cents per share payable on 21st June 2021 to shareholders whose names are on the register of members of the Company on 10th June 2021.

Bonus Issue of Shares

The Directors recommend a bonus issue of shares on the basis of one bonus share for every twenty existing shares held by shareholders whose names are on the register of members of the Company on 10th June 2021. The bonus issue is subject to the conditions and trading arrangements set out in the circular despatched together with this Annual Report.

Business Review

A review of the business of the Group during the year, particulars of important events affecting the Group that have occurred since the end of the year ended 31st December 2020 (if any), an analysis of the Group's performance using financial key performance indicators and a discussion on the Group's future business development are provided from pages 2 to 63 of this Annual Report. Description of the possible risks and uncertainties that the Group may be facing are set out from pages 56 to 57. The financial risk management of the Group can be found in Note 3 to the consolidated financial statements. In addition, discussions on the Group's relationships with its key stakeholders, environmental policies and performance, and compliance with relevant laws and regulations which have a significant impact on the Group can be found from pages 20 to 55 and pages 72 to 84.

The Group complies with all major local laws and regulations, including business ethics, health and safety, employees, customers, and the environment, as the basic requirement of how we operate.

Preventing gas leakages or explosions in our production and storage facilities, pipelines and networks is a top priority for the Group. In Hong Kong gas business, the gas safety requirements are covered by the Gas Safety Ordinance (Cap. 51 of the Laws of Hong Kong), which the Group complies fully with at all times. The Group conducts regular reviews of all operating procedures to mitigate these risks and implements targeted strategies for addressing them. The Group also manages our assets according to international standards and external certifications, and maintains insurance coverage against any property damage or financial loss.

The Group collects and keeps customers' personal data necessary for the provision of the Group's services. Customers are required to supply the Group with personal data in connection with the opening or operation of gas accounts, and when the Group provides other related facilities and services. The Group takes every step necessary to protect its customers' data and established a Privacy Policy Statement that sets out our standards for handling customer information. The Group complies with the Personal Data (Privacy) Ordinance (Cap. 486 of the Laws of Hong Kong).

Business Review (Continued)

The Group is governed by the Prevention of Bribery Ordinance (Cap. 201 of the Laws of Hong Kong) and any anti-bribery laws, which include zero tolerance towards corruption and related malpractice. The Group complies with the Prevention of Bribery Ordinance and the Code of Conduct and an Anti-fraud Policy of the Group are in place to promote integrity as a core company value. The Group insists our staff and business partners adhere to both the letter and the spirit of the law during the course of business. All employees are strictly forbidden from giving or accepting bribes and must never offer an advantage to, or ask for an advantage from, customers, suppliers, contractors, regulators and legislators, authorities or other business partners.

The Group sets out its commitment to comply with the laws and regulations pertaining to anti-competitive practices, in line with the Group's nine core values. Guidance is provided for staff on understanding the requirements and importance of compliance, as well as the disciplinary actions and possible liabilities they will be subject to in cases of non-compliance. Additionally, the Group closely monitors the Competition Ordinance (Cap. 619 of the Laws of Hong Kong) and reports to the management on any developments that could have a significant impact.

The Company has complied with the requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) (the "Companies Ordinance") and the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO") including but not limited to the disclosure of information and corporate governance practices.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last nine financial years is set out on pages 62 and 63 of this Annual Report.

Distributable Reserves

The distributable reserves of the Company as at 31st December 2020 amounted to HK$13,773,000,000 (2019: HK$14,442,000,000) before the proposed final dividend for the year ended 31st December 2020.

Shares Issued

During the year, the Company issued 846,252,612 bonus shares without consideration on the basis of one bonus share for every twenty shares held. The reason for the issue of bonus share was to enable the shareholders to enjoy a pro-rata increase in the number of shares being held in the Company without incurring any costs.

Details of the shares issued by the Company during the year are set out in Note 35 to the consolidated financial statements.

Bank Loans, Guaranteed Notes and Medium Term Note Programme

Particulars of bank loans, guaranteed notes and Medium Term Note Programme of the Company and the Group as at 31st December 2020 are set out in note 32 to the consolidated financial statements on pages 161 and 162 and Financial Resources Review on pages 58 and 59, respectively.

Charitable Donations

During the year, the Group made charitable donations amounting to approximately HK$7,900,000 (2019: HK$7,200,000).

Directors

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

Non-executive Directors

Dr. Lee Ka-kit (Chairman)
Mr. Lee Ka-shing (Chairman)
Dr. Colin Lam Ko-yin

Independent Non-executive Directors

Dr. the Hon. Sir David Li Kwok-po
Prof. Poon Chung-kwong
Dr. Moses Cheng Mo-chi

Executive Directors

Mr. Alfred Chan Wing-kin
Mr. Peter Wong Wai-yee
Mr. John Ho Hon-ming*

* *Mr. John Ho Hon-ming was appointed as Executive Director with effect from 1st October 2020.*

At the Annual General Meeting held on 5th June 2020, Dr. Lee Ka-kit, Dr. the Hon. Sir David Li Kwok-po and Mr. Alfred Chan Wing-kin were re-elected as Directors of the Company. Mr. Lee Ka-shing, Dr. Colin Lam Ko-yin, Prof. Poon Chung-kwong, Dr. Moses Cheng Mo-chi and Mr. Peter Wong Wai-yee held office throughout the year. Mr. John Ho Hon-ming was appointed as Executive Director with effect from 1st October 2020.

According to the Articles of Association of the Company (the "Articles of Association"), one-third of all the directors are subject to retirement by rotation at every annual general meeting. Pursuant to Article 97 of the Articles of Association, Mr. Lee Ka-shing, Prof. Poon Chung-kwong and Mr. Peter Wong Wai-yee are due to retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment. Pursuant to Article 91 of the Articles of Association, Mr. John Ho Hon-ming, Executive Director, is also due to retire at the forthcoming Annual General Meeting and, being eligible, offer himself for re-appointment. Details of these directors proposed for re-election are set out in the circular sent together with this Annual Report.

A list of directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report is kept at the Company's registered office and available for inspection by shareholders during office hours.

Biographical Details of Directors

The biographical details of Directors and senior management who are also executive directors are set out from pages 14 to 18 of this Annual Report.

Disclosure of Interests

A. Directors

As at 31st December 2020, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Shares and Underlying Shares (Long Positions)

		Interest in Shares				
Name of Company	Name of Director	Personal Interests	Corporate Interests	Other Interests	Aggregate Interests	%*
The Hong Kong and China Gas Company Limited	Dr. Lee Ka-kit			7,379,707,351 (Note 2)	7,379,707,351	41.53
	Mr. Lee Ka-shing			7,379,707,351 (Note 2)	7,379,707,351	41.53
	Dr. the Hon. Sir David Li Kwok-po	54,569,414			54,569,414	0.31
	Mr. Alfred Chan Wing-kin	338,831 (Note 5)			338,831	0.00
	Prof. Poon Chung-kwong	231,510 (Note 4)			231,510	0.00
	Mr. John Ho Hon-ming	53,058			53,058	0.00
Lane Success Development Limited	Dr. Lee Ka-kit			9,500 (Note 6)	9,500	95
	Mr. Lee Ka-shing			9,500 (Note 6)	9,500	95
Yieldway International Limited	Dr. Lee Ka-kit			2 (Note 7)	2	100
	Mr. Lee Ka-shing			2 (Note 7)	2	100
Towngas China Company Limited ("Towngas China")	Dr. Lee Ka-kit			2,025,099,415 (Note 8)	2,025,099,415	68.21
	Mr. Lee Ka-shing			2,025,099,415 (Note 8)	2,025,099,415	68.21
	Mr. Alfred Chan Wing-kin	4,041,693			4,041,693	0.14
	Mr. Peter Wong Wai-yee	3,201,000			3,201,000	0.11
	Mr. John Ho Hon-ming	1,133,862			1,133,862	0.04

* *Percentage which the aggregate long position in the shares or underlying shares represents to the number of issued shares of the Company or any of its associated corporations.*

Save as mentioned above, as at 31st December 2020, there were no other interests or short positions of the Directors of the Company in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Disclosure of Interests (Continued)

B. Substantial Shareholders and Others (Long Positions)

As at 31st December 2020, the interests and short positions of every person, other than the Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

	Name of Individual / Company	No. of Shares in which Interested	%*
Substantial Shareholders (a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting)	Dr. the Hon. Lee Shau-kee (Note 3)	7,379,707,351	41.53
	Disralei Investment Limited (Note 1)	4,108,302,676	23.12
	Timpani Investments Limited (Note 1)	5,703,993,415	32.10
	Faxson Investment Limited (Note 1)	7,379,707,351	41.53
	Henderson Land Development Company Limited (Note 1)	7,379,707,351	41.53
	Henderson Development Limited (Note 1)	7,379,707,351	41.53
	Hopkins (Cayman) Limited (Note 2)	7,379,707,351	41.53
	Riddick (Cayman) Limited (Note 2)	7,379,707,351	41.53
	Rimmer (Cayman) Limited (Note 2)	7,379,707,351	41.53
Persons other than Substantial Shareholders	Macrostar Investment Limited (Note 1)	1,675,713,936	9.43
	Chelco Investment Limited (Note 1)	1,675,713,936	9.43
	Medley Investment Limited (Note 1)	1,595,690,739	8.98

* *Percentage which the aggregate long position in the shares represents to the number of issued shares of the Company.*

Save as mentioned above, as at 31st December 2020, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in shares and underlying shares of the Company.

Notes:

1. These 7,379,707,351 shares were beneficially owned by Macrostar Investment Limited ("Macrostar"), Medley Investment Limited ("Medley") and Disralei Investment Limited ("Disralei"). Macrostar was a wholly-owned subsidiary of Chelco Investment Limited, which was in turn, a wholly-owned subsidiary of Faxson Investment Limited ("FIL"). Medley and Disralei were wholly-owned subsidiaries of Timpani Investments Limited, which was in turn, a wholly-owned subsidiary of FIL. FIL was a wholly-owned subsidiary of Henderson Land Development Company Limited ("HLD"). Henderson Development Limited ("HD") was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HLD.
2. These 7,379,707,351 shares are duplicated in the interests described in Note 1. Hopkins (Cayman) Limited ("Hopkins") owned all the issued ordinary shares which carry the voting rights in the share capital of HD as trustee of a unit trust ("Unit Trust"). Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"), as trustees of the respective discretionary trusts, held units in the Unit Trust. Dr. Lee Ka-kit and Mr. Lee Ka-shing, as discretionary beneficiaries of the discretionary trusts, were taken to have duties of disclosure in relation to these shares by virtue of Part XV of the SFO.
3. These 7,379,707,351 shares are duplicated in the interests described in Notes 1 and 2. Dr. the Hon. Lee Shau-kee beneficially owned all the issued shares in Rimmer, Riddick and Hopkins and was taken to be interested in these shares by virtue of Part XV of the SFO.
4. These 231,510 shares were jointly held by Prof. Poon Chung-kwong and his spouse.
5. These 338,831 shares were jointly held by Mr. Alfred Chan Wing-kin and his spouse.
6. These 9,500 shares in Lane Success Development Limited were beneficially owned by a wholly-owned subsidiary of the Company (as to 4,500 shares) and a wholly-owned subsidiary of HLD (as to 5,000 shares). Dr. Lee Ka-kit and Mr. Lee Ka-shing were taken to be interested in HLD and the Company as set out in Notes 1 and 2 by virtue of Part XV of the SFO.
7. These 2 shares in Yieldway International Limited were beneficially owned by a wholly-owned subsidiary of the Company (as to 1 share) and a wholly-owned subsidiary of HLD (as to 1 share). Dr. Lee Ka-kit and Mr. Lee Ka-shing were taken to be interested in HLD and the Company as set out in Notes 1 and 2 by virtue of Part XV of the SFO.
8. These 2,025,099,415 shares in Towngas China representing approximately 68.21% of the total number of issued shares in Towngas China were beneficially owned by Hong Kong & China Gas (China) Limited (as to 1,850,656,677 shares), Planwise Properties Limited (as to 171,524,099 shares) and Superfun Enterprises Limited (as to 2,918,639 shares), wholly-owned subsidiaries of the Company. Dr. Lee Ka-kit and Mr. Lee Ka-shing were taken to be interested in the Company as set out in Notes 1 and 2 by virtue of Part XV of the SFO.

Equity-Linked Agreements

No equity-linked agreements were entered into by the Company during the year or subsisted at the end of the year.

Arrangements to Purchase Shares or Debentures

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Interests in Competing Businesses

Pursuant to Rule 8.10 of the Listing Rules, the interests of Directors of the Company in businesses which might compete with the Group during the year ended 31st December 2020 and as at 31st December 2020 were as follows:

Mr. Alfred Chan Wing-kin, Mr. Peter Wong Wai-yee and Mr. John Ho Hon-ming (appointed with effect from 1st October 2020), Directors of the Company, have held directorships in companies engaged in the same businesses of production, distribution and marketing of gas in mainland China as the Group. Although some of the businesses carried out by those companies are similar to the businesses carried out by the Group, they are of different scale and/or at different locations, and the Group, has been operating independently of, and at arm's length from, the businesses of those companies. Therefore, the Board is of the view that the businesses of those companies did not compete with the businesses of the Group.

Service Contracts

None of the Directors who are proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Connected Transactions

During the year, the Company had the following connected transactions, each of which, as disclosed by way of announcement, was subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules since each of the applicable percentage ratios was less than 5%:

1. As disclosed in an announcement dated 27th March 2020, Alpha Idea International Limited ("Alpha Idea"), a wholly-owned subsidiary of the Company, had by signing and returning to Hongkong Island Construction Properties Co., Limited ("Hongkong Island Construction"), a wholly-owned subsidiary of Henderson Land Development Company Limited ("HLD") on 27th March 2020: (a) a letter of award successfully tendered for a sub-contract for the carrying out of the design, supply and installation works of kitchen cabinets at the sum of HK$28,959,000; and (b) a letter of acceptance in respect of the engagement for the carrying out of the town gas installation works at the sum of HK$27,471,000, both at the residential development situated at New Kowloon Inland Lot No. 6565 at Kai Tak, Kowloon, Hong Kong for Hongkong Island Construction. As Hongkong Island Construction is a wholly-owned subsidiary of HLD, which in turn is a controlling shareholder of the Company, Hongkong Island Construction is a connected person of the Company under the Listing Rules and the aforesaid transactions therefore constituted connected transactions for the Company under Chapter 14A of the Listing Rules.

Connected Transactions (Continued)

2. As disclosed in an announcement dated 28th August 2020, Alpha Idea had by signing and returning to Denco Properties Limited ("Denco"), a wholly-owned subsidiary of HLD on 28th August 2020: (a) a letter of acceptance in respect of the engagement for the carrying out of the town gas installation works at the sum of HK$17,243,400; and (b) a letter of award successfully tendered for a sub-contract for the carrying out of the design, supply and installation works of kitchen cabinets at the maximum aggregate amount of not exceeding HK$23,718,011, both at the residential development situated at New Kowloon Inland Lot No. 6562 at Kai Tak, Kowloon, Hong Kong for Denco. As Denco is a wholly-owned subsidiary of HLD, which in turn is a controlling shareholder of the Company, Denco is a connected person of the Company under the Listing Rules and the aforesaid transactions therefore constituted connected transactions for the Company under Chapter 14A of the Listing Rules.

3. As disclosed in the announcements dated 28th August 2020 and 25th September 2020, U-Tech Engineering Company Limited, a wholly-owned subsidiary of the Company, had by signing and returning to Sky Rainbow Development Limited ("Sky Rainbow"), wholly owned by a joint venture company which is indirectly owned as to 65% by HLD and as to 35% by New World Development Limited, a letter of nomination on 28th August 2020 successfully tendered for a sub-contract for the carrying out of the supply and installation of electrical equipment and the testing and commissioning of electrical systems at the redevelopment project situated at 4A-4P Seymour Road, Hong Kong at the maximum aggregate amount of not exceeding HK$91,035,000 for Sky Rainbow. As Sky Rainbow is an associate of HLD (a controlling shareholder of the Company), Sky Rainbow is a connected person of the Company under the Listing Rules and the aforesaid transaction therefore constituted a connected transaction for the Company under Chapter 14A of the Listing Rules.

The related party transactions set out in Note 40 to the consolidated financial statements include transactions that constitute connected transactions or continuing connected transactions under the Listing Rules for which the disclosure requirements in accordance with Chapter 14A of the Listing Rules had been met.

Directors' Material Interests in Transactions, Arrangements or Contracts

Except for the "Connected Transactions" as disclosed in this report, no other transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which a Director of the Company and the Director's connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Management Contracts

No contracts (as defined in section 543 of the Companies Ordinance) concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Controlling Shareholders' Interests in Significant Contracts

Save as disclosed in this report, no contract of significance has been entered into between the Company or any of its subsidiaries and the controlling shareholder or its subsidiaries during the year.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

Permitted Indemnity

Pursuant to the Articles of Association, subject to the provisions of the Companies Ordinance, every Director or other officer of the Company shall be indemnified out of the assets of the Company against any liability incurred by him as a director or other officer of the Company in defending any proceedings (whether civil or criminal) in which judgement is given in his favour or he is acquitted or in connection with any application under the Companies Ordinance in which relief is granted to him by the court.

In addition, the indemnity agreements made by the Company, which are currently in force and were in force throughout the financial year, contained permitted indemnity provisions (as permitted under the Companies Ordinance), for the benefit of the Directors of the Company. The Company has maintained appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

Major Customers and Suppliers

During the year, both the percentages of the purchases attributable to the Group's five largest suppliers combined and the percentage of the turnover attributable to the Group's five largest customers combined were less than 30 per cent of the total purchases and turnover of the Group respectively.

Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report from pages 72 to 84 of this Annual Report.

Public Float

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

Auditor

The financial statements have been audited by PricewaterhouseCoopers who will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment at a fee to be agreed by the Board.

On behalf of the Board

Lee Ka-kit	**Lee Ka-shing**
Chairman	*Chairman*

Hong Kong, 19th March 2021

The Board of Directors of the Company (the "Board") is committed to maintaining good corporate governance. The Board believes that good corporate governance principles and practices should emphasise accountability and an increase in transparency which will enable the Group's stakeholders, including shareholders, investors, customers, suppliers, employees and the community to have trust and faith in the Group to take care of their needs and to fulfill its social responsibility.

Corporate Governance Practices

During the year ended 31st December 2020, the Company complied with all the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The below sets out the corporate governance principles and practices adopted by the Group which indicate how the Group has applied relevant principles in the Corporate Governance Code.

Board of Directors

Responsibilities of Directors

The Board is ultimately accountable for the Group's activities, strategies and financial performance, which include formulating business development strategies, directing and supervising the Group's affairs, reviewing the financial statements and budget proposal of the Group, approving interim reports, annual reports and announcements of interim results and annual results, considering dividend policy, reviewing the effectiveness of the risk management and internal control systems and so on.

The day-to-day management, administration and operation of the Group are delegated to the management team. The Board gives clear directions to the management team as to their powers of management, and circumstances in which the management team should report back.

Newly appointed Directors will be arranged a comprehensive, formal and tailored induction which includes provision of key guidelines, documents and publications relevant to their roles, responsibilities and ongoing obligations; a briefing on the Group's structure, businesses, risk management and other governance practices and meeting with other fellow Directors so as to help the newly appointed Directors familiarise with the management, business and governance policies and practices of the Company, and ensure that they have a proper understanding of the operations and businesses of the Group.

To ensure that Directors' contribution to the Board/committees remains informed, continuous professional development are provided for Directors to develop and refresh their knowledge, skills and understanding of the business and markets in which the Group operates. Directors are also provided with monthly updates of the Group's development, and information such as performance and key operational highlights to enable the Board as a whole and each Director to discharge their duties.

All Directors participated in appropriate continuous professional development and provided the Company with their records of training they received for the year ended 31st December 2020.

Board of Directors (Continued)

Responsibilities of Directors (Continued)

During the year ended 31st December 2020, all the current Directors participated in the training which included reading regulatory updates or information relevant to the Group or its businesses and attending or giving talks at seminars and/or conferences.

Directors	Training
Non-executive Directors	
Dr. Lee Ka-kit (Chairman)	✓
Mr. Lee Ka-shing (Chairman)	✓
Dr. Colin Lam Ko-yin	✓
Independent Non-executive Directors	
Dr. the Hon. Sir David Li Kwok-po	✓
Prof. Poon Chung-kwong	✓
Dr. Moses Cheng Mo-chi	✓
Executive Directors	
Mr. Alfred Chan Wing-kin	✓
Mr. Peter Wong Wai-yee	✓
Mr. John Ho Hon-ming*	✓

* *Mr. John Ho Hon-ming was appointed as Executive Director with effect from 1st October 2020.*

Every Director ensures that he gives sufficient time and attention to the affairs of the Company. Each Director shall disclose to the Company at the time of his appointment the directorships held in other listed companies or nature of offices held in public organisations and other significant commitment. The Company has also requested the Directors to provide in a timely manner any change on such information. Each Director is also required to disclose to the Company their time commitment.

Appropriate insurance cover on Directors' liabilities has been in force to protect the Directors of the Group from risks arising from the businesses of the Group.

Corporate Governance Functions

The Board has undertaken the following corporate governance functions:

- to develop and review the Company's policies and practices on corporate governance and make recommendations to the Company;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with the code provision of Appendix 14 to the Listing Rules and disclosure in the Corporate Governance Report.

During the year ended 31st December 2020, the Board reviewed the Company's policies and practices on corporate governance and the disclosure in the Corporate Governance Report.

Board of Directors (Continued)

Board Diversity Policy

The Board adopted the Board Diversity Policy setting out the approach to achieve diversity on the Board. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to professional experience, skills, knowledge, cultural and educational background, ethnicity, age and gender. All Board appointments will be based on meritocracy, and candidates will be considered against selection criteria, having regard for the benefits of diversity on the Board.

Nomination Policy

The Board adopted a Nomination Policy which aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirement of the Company's businesses.

Pursuant to the Nomination Policy, the Nomination Committee shall consider the following criteria in evaluating and selecting candidates for directorships:

- Reputation for integrity
- Business experience relevant and beneficial to the Company
- Willingness to devote adequate time to discharge duties as a member of the Board
- Board Diversity Policy for achieving diversity on the Board

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee identifies individual(s) suitably qualified to become board members, having due regard to the Nomination Policy and the Board Diversity Policy, and assesses the independence of the proposed independent non-executive Director(s) as appropriate. The Nomination Committee makes recommendation(s) to the Board. The Board considers the individual(s) recommended by the Nomination Committee, having due regard to the Nomination Policy and the Board Diversity Policy and confirms the appointment of the individual(s) as Director(s) or recommends the individual(s) to stand for election at a general meeting. Individual(s) appointed by the Board will be subject to election by the shareholders of the Company ("Shareholders") at the next following annual general meeting of the Company (the "AGM") or the next following general meeting in the case of filling a casual vacancy in accordance with the Company's Articles of Association (the "Articles of Association"). Shareholders approve the election of individual(s), who stand(s) for election at general meeting, as Director(s).

The Nomination Committee also considers each retiring Director, having due regard to the Nomination Policy and the Board Diversity Policy, and assesses the independence of each retiring independent non-executive Director. The Nomination Committee makes recommendation(s) to the Board. The Board considers each retiring Director recommended by the Nomination Committee, having due regard to the Nomination Policy and the Board Diversity Policy and recommends the retiring Directors to stand for re-appointment at the AGM in accordance with the Articles of Association. Shareholders approve the re-appointment of Directors at the AGM.

The Board shall have the ultimate responsibility for all matters relating to selection and appointment of Directors. The Nomination Committee will monitor the implementation of the Nomination Policy and from time to time review it, as appropriate, to ensure that it remains relevant to the Company's needs and reflects both current regulatory requirements and good corporate governance practice.

Board of Directors (Continued)

Dividend Policy

The Board adopted a Dividend Policy which sets out the guidelines for the Board to determine whether to pay a dividend and the level of such dividend to be paid. In general, it is the policy of the Company to allow its shareholders to participate in the Company's profits whilst retaining adequate reserves for future growth. Normally, the Company pays dividends twice a year, which are the interim dividend and final dividend. The Board may also declare special dividends in addition to such dividends as it considers appropriate. The policy also contains a number of factors for which the Board has to consider in determining the frequency, amount and form of any dividend in any financial year/period. The Board may also consider the issuance of bonus shares on a basis as permitted by the applicable laws and regulations.

Board Composition

The Board currently has three Executive Directors and six Non-executive Directors. Three of the six Non-executive Directors are independent to ensure that proposed strategies protect all shareholders' interests.

During the year ended 31st December 2020 and up to the date of publication of this Annual Report, the Directors of the Company are set out below:

Non-executive Directors

Dr. Lee Ka-kit (Chairman)
Mr. Lee Ka-shing (Chairman)
Dr. Colin Lam Ko-yin

Independent Non-executive Directors

Dr. the Hon. Sir David Li Kwok-po
Prof. Poon Chung-kwong
Dr. Moses Cheng Mo-chi

Executive Directors

Mr. Alfred Chan Wing-kin
Mr. Peter Wong Wai-yee
Mr. John Ho Hon-ming*

* *Mr. John Ho Hon-ming was appointed as Executive Director with effect from 1st October 2020.*

The Company received from each of the Independent Non-executive Directors confirmation in writing of their independence pursuant to Rule 3.13 of the Listing Rules and considered them as independent.

Biographical details of the Directors and relevant relationships among them are set out from pages 14 to 18 of this Annual Report. Save as disclosed therein, there is no financial, business, family or other material/relevant relationship among the Directors. A List of Directors and their Role and Function is available on both the websites of The Stock Exchange of Hong Kong Limited (the "Exchange") and the Company.

According to the Articles of Association, one-third of all the directors are subject to retirement by rotation at every AGM. Subject to the provisions contained in the Articles of Association, the term of office of all Non-executive Directors (including Independent Non-executive Directors) shall expire on 31st December 2023.

Board of Directors (Continued)

Joint Chairmen of the Board and Managing Director

The Joint Chairmen of the Board are Dr. Lee Ka-kit and Mr. Lee Ka-shing and the Managing Director is Mr. Alfred Chan Wing-kin. The roles of the Joint Chairmen of the Board and the Managing Director are separate and are not performed by the same individual. The Joint Chairmen are responsible for providing leadership to, and overseeing, the functioning of the Board and, with the support of Executive Directors and the Company Secretary, seeking to ensure that all Directors are properly briefed on issues arising at Board meetings and that they receive, in a timely manner, adequate and reliable information. The Managing Director is responsible for managing the business of the Group and leading the management team to implement strategies and objectives adopted by the Board. Their respective responsibilities are clearly established and set out in writing.

Board Meetings

The Board meets regularly at least four times a year at approximately quarterly intervals. The Directors can attend meetings in person or through electronic means of communication in accordance with the Articles of Association.

During the year ended 31st December 2020, the Board met four times. The attendance record of each Director at the Board meetings during the year ended 31st December 2020 is set out below:

Directors	No. of Meetings Attended / Held
Non-executive Directors	
Dr. Lee Ka-kit (Chairman)	4/4
Mr. Lee Ka-shing (Chairman)	4/4
Dr. Colin Lam Ko-yin	4/4
Independent Non-executive Directors	
Dr. the Hon. Sir David Li Kwok-po	4/4
Prof. Poon Chung-kwong	4/4
Dr. Moses Cheng Mo-chi	4/4
Executive Directors	
Mr. Alfred Chan Wing-kin	4/4
Mr. Peter Wong Wai-yee	4/4
Mr. John Ho Hon-ming*	1/1

* *Mr. John Ho Hon-ming was appointed as Executive Director with effect from 1st October 2020.*

Regular Board meetings of the year are scheduled in advance and at least 14 days' notice is given to all Directors so as to give them an opportunity to attend. Meeting agenda and accompanying meeting papers are sent to all relevant Directors at least 3 days before the date of a Board or committee meeting to enable the Directors to make informed decisions on matters to be raised at the meetings. All Directors are given an opportunity to include matters in the agenda for Board meetings.

In addition, Directors at all times have full and timely access to all information on the Group and may seek independent professional advice at the Company's expense in carrying out their functions, after making a request to the Board.

Board of Directors (Continued)

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the code for dealing in securities of the Company by the Directors (the "Model Code"). Having made specific enquiry by the Company, all Directors confirmed that they had fully complied with the required standard set out in the Model Code throughout the year ended 31st December 2020.

The Board has also established written guidelines for relevant employees, including certain employees of the Company, certain directors or employees of its subsidiaries who are considered to be likely to possess inside information in relation to the Company or its securities (the "Relevant Employees"), in respect of their dealings in the Company's securities.

Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31st December 2020, which give a true and fair view of the state of affairs of the Company and of the Group at that date and of the Group's results and cash flows for the year then ended and are properly prepared on a going concern basis in accordance with statutory requirements and applicable accounting standards. The Directors shall ensure the publication of the Group's financial statements in a timely manner.

The statement of the Auditor of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report from pages 85 to 91 of this Annual Report.

Board Committees

The Board has established the following Board committees to oversee particular aspects of the Company's affairs:

Board Audit and Risk Committee

The Board Audit and Risk Committee (formerly known as Audit Committee) was formed in May 1996. The members of the Board Audit and Risk Committee are Dr. the Hon. Sir David Li Kwok-po (Chairman of the Board Audit and Risk Committee), Prof. Poon Chung-kwong and Dr. Moses Cheng Mo-chi. All members are Independent Non-executive Directors. The Chairman of the Board Audit and Risk Committee has the appropriate professional qualification as required by the Listing Rules.

The principal duty of the Board Audit and Risk Committee is to assist the Board in fulfilling its audit and control-related duties through the review of the Company's financial reporting, risk management and internal control systems. The review covers all material controls, including financial, operational and compliance controls and risk management functions. The Company has adopted written terms of reference for the Board Audit and Risk Committee that clearly define the role, authority and function of the Board Audit and Risk Committee. The terms of reference of the Board Audit and Risk Committee are available on both the websites of the Exchange and the Company.

The Board Audit and Risk Committee held two meetings during the year ended 31st December 2020 and the following sets out a summary of the work of the Board Audit and Risk Committee during the year under review:

- review of the financial reports for 2019 annual results and 2020 interim results;
- recommendation to the Board, for the approval by shareholders, of the re-appointment of PricewaterhouseCoopers as the external Auditor and approval of their remuneration;
- determination of the nature and scope of the audit;
- review of the financial and accounting policies and practices of the Company; and
- review of the effectiveness of the Company's financial control and risk management and internal control systems, including the review of the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

Board Committees (Continued)

Board Audit and Risk Committee (Continued)

The attendance record of each member at the Board Audit and Risk Committee meetings during the year ended 31st December 2020 is set out below:

Board Audit and Risk Committee Members	No. of Meetings Attended / Held
Dr. the Hon. Sir David Li Kwok-po (Chairman)	2/2
Prof. Poon Chung-kwong	2/2
Dr. Moses Cheng Mo-chi	2/2

Remuneration Committee

The Company established a Remuneration Committee on 7th September 2005. The Remuneration Committee is chaired by Dr. the Hon. Sir David Li Kwok-po (Independent Non-executive Director) with Dr. Lee Ka-kit and Mr. Lee Ka-shing (both are Non-executive Directors), Prof. Poon Chung-kwong and Dr. Moses Cheng Mo-chi (both are Independent Non-executive Directors) as members.

The principal duties of the Remuneration Committee include, but are not limited to, making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management (who are also executive directors of the Company), reviewing and approving the special remuneration packages of all executive directors with reference to corporate goals and objectives resolved by the Board from time to time and determining, with delegated responsibility, the remuneration packages of individual executive directors. The Company has adopted written terms of reference for the Remuneration Committee that clearly define the role, authority and function of the Remuneration Committee. The terms of reference of the Remuneration Committee are available on both the websites of the Exchange and the Company.

The Company has not adopted any share option scheme. The emoluments of Directors are determined based on the duties and responsibilities of each Director. The Directors' fees were reviewed by the Remuneration Committee. During the year ended 31st December 2020, every Director received a Director's fee at the rate of HK$250,000 per annum while the Joint Chairmen of the Board each received an additional fee at the rate of HK$250,000 per annum and each member of the Board Audit and Risk Committee, the Remuneration Committee and the Nomination Committee received additional fees at the rate of HK$250,000, HK$100,000 and HK$100,000 per annum respectively. The Remuneration Committee considered the fees reasonable in view of the Directors' responsibilities.

The Remuneration Committee held one meeting during the year ended 31st December 2020. During the year under review, the Remuneration Committee reviewed the Directors' fees and the remuneration of the Executive Directors including the newly appointed Director. The attendance record of each member at the Remuneration Committee meeting during the year ended 31st December 2020 is set out below:

Remuneration Committee Members	No. of Meeting Attended / Held
Dr. the Hon. Sir David Li Kwok-po (Chairman)	1/1
Dr. Lee Ka-kit	1/1
Mr. Lee Ka-shing	1/1
Prof. Poon Chung-kwong	1/1
Dr. Moses Cheng Mo-chi	1/1

Board Committees (Continued)

Nomination Committee

The Company established a Nomination Committee on 19th March 2012. The Nomination Committee is jointly chaired by Dr. Lee Ka-kit and Mr. Lee Ka-shing (both are Non-executive Directors) with members who are all Independent Non-executive Directors, including Dr. the Hon. Sir David Li Kwok-po, Prof. Poon Chung-kwong and Dr. Moses Cheng Mo-chi.

The principal duties of the Nomination Committee include, but are not limited to, reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations on any proposed changes to the Board to complement the Group's corporate strategy. It is also responsible for making recommendations to the Board on nominations and appointment of directors as well as assessing the independence of independent non-executive directors. The Committee shall consider the candidate from a range of backgrounds on his/her merits and against objective criteria set out by the Board. The Company has adopted written terms of reference for the Nomination Committee that clearly define the role, authority and function of the Nomination Committee. The terms of reference of the Nomination Committee are available on both the websites of the Exchange and the Company.

The Nomination Committee held one meeting during the year ended 31st December 2020. During the year under review, the Nomination Committee reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board, the Board Diversity Policy and the Nomination Policy, and considered that the said policies were appropriate and effective. Further, the Nomination Committee also assessed the independence of all independent non-executive directors of the Company and recommended to the Board the extension of the terms of office of all non-executive directors (including independent non-executive directors) and for approval of the re-election of the retiring Directors at the 2020 AGM and the appointment of Mr. John Ho Hon-ming as Executive Director.

The attendance record of each member at the Nomination Committee meeting during the year ended 31st December 2020 is set out below:

Nomination Committee Members	No. of Meeting Attended / Held
Dr. Lee Ka-kit (Chairman)	1/1
Mr. Lee Ka-shing (Chairman)	1/1
Dr. the Hon. Sir David Li Kwok-po	1/1
Prof. Poon Chung-kwong	1/1
Dr. Moses Cheng Mo-chi	1/1

Auditor's Remuneration

For the year ended 31st December 2020, the total remuneration in respect of statutory audit services provided by the Company's external auditor, PricewaterhouseCoopers, amounted to approximately HK$12.9 million. During the year, payment to PricewaterhouseCoopers in respect of non-audit services, mainly including taxation services and interim results review service provided to the Group amounted to approximately HK$7.7 million.

Risk Management and Internal Control

Internal Control

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

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

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

During the year ended 31st December 2020, the Board, through the Board Audit and Risk Committee, has conducted a bi-annual review of the overall effectiveness of the Group's internal control systems over financial, operational and compliance controls, risk management process, information systems security, scope and quality of the management's monitoring of risks and internal control systems, the effectiveness of financial reporting and compliance with the Listing Rules.

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

Risk Management and Internal Control (Continued)

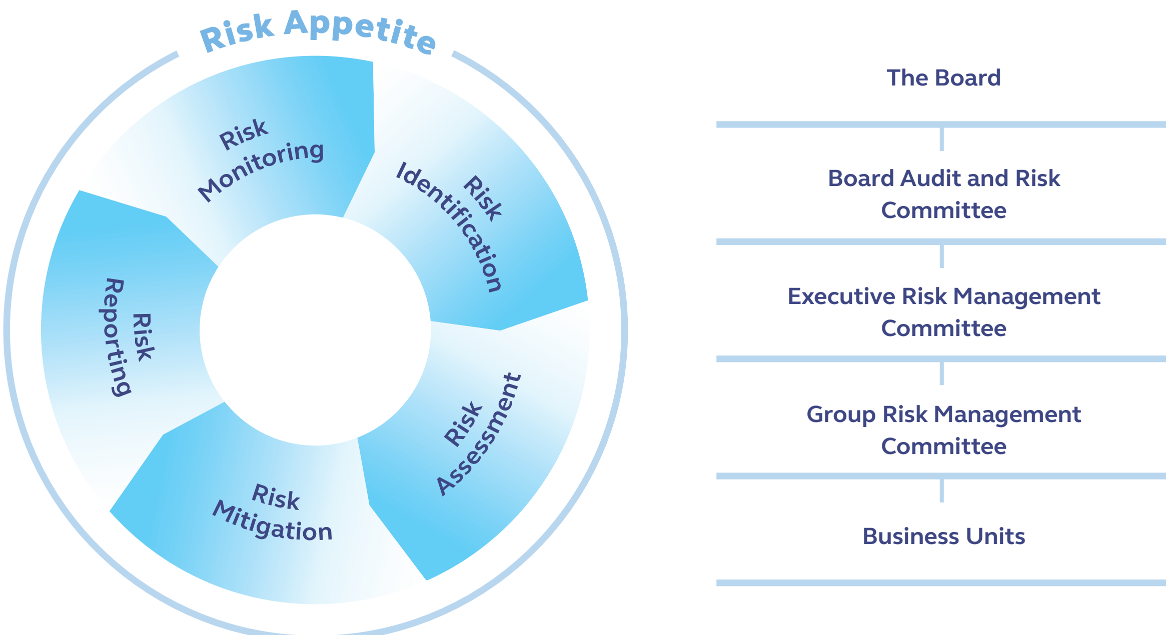
Risk Management

Risk Management Framework

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

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

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



Risk Appetite

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

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

Risk Management and Internal Control (Continued)

Risk Management (Continued)

Risk Management Structure

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

Risk Management Process

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

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

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

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

A description of the Group's risk factors is shown on pages 56 to 57 of the Annual Report. The Group seeks continuous improvement to the Framework in response to the changing business environment.

Policy and Procedures on Disclosure of Inside Information

The Board has adopted the Policy and Procedures on Disclosure of Inside Information which contains the guidelines to the officers (referring to Directors, managers or Company Secretary of the Company) and all the Relevant Employees of the Company to ensure that the inside information of the Company is to be disseminated to the public in an equal and timely manner in accordance with the applicable laws and regulations. The Policy and Procedures on Disclosure of Inside Information is available on the Company's website.

Company Secretary

The Company Secretary is responsible for assisting the Board by ensuring good information flow within the Board members as well as the Board policy and procedures being followed properly. The Company Secretary also provides professional advice to the Board on corporate governance and other matters. He is also responsible for organising general meetings of the Company and facilitating the induction and professional development of the Directors.

During the year ended 31st December 2020, the Company Secretary undertook no less than 15 hours of relevant professional training.

Communication with Shareholders

The Board is committed to maintaining an ongoing communication with shareholders and providing timely disclosure of information concerning the Group's material developments to shareholders and investors.

The AGM provides a good forum for communication between the Board and shareholders. The notice of the AGM is despatched to all shareholders at least 20 clear business days prior to such AGM. The chairmen of all Board Committees are invited to attend the AGM. The Joint Chairmen of the Board and the chairmen of all the Board Committees are available to answer questions at the AGM. Auditor is also invited to attend the AGM to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor's independence.

Pursuant to the Listing Rules, any vote of shareholders at a general meeting will be taken by poll. Detailed procedures for conducting a poll will be explained to the shareholders in the general meeting so that shareholders are familiar with such voting procedures. The poll results will be posted on the websites of the Exchange and the Company on the day of the general meeting. Moreover, a separate resolution will be proposed by the chairman of a general meeting in respect of each substantially separate issue.

The 2020 AGM was held on 5th June 2020. The attendance record of each Director at the 2020 AGM is set out below:

Directors	No. of Meeting Attended / Held
Non-executive Directors	
Dr. Lee Ka-kit (Chairman)	1/1
Mr. Lee Ka-shing (Chairman)	1/1
Dr. Colin Lam Ko-yin	1/1
Independent Non-executive Directors	
Dr. the Hon. Sir David Li Kwok-po	1/1
Prof. Poon Chung-kwong	1/1
Dr. Moses Cheng Mo-chi	1/1
Executive Directors	
Mr. Alfred Chan Wing-kin	1/1
Mr. Peter Wong Wai-yee	1/1
Mr. John Ho Hon-ming*	N/A

* *Mr. John Ho Hon-ming was appointed as Executive Director with effect from 1st October 2020.*

Shareholders' Rights

Set out below is a summary of certain rights of the shareholders of the Company which are governed by the provisions of the Articles of Association and applicable laws, rules and regulations.

Convening a General Meeting

Pursuant to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance"), shareholders representing at least 5% of the total voting rights of all the shareholders are entitled to send a request to the Company to convene a general meeting. Such request must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. The request may be sent to the Company in hard copy form or in electronic form and must also be authenticated by the person or persons making it.

Shareholders' Rights (Continued)

Putting Forward Proposals at a Shareholders' Meeting

Pursuant to the Companies Ordinance, shareholders representing at least 2.5% of the total voting rights of all the shareholders or at least 50 shareholders can request the Company in writing to circulate to the shareholders a statement of not more than 1,000 words with respect to a matter mentioned in a proposed resolution to be dealt with at that meeting or other business to be dealt with at that meeting. The request may be sent to the Company in hard copy form or in electronic form and must identify the statement to be circulated. It must be authenticated by the person or persons making it and be received by the Company at least 7 days before such meeting.

Putting Forward Enquiries to the Board

The Company has maintained a policy on shareholders' communication to handle enquiries put to the Board. In order to enable such enquiries be properly directed, designated contacts, email addresses and enquiry lines of the Company were provided on page 188 of this Annual Report and the Company's website.

Proposing a Person for Election as a Director

If a shareholder wishes to propose a person other than a retiring director of the Company for election as a director of the Company at a general meeting, that shareholder should deposit a written notice stating the full name of the person proposed for election as a director of the Company, together with (a) the proposed person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the shareholder concerned and that proposed person indicating his/her willingness to be elected; and (b) the proposed person's written consent to the publication of his/her personal data not earlier than the day after the despatch of the notice of the meeting and not later than 7 days prior to the day appointed for the meeting. Detailed procedures can be found in the "Procedures for shareholders to propose a person for election as a director of the Company at a general meeting" which is available on the Company's website.

Investor Relations

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular communication and dialogue with shareholders, investors and analysts. A meeting with analysts will be held after the announcement of interim or annual results which strengthens the communication with investors. Questions from investors are dealt with in an informative and timely manner.

As a channel to further promote effective communication, the Group maintains a website at www.towngas.com where the Company's announcements and press releases, business developments and operations, financial information, corporate governance practices and other information are posted.

Constitutional Documents

The latest version of the Articles of Association is available on both the websites of the Company and the Exchange. During the year ended 31st December 2020, there was no change in the Articles of Association.

INDEPENDENT AUDITOR'S REPORT

pwc

羅兵咸永道

TO THE MEMBERS OF THE HONG KONG AND CHINA GAS COMPANY LIMITED
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of The Hong Kong and China Gas Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 92 to 187 which comprise:

- the consolidated income statement for the year ended 31st December 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of financial position as at 31st December 2020;
- the consolidated cash flow statement for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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 2020, 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 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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 matters identified in our audit are summarised as follows:

- Valuation of investment in certain equity interest of an unlisted company
- Impairment assessment of (i) coal mine and oil properties and (ii) property, plant and equipment and goodwill of individual city-gas projects
- Recognition of gas connection income

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>
Valuation of investment in certain equity interest of an unlisted company
Refer to notes 3, 4(g) and 24 to the consolidated financial statements
The investment in certain equity interest of an unlisted company (the "Investment") which owned a coking coal mine and related coke production and coke-gas conversion facility in Inner-Mongolia, was accounted for as a financial asset at fair value through profit or loss and it was subject to fair value revaluation at each reporting date. The Investment at 31st December 2020 was valued by an independent professional valuer. With reference to the valuation, management had estimated the fair value of the Investment at HK$3.1 billion at year end.
In consideration of the Investment is operating in an emerging industry and its fair value is highly dependent on its expansion plan, the valuation involved significant management judgements. Accordingly, the valuation of the Investment was considered as one of the key audit matters.
The fair value was determined based on the discounted cash flow model. The valuation involved significant judgements and estimates from management, including coking coal reserves, future business growth driven by future expansion plan, future products selling prices and production costs of the investee, discount rate, marketability discount and minority discount etc.
</td><td>
Our procedures in relation to management's valuation of the Investment include:

Obtaining an understanding of the management's control procedures of valuation of the Investment and assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors;
Evaluating the independent professional valuer's competence, capabilities and objectivity;
Assessing the valuation methodology used by the independent professional valuer to estimate the fair value of the Investment;
Checking, on a sample basis, the accuracy and reasonableness of the input data provided by management to the independent professional valuer, to supporting evidence, such as approved budgets and considering the reasonableness of these budgets by comparing the budgets to the historical results and market data;
Assessing the reasonableness of cash flows projection, challenging and performing audit procedures on management's assumptions such as coking coal reserves, the future business growth driven by future expansion plan, future products selling prices and production costs, discount rate by comparing the assumptions to historical results and published market and industry data and comparing the current year's results with the prior year forecast and other relevant information. Internal valuation expert had been engaged to assist the review on valuation methodology, discount rate, marketability discount and minority discount. In addition, we had communicated with the management of the Investment to understand the business and assessed if there was any inconsistency in the assumptions used in the cash flows projection; and
Testing the mathematical accuracy of the cash flows projection.

Based on the audit procedures performed, we found the assumptions made by management in relation to the valuation were supported by available evidence.
</td></tr>
</table>

Key audit matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of (i) coal mine and oil properties and (ii) property, plant and equipment and goodwill of individual city-gas projects Refer to notes 4(a), 7 and 16 to the consolidated financial statements In relation to the New Energy business segment, the Group owned a coal mine in mainland China and oil properties in Thailand which were engaged in the exploration, drilling and sale of crude oil. The carrying values of the coal mine and oil properties are mainly included under "mining and oil properties" of HK$2.3 billion of property, plant and equipment as at 31st December 2020. In consideration of the prices of the primary outputs of these projects, namely coal and oil were in relatively low level and volatile in recent years, management considered there were impairment indicators and performed impairment assessments on these assets. A provision for impairment of HK$385.0 million was recognised in the consolidated income statement for the year ended 31st December 2020 for the oil properties in Thailand.	Our procedures in relation to management's impairment assessment include: • Obtaining an understanding of the management's control procedures of impairment assessment and assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors; • Understanding, evaluating and testing management's control procedures in relation to impairment assessment, where applicable; • Evaluating the independent professional valuer's and consultant's competence, capabilities and objectivity, where applicable; • Assessing the methodology used by management to estimate the recoverable amounts; • Checking, on a sample basis, the accuracy and relevance of the input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets by comparing the budgets to the historical results and the market data;

Key audit matters (Continued)

Key audit matter	How our audit addressed the key audit matter
In relation to city-gas business in mainland China operated by the Group's subsidiaries, the attributable carrying values of property, plant and equipment and goodwill related to these individual city-gas projects as at 31st December 2020 amounting to approximately HK$34.6 billion. The Group's share of property, plant and equipment, together with goodwill related to individual city-gas projects accounted for associates and joint ventures of the Group as at 31st December 2020 were carried at approximately HK$12.0 billion and HK$17.0 billion respectively. In consideration of regulatory development and market-oriented reforms for the natural gas industry in the mainland China, management considered there were uncertainties to future profitability from these projects and performed impairment assessments on these assets. Based on the results of these impairment assessments on these assets. The Group considered the carrying values of property, plant and equipment and goodwill related to these individual city-gas projects as at 31st December 2020 were recoverable. Under the impairment assessments, management calculated the recoverable amounts under value-in-use or fair value less cost of disposal method. As the calculations require the use of significant management judgement and estimates, including the coal and oil reserves, future business growth, future products selling price and production costs, production volume, expected impact of the regulatory changes, discount rate, terminal value etc., we considerd it was one of the key audit matters.	• Assessing the appropriateness of cash flows projections in calculation of the recoverable amount of the coal mine and oil properties and city-gas business, challenging the reasonableness of management's assumptions such as the coal and oil reserves, future business growth, future products selling prices and production costs, production volume, expected impact of regulatory changes, discount rate, terminal value, etc. based on our knowledge of the business and industry by comparing the assumptions to historical results and published market and industry data and comparing the current year's actual results with the prior year forecast, where applicable. Internal valuation expert had been engaged to assist the review on the methodology of the recoverable amount calculations and discount rates; and • Performing sensitivity analysis in consideration of potential impact of reasonably possible downside changes in the key assumptions. Based on the audit procedures performed, we found that the assumptions made by management were supported by available evidence.

Key audit matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Recognition of gas connection income Refer to notes 4(e) and 5 to the consolidated financial statements Gas connection income is recognised when or as the control of the underlying performance obligations is transferred to the customer. The Group had recognised gas connection income of HK$3.2 billion for the year ended 31st December 2020. Management identified performance obligations from the contract and determined corresponding transaction price. For performance obligation being satisfied at a point in time, revenue is recognised when the customer obtains control of the service. For performance obligation being satisfied overtime, the progress towards complete satisfaction of the performance obligation is measured using input method. Management are required to exercise significant judgement in their review and revision of the estimates of the total contract costs and actual costs incurred up to the end of the reporting period for each contract as the contract progresses, based on past experience and specific circumstances. The eventual realisation of these estimates are subject to the finalisation of the costs. Any change in the estimate of the total contract costs, which determined the progress towards complete satisfaction of performance obligation, would affect the gas connection income recognition. Due to its quantitative significance to the consolidated income statement and judgements involved in the determination of the progress, we considered recognition of gas connection income as one of the key audit matters.	Our audit procedures in relation to recognition of gas connection income and margins included the following: • Obtaining an understanding of the management's control procedures of recognition of gas connection income and assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors; • Understanding, evaluating and testing the key controls surrounding the gas connection income cycle, including the assessment of project status, estimation of the total contract costs and actual costs incurred; • Evaluating the appropriateness of profit margin adopted by management by comparing to profit margin of similar services and external market data, if available; • Checking, on a sample basis, to contracts, invoices, project status reports and other relevant correspondences to evaluate the project status, reasonableness of management's assessment of budgeted total contract costs and actual costs incurred, and to validate the amounts of income recognised; and • Selecting contracts, on a sample basis, to perform interview with the project managers and assessed whether or not these estimates showed any evidence of management bias. We found the management's estimations and judgements in the recognition of gas connection income to be reasonable based on the available evidence.

Other information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than 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 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. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism 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.

Auditor's responsibilities for the audit of the consolidated financial statements (Continued)

- 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.

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, actions taken to eliminate threats or safeguards applied.

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 this independent auditor's report is Chu Ho Kwan Raphael.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 19th March 2021

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

CONSOLIDATED INCOME STATEMENT

for the year ended 31st December 2020

	Note	**2020 HK$'M**	2019 HK$'M
Revenue	5	**40,927.0**	40,628.1
Total operating expenses	6	**(32,527.1)**	(32,604.4)
		8,399.9	8,023.7
Other (losses)/gains, net	7	**(481.9)**	1,048.7
Interest expense	9	**(1,268.6)**	(1,230.4)
Share of results of associates	21	**1,187.0**	1,820.4
Share of results of joint ventures	22	**1,089.2**	741.5
Profit before taxation	10	**8,925.6**	10,403.9
Taxation	13	**(1,713.2)**	(2,289.6)
Profit for the year		**7,212.4**	8,114.3
Attributable to:			
Shareholders of the Company		**6,007.3**	6,965.7
Holders of perpetual capital securities		**110.3**	98.6
Non-controlling interests		**1,094.8**	1,050.0
		7,212.4	8,114.3
Earnings per share – basic and diluted, HK cents	15	**33.8**	39.2*

* Adjusted for the bonus share issue in 2020

The notes on pages 100 to 187 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31st December 2020

	2020 HK$'M	2019 HK$'M
Profit for the year	**7,212.4**	8,114.3
Other comprehensive income:		
Items that will not be reclassified subsequently to profit or loss:		
Movement in reserve of equity investments at fair value through other comprehensive income	**(597.6)**	1,490.7
Remeasurements of retirement benefit	**55.2**	102.1
Share of other comprehensive (loss)/income of an associate	**(19.7)**	71.0
Exchange differences	**891.6**	(74.8)
Items that may be reclassified subsequently to profit or loss:		
Movement in reserve of debt investments at fair value through other comprehensive income	**4.5**	14.7
Change in fair value of cash flow hedges	**(87.1)**	(15.2)
Share of other comprehensive income of an associate	**4.1**	10.8
Exchange differences	**2,975.9**	(777.0)
Other comprehensive income for the year, net of tax	**3,226.9**	822.3
Total comprehensive income for the year	**10,439.3**	8,936.6
Total comprehensive income attributable to:		
Shareholders of the Company	**8,534.0**	7,388.1
Holders of perpetual capital securities	**110.3**	98.6
Non-controlling interests	**1,795.0**	1,449.9
	10,439.3	8,936.6

The notes on pages 100 to 187 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31st December 2020

	Note	**2020 HK$'M**	2019 HK$'M
Assets			
Non-current assets			
Property, plant and equipment	16	**68,133.7**	61,082.7
Investment property	17	**827.0**	830.0
Right-of-use assets	18	**2,802.4**	2,725.2
Intangible assets	19	**5,462.9**	5,291.1
Associates	21	**28,670.3**	27,475.5
Joint ventures	22	**11,981.2**	10,613.5
Financial assets at fair value through other comprehensive income	23	**2,492.8**	3,141.9
Financial assets at fair value through profit or loss	24	**4,687.3**	5,030.6
Derivative financial instruments	25	**305.0**	354.1
Retirement benefit assets	26	**111.9**	66.3
Other non-current assets	27	**4,649.1**	3,729.8
		130,123.6	120,340.7
Current assets			
Inventories	28	**2,671.0**	2,363.7
Trade and other receivables	29	**8,572.5**	8,001.2
Loan and other receivables from associates	21	**401.7**	526.7
Loan and other receivables from joint ventures	22	**442.9**	800.4
Loan and other receivables from non-controlling shareholders		**206.3**	240.0
Financial assets at fair value through profit or loss	24	**205.4**	188.5
Derivative financial instruments	25	**28.5**	1.4
Time deposits over three months	30	**173.3**	158.6
Time deposits up to three months, cash and bank balances	30	**7,455.0**	7,848.9
		20,156.6	20,129.4
Current liabilities			
Trade payables and other liabilities	31	**(17,031.1)**	(14,718.0)
Amounts due to joint ventures	22	**(486.3)**	(943.2)
Loan and other payables due to non-controlling shareholders		**(108.3)**	(100.4)
Provision for taxation		**(1,188.1)**	(1,165.3)
Borrowings	32	**(10,852.3)**	(9,240.6)
Derivative financial instruments	25	**(140.2)**	–
		(29,806.3)	(26,167.5)
Total assets less current liabilities		**120,473.9**	114,302.6

The notes on pages 100 to 187 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

as at 31st December 2020

	Note	2020 HK$'M	2019 HK$'M
Non-current liabilities			
Deferred taxation	33	**(7,059.1)**	(7,180.5)
Borrowings	32	**(31,286.3)**	(28,695.6)
Derivative financial instruments	25	**(478.6)**	(571.0)
Other non-current liabilities	34	**(2,496.6)**	(2,458.8)
		(41,320.6)	(38,905.9)
Net assets		**79,153.3**	75,396.7
Capital and reserves			
Share capital	35	**5,474.7**	5,474.7
Reserves	36	**61,283.8**	58,734.7
Shareholders' funds		**66,758.5**	64,209.4
Perpetual capital securities	37	**2,384.0**	2,384.2
Non-controlling interests		**10,010.8**	8,803.1
Total equity		**79,153.3**	75,396.7

Approved by the Board of Directors on 19th March 2021

Lee Ka-kit
Director

David Li Kwok-po
Director

The notes on pages 100 to 187 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31st December 2020

	Note	2020 HK$'M	2019 HK$'M
Net cash from operating activities	41	**9,910.2**	9,912.4
Investing activities			
Receipt from sale of property, plant and equipment		**32.6**	76.3
Receipt from sale of right-of-use assets		**5.2**	7.1
Purchase of property, plant and equipment		**(7,217.6)**	(6,751.3)
Deposit paid for acquisition of an associate		**(394.1)**	–
Payment for right-of-use assets		**(77.3)**	(301.6)
Increase in investments in associates		**(268.5)**	(412.3)
Increase in loans to associates		**(75.5)**	(214.2)
Repayment of loans by associates		**172.9**	7.8
Increase in investments in joint ventures		**(307.8)**	(79.0)
Increase in loans to joint ventures		**(48.7)**	(43.4)
Decrease in amounts due to joint ventures		**(303.5)**	(51.5)
Repayment of loans by joint ventures		**317.1**	74.9
Acquisition of businesses	42 (a)	**18.2**	(42.5)
Sale of financial assets at fair value through profit or loss		**149.3**	50.6
Sale of financial assets at fair value through other comprehensive income		**79.5**	21.2
Purchase of financial assets at fair value through profit or loss		**(120.1)**	(10.0)
Purchase of financial assets at fair value through other comprehensive income		**(99.0)**	(98.9)
(Increase)/decrease in time deposits over three months		**(8.8)**	175.1
Interest received		**183.4**	233.7
Dividends received from investments in securities		**143.9**	105.4
Dividends received from associates		**1,001.7**	1,064.3
Dividends received from joint ventures		**827.5**	887.5
Net cash used in investing activities		**(5,989.6)**	(5,300.8)

The notes on pages 100 to 187 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT (Continued)

for the year ended 31st December 2020

	Note	2020 HK$'M	2019 HK$'M
Financing activities			
Redemption of perpetual capital securities		**–**	(2,405.4)
Issue of perpetual capital securities		**–**	2,341.3
Change in loans with non-controlling shareholders		**47.1**	(132.8)
Capital injection by non-controlling shareholders		**38.1**	100.1
Further acquisition of subsidiaries	42 (b)	**(63.1)**	(37.5)
Increase in borrowings		**20,221.8**	22,012.0
Repayment of borrowings		**(16,566.4)**	(19,441.2)
Principal elements of lease payments		**(134.8)**	(128.6)
Interest paid for the lease liability		**(13.2)**	(16.3)
Interest paid to holders of perpetual capital securities		**(110.5)**	(55.7)
Interest paid		**(1,373.6)**	(1,405.1)
Dividends paid to shareholders of the Company	43 (a)	**(6,025.4)**	(5,569.9)
Dividends paid to non-controlling shareholders		**(540.5)**	(474.8)
Net cash used in financing activities		**(4,520.5)**	(5,213.9)
Decrease in cash and cash equivalents		**(599.9)**	(602.3)
Cash and cash equivalents at 1st January		**7,848.9**	8,500.8
Effect of foreign exchange rate changes		**206.0**	(49.6)
Cash and cash equivalents at 31st December		**7,455.0**	7,848.9
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		**5,775.4**	5,385.3
Time deposits up to three months		**1,679.6**	2,463.6
		7,455.0	7,848.9

The notes on pages 100 to 187 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December 2020

	Attributable to shareholders of the Company		Holders of perpetual capital securities	Non-controlling interests	Total
	Share capital HK$'M	Reserves HK$'M	HK$'M	HK$'M	HK$'M
As at 1st January 2020	**5,474.7**	**58,734.7**	**2,384.2**	**8,803.1**	**75,396.7**
Profit for the year	**–**	**6,007.3**	**110.3**	**1,094.8**	**7,212.4**
Other comprehensive income:					
Movement in reserve of financial assets at fair value through other comprehensive income	**–**	**(405.2)**	**–**	**(187.9)**	**(593.1)**
Remeasurements of retirement benefit	**–**	**55.2**	**–**	**–**	**55.2**
Change in fair value of cash flow hedges	**–**	**(83.6)**	**–**	**(3.5)**	**(87.1)**
Share of other comprehensive loss of associates	**–**	**(15.6)**	**–**	**–**	**(15.6)**
Exchange differences	**–**	**2,975.9**	**–**	**891.6**	**3,867.5**
Total comprehensive income for the year	**–**	**8,534.0**	**110.3**	**1,795.0**	**10,439.3**
Capital injection	**–**	**–**	**–**	**38.1**	**38.1**
Further acquisition of subsidiaries (note 42(b))	**–**	**40.5**	**–**	**(103.6)**	**(63.1)**
Acquisition of business (note 42(a))	**–**	**–**	**–**	**18.7**	**18.7**
Interest paid on perpetual capital securities	**–**	**–**	**(110.5)**	**–**	**(110.5)**
Dividends paid to shareholders of the Company	**–**	**(6,025.4)**	**–**	**–**	**(6,025.4)**
Dividends paid to non-controlling shareholders	**–**	**–**	**–**	**(540.5)**	**(540.5)**
As at 31st December 2020	**5,474.7**	**61,283.8**	**2,384.0**	**10,010.8**	**79,153.3**

The notes on pages 100 to 187 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

for the year ended 31st December 2020

	Attributable to shareholders of the Company		Holders of perpetual capital securities	Non-controlling interests	Total
	Share capital HK$'M	Reserves HK$'M	HK$'M	HK$'M	HK$'M
As at 1st January 2019	5,474.7	56,926.0	–	7,792.6	70,193.3
Adjustment on adoption of HKFRS 16, net of taxation	–	(30.6)	–	(6.1)	(36.7)
As at 1st January 2019 (restated)	5,474.7	56,895.4	–	7,786.5	70,156.6
Profit for the year	–	6,965.7	98.6	1,050.0	8,114.3
Other comprehensive income:					
Movement in reserve of financial assets at fair value through other comprehensive income	–	1,030.6	–	474.8	1,505.4
Remeasurements of retirement benefit	–	102.1	–	–	102.1
Change in fair value of cash flow hedges	–	(15.1)	–	(0.1)	(15.2)
Share of other comprehensive income of associates	–	81.8	–	–	81.8
Exchange differences	–	(777.0)	–	(74.8)	(851.8)
Total comprehensive income for the year	–	7,388.1	98.6	1,449.9	8,936.6
Capital injection	–	–	–	100.1	100.1
Further acquisition of subsidiaries	–	21.1	–	(58.6)	(37.5)
Interest paid on perpetual capital securities	–	–	(55.7)	–	(55.7)
Dividends paid to shareholders of the Company	–	(5,569.9)	–	–	(5,569.9)
Dividends paid to non-controlling shareholders	–	–	–	(474.8)	(474.8)
Issue of perpetual capital securities	–	–	2,341.3	–	2,341.3
As at 31st December 2019	5,474.7	58,734.7	2,384.2	8,803.1	75,396.7

The notes on pages 100 to 187 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

The Hong Kong and China Gas Company Limited (the "Company") and its subsidiaries (collectively, the "Group") have been diversified into different fields of businesses and principally engage in the production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses in Hong Kong and the People's Republic of China (the "PRC"). The Group is also engaged in property development and investment activities in Hong Kong.

The Company is a limited liability company incorporated and domiciled in Hong Kong and listed on The Stock Exchange of Hong Kong Limited. The address of its registered office is 23rd Floor, 363 Java Road, North Point, Hong Kong.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention, as modified by the revaluation of investment property, financial assets and liabilities at fair value through profit or loss ("FVPL"), financial assets and liabilities at fair value through other comprehensive income ("FVOCI") and derivative financial instruments, which are carried at fair value.

As at 31st December 2020, the Group was in a net current liabilities position of approximately HK$9.6 billion. This is mainly because of management utilisation of the relatively favourable short term borrowings under the low interest rate environment in recent years to finance working capital and capital expenditure requirements as well as the settlement of the US$1 billion guaranteed notes in August 2018. Taking into consideration the Group's available facilities, history of obtaining external financing and the Group's expected cash flows from operations, management believes that there are sufficient financial resources available to the Group to meet its liabilities as and when they fall due. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

(i) Amendments to standards and framework adopted in 2020

The Group has adopted the following amendments to standards and framework which are effective for the Group's financial year beginning 1st January 2020 and relevant to the Group.

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 7, HKFRS 9 and HKAS 39	Interest Rate Benchmark Reform – Phase 1
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

In addition, the Group has early adopted amendments to HKFRS 16 "COVID-19-related Rent Concessions" ahead of the effective date and applied the amendments from 1st January 2020.

The adoption of the amendments to standards and framework has no significant impact on the Group's results and financial position or any substantial changes in Group's accounting policies.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(ii) Amendments that are not yet effective for the year ended 31st December 2020 but relevant to the Group and have not been early adopted by the Group

		Effective for accounting periods beginning on or after
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKFRS 3, HKAS 16 and HKAS 37	Narrow-scope amendments	1 January 2022
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
Amendments to Annual Improvements Projects	Annual Improvements to HKFRSs 2018 – 2020	1 January 2022
Amendments to HKFRS 4, HKFRS 7, HKFRS 9, HKFRS 16 and HKAS 39	Interest Rate Benchmark Reform – Phase 2	1 January 2021

The Group anticipates that the application of amendments to existing standards that have been issued but are not yet effective may have no material impact on the results of operations and financial position.

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st December.

(i) Subsidiaries

Subsidiaries are entities (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKFRS 9 in the profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the profit or loss.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less provision for impairment. Cost also includes direct attributable cost of investment. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2 Summary of significant accounting policies (Continued)

(b) Consolidation (Continued)

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, a joint venture or a financial asset. In addition, any amounts previously recognised in the other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in the other comprehensive income are reclassified to the profit or loss.

(iv) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in the other comprehensive income is reclassified to the profit or loss where appropriate.

The Group's share of its associates' post-acquisition profits or losses is recognised in the profit or loss, and its share of post-acquisition movements in the other comprehensive income is recognised in the other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognised in the profit or loss.

In the Company's statement of financial position, the investment in an associate is stated at the cost less provision for impairment. The result of the associate is accounted for by the Company on the basis of dividend received and receivable.

2 Summary of significant accounting policies (Continued)

(b) Consolidation (Continued)

(v) Joint ventures

Joint ventures are joint ventures whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Investments in joint ventures are accounted for by the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in joint ventures includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in a joint venture is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in the other comprehensive income is reclassified to the profit or loss where appropriate.

The Group's share of its joint ventures' post-acquisition profits or losses is recognised in the profit or loss, and its share of post-acquisition movements in the other comprehensive income is recognised in the other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture.

The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in the profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its joint venture are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the joint ventures. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in joint ventures are recognised in the profit or loss.

In the Company's statement of financial position, the investments in joint ventures are stated at cost less provision for impairment. The results of joint ventures are accounted for by the Company on the basis of dividend received and receivable.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive committee members that makes strategic decisions.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HKD"), which is the Company's functional and presentation currency.

2 Summary of significant accounting policies (Continued)

(d) Foreign currency translation (Continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other (losses)/gains, net.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at FVPL are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as FVOCI are recognised in other comprehensive income.

(iii) Group companies

The results and financial position of all the Group entities, including associates and joint ventures, (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to other comprehensive income. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Exploration and evaluation expenditure

Exploration and evaluation expenditure comprises costs which are directly attributable to: researching and analysing historical exploration data; conducting geological studies, exploratory drilling and sampling; examining and testing extraction and treatment methods; and compiling pre-feasibility and feasibility studies. Exploration and evaluation expenditure also includes the costs incurred in acquiring mining and oil properties, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

During the initial stage of a project, exploration and evaluation costs, other than costs incurred in acquiring land use right and mining and oil properties, are expensed as incurred. Expenditure on a project after it has reached a stage at which there is a high degree of confidence in its viability is capitalised and transferred to property, plant and equipment if the project proceeds. If a project does not prove viable, all irrecoverable costs associated with the project are expensed in the profit or loss.

2 Summary of significant accounting policies (Continued)

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment. The capitalised costs in respect of capital work in progress include direct materials, direct labour costs, subcontracting costs, capitalised borrowing costs and other direct overheads. Capital work in progress is transferred to relevant categories of property, plant and equipment upon completion of their respective work.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance incurred in restoring property, plant and equipment to their normal working condition are charged to the profit or loss.

Depreciation of property, plant and equipment is calculated on a straight-line basis to allocate the cost less accumulated impairment of each component of the asset to its residual value over its estimated useful life as follows:

Production plant and related equipment	10 – 40 years
Vehicles, office furniture and equipment	5 – 15 years
Gas mains and risers	25 – 40 years
Water mains	30 – 50 years
Gasholders, office, store and buildings	20 – 40 years
Meters and installations	5 – 30 years
Mining and oil properties	Based on the unit-of-production method utilising only estimated recoverable coal and oil reserves as the depletion base
Others	5 – 30 years
Capital work in progress	No depreciation

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of statement of financial position.

Gain or loss on disposal of a property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in the profit or loss.

(g) Deferred overburden removal costs

Mining structures include deferred stripping costs and mining related property, plant and equipment. When estimated coal reserves have been determined, stripping costs incurred to develop coal mines are capitalised as part of the cost of the mining structures. Stripping costs incurred during the production phase are variable production costs that are included in the costs of inventory produced during the period that the stripping costs are incurred, unless the stripping activity can be shown to give rise to future benefits from the mineral properties, in which case the stripping costs would be capitalised into property, plant and equipment as mining structures. Future benefits arise when stripping activity increases the future output of the mine by providing access to a new ore body.

Mining structures are depreciated on the unit-of-production method utilising only estimated coal reserves in the depletion base, or based on the useful lives of respective items of property, plant and equipment, whichever is appropriate.

2 Summary of significant accounting policies (Continued)

(h) Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. In such cases, the operating leases concerned are accounted for as if it were finance leases.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market value, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the HKIS Valuation Standards (2020 Edition) published by The Hong Kong Institute of Surveyors ("HKIS"). These valuations are reviewed annually by qualified valuers. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the profit or loss during the financial period in which they are incurred.

Changes in fair values are recognised in the profit or loss.

Property that is being constructed or developed for future use as investment property is classified as investment properties and measured at fair value unless fair value cannot be reliably determined. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in the profit or loss.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment. However, if a fair value gain reverses a previous impairment, the gain is recognised in the profit or loss.

(i) Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

2 Summary of significant accounting policies (Continued)

(i) Leases (Continued)

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease income from operating leases where the Group is a lessor is recognised in the profit or loss on a straight-line basis over the lease term.

(j) Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries, associates and joint ventures at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible assets". Goodwill arising on an acquisition of an associate or a joint venture is included in the cost of the investment of the relevant associate or joint venture. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Separately recognised goodwill is allocated to cash-generating units, primarily individual projects, for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Other intangible assets are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost over the period of the relevant right from 15 years to 50 years.

2 Summary of significant accounting policies (Continued)

(k) Impairment of investments in subsidiaries, associates, joint ventures and non-financial assets

Goodwill are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than separately recognised goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(l) Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following categories: those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss) and those to be measured at amortised cost. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in the profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investments at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments as FVOCI where assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in the profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the profit or loss and recognised in other (losses)/gains, net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other (losses)/gains, net and impairment expenses are presented as separate line item in the income statement.

2 Summary of significant accounting policies (Continued)

(l) Investments and other financial assets (Continued)

(iii) Measurement (Continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to the profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in the profit or loss as other (losses)/gains, net when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other (losses)/gains, net in the income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, with further details set out in note 29.

(m) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

At the inception of the hedging, the Group documents the economic, relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in note 25. Movements in the hedging reserve in shareholders' equity are shown in note 36. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedge that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss within other (losses)/gains, net.

When option contracts are used to hedge forecast transactions, the Group designates only the intrinsic value of the options as the hedging instrument.

Gains or losses relating to the effective portion of the change in intrinsic value of the options are recognised in the cash flow hedge reserve within equity. The changes in the time value of the options that relate to the hedged item ('aligned time value') are recognised within other comprehensive income in the costs of hedging reserve within equity.

2 Summary of significant accounting policies (Continued)

(m) Derivative financial instruments and hedging activities (Continued)

When forward contracts are used to hedge forecast transactions, the Group generally designates only the change in fair value of the forward contracts related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contracts that relates to the hedged item ('aligned forward element') is recognised within other comprehensive income in the costs of hedging reserve within equity. In some cases, the entity may designate the full change in fair value of the forward contracts (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contracts are recognised in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects the profit or loss, as follows:

- Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognised in the profit or loss as the hedged item affects the profit or loss (for example through cost of sales).
- The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in the profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to the profit or loss.

(n) Inventories

Inventories comprise stores and materials and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of overheads. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(o) Contract assets and contract liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide services to the customer.

The combination of those rights and performance obligations gives rise to a net contract asset or a net contract liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the cumulative revenue recognised in the profit or loss exceeds cumulative payments made by customers. Conversely, the contract is a liability and recognised as contract liabilities if the cumulative payments made by customers exceeds the revenue recognised in the profit or loss.

Contract assets are assessed for impairment under the same approach adopted for impairment assessment of financial assets carried at amortised cost. Contract liabilities are recognised as revenue when the Group transfers the goods or services to the customers and therefore satisfied its performance obligation.

The incremental costs of obtaining a contract with a customer are capitalised and presented as contract related assets, if the Group expects to recover those costs, and are subsequently amortised on a systematic basis that is consistent with the transfer to the customers of the goods or services to which the assets relate. The Group recognises an impairment loss in the profit or loss to the extent that the carrying amount of the contract related assets recognised exceeds the remaining amounts of consideration that the Group expects to receive less the costs that relate directly to providing those goods or services that have not been recognised as expenses.

2 Summary of significant accounting policies (Continued)

(p) Construction contracts

Contract costs are recognised as expenses in the period in which they are incurred.

When the outcome of a construction contract cannot be reasonably measured, but the Group expects to recover the costs incurred in satisfying the performance obligation, contract revenue is recognised only to the extent of contract costs incurred until such time that the outcome of the performance obligation can be reasonably measured.

When the outcome of a construction contract can be reasonably measured, contract revenue is recognised over time by measuring the progress towards complete satisfaction of that performance obligation. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that they have been agreed with the customer and are capable of being reliably measured.

(q) Trade and other receivables

Trade and other receivables are amounts due from customers for merchandises sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is no reasonable expectation of recovery.

(r) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. In the statement of financial position, cash and cash equivalents are presented as time deposits up to three months, cash and bank balances in current assets and bank overdrafts are included in borrowings in current liabilities.

(s) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(t) Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawndown, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit or loss in the year in which they are incurred.

2 Summary of significant accounting policies (Continued)

(u) Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in the other comprehensive income or directly in equity. In this case, the tax is also recognised in the other comprehensive income or directly in equity.

The current taxation is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the jurisdictions where the Company, its subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, deferred taxation is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred taxation is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of statement of financial position and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(v) Revenue and income recognition

(i) Gas sales – recognised at point in time and based on gas consumption primarily derived from meter readings.

(ii) Water sales – recognised at a point in time and based on water consumption primarily derived from meter readings.

(iii) Liquefied petroleum gas sales – recognised at a point in time and upon completion of the gas filling transaction.

(iv) Equipment sales – recognised at a point in time and upon completion of installation work or when equipment, materials and parts are delivered to customers and title has passed.

(v) Oil, coal and hydro-treated vegetable oil related sales – recognised at a point in time and upon completion of delivery and title has passed.

(vi) Maintenance and service charges – recognised over time when services are provided.

(vii) Interest income – recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(viii) Dividend income – recognised when the right to receive payment is established.

(ix) Rental income – recognised on a straight-line accrual basis over the terms of lease agreements.

(x) Construction and gas connection income – recognised overtime or at a point in time depending on the terms of the contracts and actual work performed.

Revenues are recognised when or as the control of the goods or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time.

2 Summary of significant accounting policies (Continued)

(w) Employee benefits

Salaries, bonuses and paid annual leave are accrued in the year in which the associated services are rendered by employees to the Group.

The Group operates a number of defined contribution and one defined benefit retirement schemes and the assets of the schemes are held separately from those of the Group in independently administered funds. The retirement schemes are funded by payments from employees and by the Group, taking into account the recommendations of independent qualified actuaries.

(i) Defined contribution retirement schemes

The Group contributes to defined contribution retirement schemes and Mandatory Provident Fund schemes which are available to salaried employees in Hong Kong. The Group's contributions to these retirement schemes are calculated as a percentage of the employees' basic salaries or relevant income and are expensed as incurred. No forfeited contributions have been utilised by the Group to reduce the existing contributions.

For employees in mainland China, the Group contributes on a monthly basis to various defined contribution plans organised by the relevant municipal and provincial governments in the PRC based on a certain percentage of the relevant employees' monthly salaries. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further constructive obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(ii) Defined benefit retirement scheme

The Group also operates a defined benefit retirement scheme, namely the Workmen Retirement Scheme, in Hong Kong. The scheme provides benefit to employees based on final salary. The Group's net obligation in respect of the defined benefit retirement scheme is calculated separately for the scheme using the projected unit credit method. The benefit obligation is measured as the present value of the estimated future benefit that employees have earned for their service in the current and prior years using interest rates of government bonds which have terms to maturity approximating the terms of the related liability.

The current service cost of the defined benefit plan, recognised in the profit or loss in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation results from employee service in the current year, benefit changes, curtailments and settlements.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in the profit or loss.

(x) Provisions and contingencies

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset when the reimbursement is virtually certain.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

2 Summary of significant accounting policies (Continued)

(x) Provisions and contingencies (Continued)

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Asset retirement obligations which meet the criteria of provisions are recognised as provisions and the amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements, while a corresponding addition to the related oil properties of an amount equivalent to the provision is also created. This is subsequently depleted as part of the costs of the oil properties. Interest expenses from the assets retirement obligations for each period are recognised with the effective interest method during the useful life of the related oil properties.

If the conditions for the recognition of the provisions are not met, the expenditures for the decommissioning, removal and site cleaning will be expensed in the profit or loss when occurred.

(y) Government grants

Grants from the government are recognised at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all the attached condition.

Government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants relating to expenses are shown in other (losses)/gains, net in the consolidated income statement.

In relation to the pandemic of COVID-19, the Group has received government grants in supporting its operations.

3 Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to manage and reduce certain risk exposures.

Risk management is carried out by treasury and investment departments (Group Treasury) under policies approved by the Treasury Committee, comprising all the executive directors of the Company. Group Treasury identifies, evaluates and manages financial risks in close co-operation with the Group's operating units. The Treasury Committee provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group operates in Hong Kong, mainland China and Thailand and is exposed to foreign exchange risk arising from various unhedged currency exposures, primarily with respect to the United States dollars ("USD"), Renminbi ("RMB") and Thailand Baht ("THB"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

3 Financial risk management (Continued)

Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

To manage the foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Group uses forward contracts. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group has also entered into cross currency swap contracts to manage its exposure to foreign exchange risk from recognised liabilities, including medium-term notes denominated in foreign currencies. Group Treasury is responsible for managing the net position in each foreign currency by using external forward currency contracts and other suitable financial instruments.

Transactions denominated in the USD mainly arise from the Group's operation in Hong Kong. Pursuant to Hong Kong's Linked Exchange Rate System under which HKD is pegged to the USD, management considers there are no significant foreign exchange risks with respect to the USD. Furthermore, there are no significant transactions and recognised assets and liabilities of the Thailand business in currency other than THB. Management considers there is no significant foreign exchange risk from the Thailand business.

At 31st December 2020, if the RMB had weakened/strengthened by 2 per cent (2019: 2 per cent) against HKD with all other variables held constant, pre-tax profit for the year would have been HK$43.1 million (2019: HK$27.0 million) lower/higher.

(ii) Price risk

The Group is exposed to equity securities price risk for the listed equity investments held by the Group which are classified as financial assets at FVOCI and financial assets at FVPL of HK$1,930.7 million (2019: HK$2,606.2 million) and HK$1,742.0 million (2019: HK$2,236.3 million) respectively.

The Group also held unlisted equity investments which are classified as FVPL of HK$56.3 million (2019: HK$50.5 million). The underlyings of the investments are listed equity securities, which making them subject to equity securities price risk.

The Group controls this risk through active monitoring of price movements and changes in market conditions that may have an impact on the value of these financial assets and instruments.

Majority of the Group's equity securities are publicly traded and are included in one of the following indexes: Hang Seng Index, S&P 500 Index, Euro Stoxx 50 Price Index and Shanghai Stock Exchange A Share Index.

The table below summarises the impact of increases/decreases of the following indexes on the Group's pre-tax profit for the year and on other comprehensive income. The analysis is based on the assumption that the indexes had increased/decreased by 10 per cent with all other variables held constant and all the Group's equity securities moved according to the historical correlation with the indexes.

	Impact on pre-tax profit		Impact on other comprehensive income	
	2020 HK$'M	2019 HK$'M	**2020 HK$'M**	2019 HK$'M
Hang Seng Index	**18.5**	19.4	**4.8**	9.4
S&P 500 Index	**4.4**	3.3	**–**	–
Euro Stoxx 50 Price Index	**4.7**	4.1	**–**	–
Shanghai Stock Exchange A Share Index	**153.2**	–	**148.4**	–

Pre-tax profit for the year would increase/decrease as a result of gains/losses on equity securities classified as at FVPL. Other comprehensive income would increase/decrease as a result of gains/losses on equity securities classified as FVOCI before consideration of any impairment.

3 Financial risk management (Continued)

Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Cash flow and fair value interest rate risk

Financial instruments at fixed and variable rates expose the Group to fair value interest rate risk and cash flow interest rate risk respectively. The Group's interest-bearing assets mainly comprise floating and fixed rate bank deposits of HK$7,628.3 million (2019: HK$8,007.5 million). The Group's interest bearing liabilities mainly comprises floating rate borrowings of HK$13,835.3 million (2019: HK$17,024.9 million), fixed rate borrowings of HK$28,303.3 million (2019: HK$20,911.3 million) and floating rate deposits received from customers of HK$1,392.2 million (2019: HK$1,389.3 million).

At 31st December 2020, if market interest rates on bank deposits had been 100 basis points (2019: 100 basis points) higher/lower with all other variables held constant, pre-tax profit for the year would have been HK$77.8 million (2019: HK$75.0 million) higher/lower, mainly as a result of higher/lower interest income on floating rate bank deposits.

At 31st December 2020, if market interest rates on borrowings and customers' deposits had been 100 basis points (2019: 100 basis points) higher/lower with all other variables held constant, pre-tax profit for the year would have been HK$172.9 million (2019: HK$183.6 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and customers' deposits.

(b) Credit risk

Credit risk of the Group mainly arises from:

	2020 **HK$'M**	2019 HK$'M
Cash and bank deposits	**7,628.3**	8,007.5
Debt securities and derivative financial instruments	**413.1**	479.0
Trade receivables	**3,827.9**	3,819.8
Other receivables	**2,586.0**	2,445.5
Loan and other receivables from joint ventures	**442.9**	800.4
Loan and other receivables from associates	**1,336.7**	1,373.8
Loan and other receivables from non-controlling interests	**206.3**	240.0
Other non-current assets	**3,283.1**	2,830.6

The Group has no significant concentrations of credit risk. The Group has credit policy to handle credit risk of customers. There is no significant concentration of sales to any individual customer. The top five largest customers account for less than 30 per cent of the total revenues. Furthermore, security deposits are required for gas customers. This also applies to the PRC associates and joint ventures where there is no significant concentration of sales to any individual customer. Other non-current assets mainly represent aviation fuel facility construction receivable. Management considered that counterparty default risk is low and there is no history of default in repayment. Debt securities, derivative financial instruments entered with financial institutions and cash transactions counter parties are mostly with good credit rating of investment grade or above. The Group has policies that limit the amount of credit exposure to any one financial institution.

The Group monitors the exposure to credit risk in respect of the financial assistance provided to its joint ventures and associates through exercising joint control or influence over their financial and operating policy decisions and reviewing their financial positions on a regular basis.

3 Financial risk management (Continued)

Financial risk factors (Continued)

(b) Credit risk (Continued)

The credit quality of financial assets can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates is as follows:

	2020 %	2019 %
Cash and bank deposits		
AA	**1.6**	8.8
A	**74.4**	72.6
BBB	**17.8**	13.4
BB	**–**	0.7
Unrated	**6.2**	4.5
	100.0	100.0
Debt securities		
AA	**27.7**	20.2
A	**67.0**	41.5
BBB	**5.3**	–
Unrated	**–**	38.3
	100.0	100.0
Derivative financial instruments		
AA	**3.8**	22.6
A	**96.2**	77.4
	100.0	100.0

Credit ratings are quoted from Bloomberg.

Credit quality of loan and other receivables from associates, loan and other receivables from joint ventures, other non-current assets and trade and other receivables are disclosed in notes 21, 22, 27 and 29 respectively to the consolidated financial statements.

The Group has three types of financial assets that are subject to the expected credit loss model, including trade receivables, other receivables and loan and other receivables from associates, joint ventures and non-controlling shareholders and debt investments carried at amortised cost and FVOCI. While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Group used expected loss rates ranging from 0.1 per cent to 50.8 per cent (2019: 0 per cent to 52.9 per cent) based on the aging for classes with different credit risk characteristics and exposures. The expected credit loss rates are estimated based on the historical credit losses experienced over the expected life of the debtors and are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

3 Financial risk management (Continued)

Financial risk factors (Continued)

(b) Credit risk (Continued)

The closing loss allowances for trade receivables as at 31st December 2020 and 2019 reconcile to the opening loss allowances as follows:

	Trade receivables	
	2020 HK$'M	2019 HK$'M
At 1st January	**248.0**	221.2
Increase in loan loss allowance recognised in the profit or loss during the year	**42.5**	53.7
Receivables written off during the year as uncollectible	**(1.6)**	(21.2)
Unused amount reversed	**(1.4)**	(4.1)
Exchange differences	**13.4**	(1.6)
At 31st December	**300.9**	248.0

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments after certain periods of time.

Other receivables and loans and other receivables from associates, joint ventures and non-controlling shareholders

The loss allowance for other receivables and loans and other receivables from associates, joint ventures and non-controlling shareholders as a result of applying the expected credit loss model was immaterial.

Other financial investments

All of the Group's debt investments at FVOCI are considered to have low credit risk, and the loss allowance recognised during the year was therefore limited to 12-month expected credit losses. Management consider 'low credit risk' for most of the listed bonds to be an investment grade credit rating with at least one major rating agency. The issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Taking into account the ongoing dealings with counterparties and securities pledged by the counterparties, management consider 'low credit risk' for the derivative financial instruments.

3 Financial risk management (Continued)

Financial risk factors (Continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping adequate free cash and credit lines available.

The Group determines that there is no significant liquidity risk in view of the adequate and stable sources of funds and unutilised banking facilities.

The table below analyses the Group's major financial liabilities into relevant maturity groupings based on the remaining period at the date of statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, except for derivative financial instruments. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year HK$'M	Between 1 and 2 years HK$'M	Between 2 and 5 years HK$'M	Over 5 years HK$'M
At 31st December 2020				
Trade and other payables	**5,453.4**	**–**	**–**	**–**
Loan and other payables to joint ventures	**486.3**	**–**	**–**	**–**
Loan and other payables to non-controlling shareholders	**108.3**	**–**	**20.9**	**–**
Borrowings	**12,045.4**	**9,795.2**	**10,696.2**	**17,911.7**
Lease liabilities	**115.5**	**67.9**	**78.6**	**73.0**
Derivative financial instruments	**140.2**	**421.4**	**57.2**	**–**
At 31st December 2019				
Trade and other payables	4,862.9	–	–	–
Loan and other payables to joint ventures	943.2	–	–	–
Loan and other payables to non-controlling shareholders	100.4	–	–	–
Borrowings	10,467.4	6,851.0	15,669.8	12,423.0
Lease liabilities	111.5	90.0	97.8	76.6
Derivative financial instruments	–	105.3	465.7	–

The customers' deposits are not presented in the above liquidity analysis as management considers it is not practical to allocate the deposits into maturity groupings and the movement in customers' deposits is not significant based on past experience.

3 Financial risk management (Continued)

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, buy back existing shares, drawdown and repay borrowings, issue and redeem perpetual capital securities, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net borrowing divided by total equity and net borrowing. Net borrowing is calculated as total borrowings, less time deposits, cash and bank deposits as shown in the consolidated statement of financial position. Lease liabilities are excluded from the calculation of this ratio.

The gearing ratios at 31st December 2020 and 2019 are as follows:

	2020 **HK$'M**	2019 HK$'M
Total borrowings	**(42,138.6)**	(37,936.2)
Less: Time deposits, cash and bank deposits	**7,628.3**	8,007.5
Net borrowing	**(34,510.3)**	(29,928.7)
Total equity	**(79,153.3)**	(75,396.7)
Net borrowing	**(34,510.3)**	(29,928.7)
	(113,663.6)	(105,325.4)
Gearing ratio	**30%**	28%

Fair value estimation

The Group's financial instruments are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3 Financial risk management (Continued)

Fair value estimation (Continued)

The following table presents the Group's financial assets and financial liabilities that are measured at fair value at 31st December 2020 and 2019.

	Level 1		Level 2		Level 3		Total	
HK$'M	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Financial assets								
Financial assets at FVPL								
– Equity investments	**1,742.0**	2,236.3	**56.3**	50.5	**3,094.4**	2,932.3	**4,892.7**	5,219.1
Derivative financial instruments	**–**	–	**79.1**	90.4	**254.4**	265.1	**333.5**	355.5
Financial assets at FVOCI								
– Debt securities	**158.7**	213.9	**–**	–	**–**	–	**158.7**	213.9
– Equity investments	**1,930.7**	2,606.2	**–**	–	**403.4**	321.8	**2,334.1**	2,928.0
Total financial assets	**3,831.4**	5,056.4	**135.4**	140.9	**3,752.2**	3,519.2	**7,719.0**	8,716.5
Financial liabilities								
Other payables	**–**	–	**–**	–	**154.0**	154.0	**154.0**	154.0
Derivative financial instruments	**–**	–	**618.8**	571.0	**–**	–	**618.8**	571.0
Total financial liabilities	**–**	–	**618.8**	571.0	**154.0**	154.0	**772.8**	725.0

There are no changes in valuation techniques during the year.

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting year. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of cross currency swaps is calculated as the present value of the estimated future cash flows based on observable foreign exchange rates and yield curves.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is calculated as the present value of future cash flows based on the forward exchange rates at the end of the reporting period.

3 Financial risk management (Continued)

Fair value estimation (Continued)

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

- Financial assets include a total of approximately HK$3.1 billion of an unlisted equity investment and its related derivative, which are considered entirely as financial assets at FVPL. In respect of this unlisted equity investment, the fair value is determined based on the discounted cash flow model. The significant unobservable inputs include discount rate of 13.0 per cent, sales price, sales volume and expected free cash flows of the investee. The fair value decreases with the increase in the discount rate, and increases with the increase in the sales price, sales volume or expected free cash flows of the investee. In respect of the related derivative, the fair value is determined based on the binomial and black scholes models. The significant unobservable inputs, except for those included in the fair value of the unlisted equity investment, mainly include expected volatility of the fair value of the unlisted equity investment. The fair value increases with the increase in the volatility.
- Financial assets also include derivative financial instrument of approximately HK$0.3 billion, the fair value is determined based on the binomial model. The significant unobservable inputs include discount rate of 10.2 per cent and stock price expected volatility of the fair value of the underlying equity instrument of 35.5 per cent. The fair value increases with the decrease in discount rate and increase in stock price volatility or decreases with the increase in the discount rate and decrease in stock price volatility.
- Financial assets also include unlisted equity investments of approximately HK$0.4 billion, the fair values of which are determined based on the attributable net assets value, being significant unobservable input. The fair value increases with the increase in the attributable net assets value.
- Financial liability represents contingent consideration which is generated from the further acquisition of a subsidiary in 2015 under other payables in level 3. The fair value is determined based on discounted cash flow model. The significant unobservable inputs include discount rate of 3.1 per cent and the rate of probability on the outflow of resources will be required to settle the obligation. The fair value decreases with the increase in the discount rate, and increases with the increase in the rate of probability.

The following table presents the changes in level 3 instruments for the year ended 31st December 2020 and 2019.

	Financial assets		Financial liabilities	
	2020 HK$'M	2019 HK$'M	**2020 HK$'M**	2019 HK$'M
At 1st January	**3,519.2**	4,080.8	**154.0**	154.0
Additions	**40.2**	349.0	**–**	–
Change in fair value	**(14.7)**	(35.8)	**–**	–
Exchange differences	**207.5**	(82.8)	**–**	–
Reclassification to level 1 instruments	**–**	(792.0)	**–**	–
At 31st December	**3,752.2**	3,519.2	**154.0**	154.0

The carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated by management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management incorporates their assessment on the impact arising from the ongoing development of the COVID-19 pandemic into their evaluation.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of assets

The Group tests annually whether goodwill has suffered any impairment or whenever events of changes in circumstances indicate that the carrying amount may not be recoverable. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amounts of cash-generating units have been determined based on the higher of fair value less cost of disposal and value-in-use calculations. These value-in-use calculations require the use of estimates which includes the following key assumptions as detailed below.

Mining and oil properties in mainland China and Thailand

In respect to the Group's mining and oil properties in mainland China and Thailand respectively (under New Energy business segment), the Group tested them for impairment by estimating the recoverable amount of these projects as at 31st December 2020. The key assumptions adopted in the test were coal and oil reserves, future business growth, future products selling prices and production costs, production volume and discount rate of 10.5 per cent to 11.0 per cent (2019: 10.0 per cent to 11.0 per cent). Based on the result of the tests, an impairment loss of HK$385.0 million was recognised in the profit or loss for the year ended 31st December 2020 (2019: HK$560.0 million). Assuming projected revenue decreased by 5.0 per cent and 3.0 per cent for mining and oil properties respectively or the discount rate increased by 100 basis point, the value-in-use calculated for each of these projects would not result in a further material loss to the Group.

Goodwill, property, plant and equipment in relation to city-gas business in mainland China

In 2017 and 2019, the National Development and Reform Commission issued "Guiding Opinion on Strengthening Gas Distribution Price Regulation" and the "Guiding Opinion on the Regulation of Installation Fees for Gas Facilities in Cities and Towns" respectively (collectively "Guiding Opinions"), which set out proposed return rates for both gas distribution and gas facility installation businesses of city-gas enterprises. In this regards, the Group has carried out assessment on the goodwill and property, plant and equipment of individual gas projects in mainland China, including those held through the Group's interests in associates and joint ventures.

The assessment for each of the city-gas projects is based on value-in-use approach using the discounted cash flow method. The estimated cash flows used in the assessment are derived based on the most recent financial budget as of 31st December 2020 for the next five years approved by management. Cash flows beyond five-year period until the end of the relevant concession periods are determined by considering both internal and external factors relating to the cash-generating units. The Group is of the view that, in order to achieve a smooth transition to both the gas project operators and the society, the existing gas pricing mechanism would be adopted continuously for certain years and thereafter gradually implemented before 2030. The connecting fee margin was also reduced by management to address the rationale that drove the issue of the Guiding Opinions. The terminal value is determined by management with reference to applicable valuation basis and relevant rules and regulations. Discount rate ranged between 8.5 per cent to 11.0 per cent (2019: 8.0 per cent to 11.0 per cent) was used to reflect specific risk relating to the investments. In relation to city-gas business in mainland China operated by the Group's subsidiaries, the carrying values of property, plant and equipment and goodwill related to these individual city-gas projects as at 31st December 2020 amounting to approximately HK$34.6 billion (2019: HK$30.0 billion). The Group's share of property, plant and equipment, together with goodwill related to individual city-gas projects accounted for as associates and joint ventures of the Group as at 31st December 2020 were carried at approximately HK$12.0 billion and HK$17.0 billion respectively (2019: approximately HK$9.0 billion and HK$15.0 billion respectively, after impairment detailed as below). Based on the assessment, no impairment was recognised in the consolidated income statement for the year ended 31st December 2020 (2019: a total provision for impairment of HK$1,030.0 million was recognised, of which HK$380.0 million was related to subsidiaries, and, through equity accounting, HK$69.0 million and HK$581.0 million were related to associates and joint ventures respectively).

4 Critical accounting estimates and judgements (Continued)

(a) Estimated impairment of assets (Continued)

Goodwill, property, plant and equipment in relation to city-gas business in mainland China (Continued)

The assumptions used in the assessment are highly judgemental, and heavily dependent on the timing and the extent the pricing mechanism as detailed in the Guiding Opinions will be implemented as well as the discount rate used and the terminal value. If the discount rate is increased by 50 basis points and all other variables are held constant, the profit attributable to the shareholders of the Company would be decreased by approximately HK$400.0 million (2019: HK$400.0 million). If the terminal value is decreased by 10 per cent and all other variables are held constant, the profit attributable to the shareholders of the Company would be decreased by approximately HK$120.0 million (2019: HK$200.0 million).

(b) Property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. For cost incurred and capitalised as property, plant and equipment, management assessed whether the Group has control over these assets based on relevant regulations and the terms as stipulated in the relevant agreements, where applicable.

(c) Estimate of fair value of investment property

The valuation of investment properties (including those held by an associate) is performed in accordance with the "The HKIS Valuation Standards (2020 Edition)" published by The HKIS and the 'International Valuation Standards' published by the International Valuation Standards Committee. The valuation is reviewed annually by qualified valuers by considering the information from a variety of sources including:

- current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences;
- recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- rental income derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using capitalisation rates that reflect current market assessments of the uncertainty in the amount and timing of the rental income.

If information on current or recent prices of investment properties is not available, the fair values of investment properties are mainly determined using income capitalisation valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each date of statement of financial position.

The principal assumptions underlying management's estimation of fair value are those related to the capitalisation rate and market rentals. These valuations are regularly compared to actual market yield data, and actual transactions by the Group and those reported by the market.

(d) Estimate of gas and water consumption

Revenue for gas and water supply may include an estimation of the gas and water supplied to the customers of which actual meter reading is not available. The estimation is done mainly based on the past consumption records and recent consumption pattern of the customers. As of the year-end date, the overall billed gas and water sales are in line with the gas and water supplied to the customers.

4 Critical accounting estimates and judgements (Continued)

(e) Recognition of gas connection income and allocation of transaction price

Critical judgements in recognising revenue

Gas connection income is recognised when or as the control of the underlying performance over time, the progress towards complete satisfaction of the performance obligation is measured using input method. Management are required to exercise significant judgement in their review and revision of the estimates of the total contract costs and actual costs incurred up to the end of the reporting period for each contract as the contract progresses, based on past experience and specific circumstances.

Critical judgements in allocating the transaction price

Some gas connection contracts include installation services. Because these contracts include performance obligations, the transaction price must be allocated to the performance obligations on a relative stand-alone selling price basis.

Management estimates that the stand-alone selling price at contract inception based on expected cost plus a margin approach for installation services and residual approach for connection services.

(f) Reserves estimates

Reserves are estimates of the amount of product that can be economically and legally extracted from the Group's mining and oil properties for coal mines in mainland China and oil concession in Thailand. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand and commodity prices.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

Because the economic assumptions used to estimate reserves changes from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- Asset carrying values may be affected due to changes in estimated future cash flows.
- Depreciation charged in the profit or loss may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.
- Decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

(g) Estimate of fair value of equity investments

The fair value of financial assets that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods (such as discounted cash flow model) and makes assumptions that are mainly based on market conditions existing at each date of statement of financial position. Details of the key assumptions used and the impact of changes to these assumptions are described in note 3.

5 Segment information

The Group's principal activities are the production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses ("New Energy") in Hong Kong and mainland China. The revenue comprises the following:

	2020 HK$'M	2019 HK$'M
Gas sales before fuel cost adjustment	**29,547.2**	29,632.9
Fuel cost adjustment	**447.2**	771.9
Gas sales after fuel cost adjustment	**29,994.4**	30,404.8
Connection income	**3,161.0**	3,253.2
Equipment sales and maintenance services	**2,867.5**	2,950.2
Water and related sales	**1,360.4**	1,314.3
Oil and coal related sales	**785.5**	961.8
Hydro-treated vegetable oil related sales	**964.3**	–
Other sales	**1,793.9**	1,743.8
	40,927.0	40,628.1

The chief operating decision-maker has been identified as the executive committee members (the "ECM") of the Company. The ECM reviews the Group's internal reporting in order to assess performance and allocate resources. The ECM considers the business from both a product and geographical perspective. From a product perspective, management assesses the performance of (a) gas, water and related businesses; (b) New Energy and (c) property business. Gas, water and related businesses is further evaluated on a geographic basis (Hong Kong and mainland China).

The ECM assesses the performance of the operating segments based on a measure of adjusted EBITDA. Other information provided, except as noted below, to the ECM is measured in a manner consistent with that in the consolidated financial statements.

5 Segment information (Continued)

The segment information provided to the ECM for the reportable segments is as follows:

2020 HK$'M	Gas, water and related businesses		New Energy	Property	Other segments	Total
	Hong Kong	**Mainland China**				
Revenue recognised at a point in time	**9,516.7**	**25,914.0**	**3,041.8**	**–**	**189.8**	**38,662.3**
Revenue recognised over time	**–**	**994.4**	**–**	**–**	**783.7**	**1,778.1**
Finance and rental income	**–**	**–**	**434.6**	**52.0**	**–**	**486.6**
	9,516.7	**26,908.4**	**3,476.4**	**52.0**	**973.5**	**40,927.0**
Adjusted EBITDA	**4,865.7**	**6,067.2**	**793.0**	**25.4**	**197.6**	**11,948.9**
Depreciation and amortisation	**(857.0)**	**(1,535.0)**	**(319.6)**	**–**	**(177.1)**	**(2,888.7)**
Unallocated expenses						**(660.3)**
						8,399.9
Other losses, net						**(481.9)**
Interest expense						**(1,268.6)**
Share of results of associates	**–**	**1,186.9**	**32.6**	**(39.0)**	**6.5**	**1,187.0**
Share of results of joint ventures	**–**	**1,082.3**	**1.3**	**10.2**	**(4.6)**	**1,089.2**
Profit before taxation						**8,925.6**
Taxation						**(1,713.2)**
Profit for the year						**7,212.4**

Share of results of associates includes a decrease of HK$477.0 million (2019: an increase of HK$199.7 million) being the Group's share of change in valuation of investment properties at the International Finance Centre (the "IFC") complex for the year.

5 Segment information (Continued)

2019 HK$'M	Gas, water and related businesses Hong Kong	 Mainland China	New Energy	Property	Other segments	Total
Revenue recognised at a point in time	9,798.5	26,114.9	2,298.1	–	228.0	38,439.5
Revenue recognised over time	–	1,001.4	–	–	716.4	1,717.8
Finance and rental income	–	–	413.0	57.8	–	470.8
	9,798.5	27,116.3	2,711.1	57.8	944.4	40,628.1
Adjusted EBITDA	4,764.5	5,919.2	614.5	30.2	165.3	11,493.7
Depreciation and amortisation	(828.2)	(1,410.5)	(337.8)	–	(149.4)	(2,725.9)
Unallocated expenses						(744.1)
						8,023.7
Other gains, net						1,048.7
Interest expense						(1,230.4)
Share of results of associates	–	1,135.8	(72.7)	753.3	4.0	1,820.4
Share of results of joint ventures	–	730.5	1.1	9.3	0.6	741.5
Profit before taxation						10,403.9
Taxation						(2,289.6)
Profit for the year						8,114.3

The segment assets at 31st December 2020 and 2019 are as follows:

2020 **HK$'M**	**Gas, water and related businesses** **Hong Kong**	 **Mainland China**	**New Energy**	**Property**	**Other segments**	**Total**
Segment assets	**17,756.5**	**82,048.7**	**18,587.0**	**15,707.0**	**4,702.0**	**138,801.2**
Unallocated assets:						
Financial assets at FVOCI						**2,492.8**
Financial assets at FVPL						**4,892.7**
Time deposits, cash and bank balances excluded from segment assets						**2,808.3**
Others (note)						**1,285.2**
Total assets						**150,280.2**

5 Segment information (Continued)

2019 HK$'M	Gas, water and related businesses Hong Kong	Gas, water and related businesses Mainland China	New Energy	Property	Other segments	Total
Segment assets	17,358.7	71,570.4	17,756.7	16,165.4	4,588.2	127,439.4
Unallocated assets:						
Financial assets at FVOCI						3,141.9
Financial assets at FVPL						5,219.1
Time deposits, cash and bank balances excluded from segment assets						3,423.9
Others (note)						1,245.8
Total assets						140,470.1

Note

Other unallocated assets mainly include other receivables other than those included under segment assets, retirement benefit assets, derivative financial instruments and loan and other receivables from non-controlling shareholders.

The Company is domiciled in Hong Kong. The Group's revenue from external customers in Hong Kong for the year ended 31st December 2020 is HK$11,029.7 million (2019: HK$11,333.5 million), and the revenue from external customers in mainland China and other geographical locations is HK$29,897.3 million (2019: HK$29,294.6 million).

At 31st December 2020, the total of non-current assets other than financial instruments located in Hong Kong is HK$34,352.3 million (2019: HK$33,845.2 million), and the total of non-current assets other than financial instruments located in mainland China and other geographical locations is HK$88,286.2 million (2019: HK$77,968.9 million).

For the years ended 31st December 2020 and 2019, the percentage of revenues attributable to the Group's five largest customers is less than 30 per cent.

6 Total operating expenses

	2020 HK$'M	2019 HK$'M
Stores and materials used	**21,986.5**	21,803.8
Manpower costs (note 11)	**3,284.2**	3,485.2
Depreciation and amortisation	**2,940.6**	2,753.5
Other operating items	**4,315.8**	4,561.9
	32,527.1	32,604.4

7 Other (losses)/gains, net

	2020 HK$'M	2019 HK$'M
Net investment (losses)/gains (note 8)	**(162.3)**	2,228.0
Fair value (loss)/gain on investment property (note 17)	**(3.0)**	16.0
Provision for assets (note)	**(446.8)**	(1,184.9)
Ineffective portion on cash flow hedges	**6.9**	0.2
Others	**123.3**	(10.6)
	(481.9)	1,048.7

Note

The amount included an impairment provision of HK$385.0 million in relation to oil properties under New Energy business segment (2019: the amount included an impairment provision of HK$560.0 million in relation to mining and oil properties under New Energy business segment and HK$380.0 million in relation to goodwill and property, plant and equipment related to individual city-gas projects in mainland China).

8 Net investment (losses)/gains

	2020 HK$'M	2019 HK$'M
(a) Interest income		
Bank deposits	**107.0**	117.7
Listed financial assets at FVOCI	**3.0**	7.9
Loans to associates and joint ventures	**63.9**	66.1
Others	**13.3**	27.9
	187.2	219.6
(b) Net realised and unrealised (losses)/ gains and interest income on financial assets at FVPL and derivative financial instruments		
Listed securities	**(570.4)**	1,651.4
Unlisted securities	**(47.1)**	211.0
Exchange differences	**(1.0)**	(0.7)
	(618.5)	1,861.7
(c) Net realised and unrealised losses on financial assets at FVOCI		
Exchange differences	**(2.0)**	(3.7)
	(2.0)	(3.7)
(d) Dividend income		
Listed financial assets at FVPL	**36.8**	5.9
Listed financial assets at FVOCI	**46.4**	18.4
Unlisted financial assets at FVOCI	**60.7**	81.1
	143.9	105.4
(e) Exchange gains	**127.1**	45.0
	(162.3)	2,228.0

9 Interest expense

	2020 HK$'M	2019 HK$'M
Interest on bank loans and overdrafts wholly repayable within five years	**851.0**	921.9
Interest on guaranteed notes wholly repayable within five years	**204.9**	197.6
Interest on guaranteed notes not wholly repayable within five years	**361.4**	294.7
Interest on lease liabilities	**13.2**	16.3
	1,430.5	1,430.5
Less: amount capitalised	**(161.9)**	(200.1)
	1,268.6	1,230.4

The interest expense is capitalised at average rates from 2.96 per cent to 5.35 per cent (2019: 0.47 per cent to 6.37 per cent) per annum.

10 Profit before taxation

Profit before taxation is stated after charging and (crediting) the following:

	2020 HK$'M	2019 HK$'M
Cost of inventories sold	**23,054.0**	23,924.2
Depreciation and amortisation	**2,940.6**	2,753.5
Loss on disposal/write off of property, plant and equipment	**72.6**	25.8
Loss/(gain) on disposal of right-of-use assets	**1.4**	(0.1)
Impairment loss of trade receivables	**42.5**	53.7
Rental income from investment property		
– gross rental income	**(52.0)**	(57.7)
– outgoing expenses	**26.4**	27.2
Auditors' remuneration	**30.0**	29.3
Net loss on residential maintenance (note)	**70.4**	69.7

Note

Analysis of net loss on residential maintenance:

	2020 HK$'M	2019 HK$'M
Residential maintenance revenue	**(213.6)**	(213.3)
Less expenses:		
Manpower costs	**169.7**	162.5
Other operating and administrative expenses	**114.3**	120.5
Net loss	**70.4**	69.7

11 Manpower costs

(a) Staff costs

	2020 HK$'M	2019 HK$'M
Salaries and wages	**3,009.3**	3,033.7
Pension costs – defined contribution retirement schemes	**261.0**	435.2
Pension costs – defined benefit retirement scheme (note 26)	**13.9**	16.3
	3,284.2	3,485.2

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2019: two) directors whose emoluments are reflected in the analysis shown in note 12. Details of the emoluments payable to the remaining two (2019: three) individuals during the year are as follows:

	2020 HK$'M	2019 HK$'M
Fee, salaries, allowances and benefits in kind	**5.3**	9.5
Performance bonus	**8.1**	11.6
Contributions to retirement scheme	**2.4**	3.3
	15.8	24.4

Number of individuals whose emoluments fell within:

Emoluments band (HK$'M)	**2020**	2019
10.0 – 11.0	**–**	1
9.0 – 10.0	**–**	–
8.0 – 9.0	**1**	–
7.0 – 8.0	**1**	2
6.0 – 7.0	**–**	–

(c) Emoluments of senior management

Senior management for the years ended 31st December 2020 and 2019 were all executive directors of the Company whose emoluments have been shown in note 12.

12 Benefits and interests of directors

(a) Directors' emoluments

Name of director	Fees HK$'M	Salary, allowances and benefits in kind HK$'M	Performance bonus HK$'M	Contributions to retirement scheme HK$'M	Others HK$'M	Total HK$'M
	Emoluments paid or payable to every director whether of the Company or its subsidiary undertaking					
2020						
Alfred Chan Wing-kin (Managing Director) (note (i))	**0.4**	**6.7**	**21.6**	**5.9**	**–**	**34.6**
Peter Wong Wai-yee (note (i))	**0.4**	**4.8**	**9.4**	**2.6**	**–**	**17.2**
John Ho Hon-ming (note (i) & (ii))	**0.1**	**1.3**	**1.2**	**0.6**	**–**	**3.2**
Colin Lam Ko-yin	**0.3**	**0.1**	**–**	**–**	**–**	**0.4**
Lee Ka-kit	**0.7**	**0.2**	**–**	**–**	**–**	**0.9**
Lee Ka-shing	**0.7**	**0.2**	**–**	**–**	**–**	**0.9**
David Li Kwok-po	**0.7**	**0.1**	**–**	**–**	**–**	**0.8**
Poon Chung-kwong	**0.7**	**–**	**–**	**–**	**–**	**0.7**
Moses Cheng Mo-chi	**0.7**	**–**	**–**	**–**	**–**	**0.7**
	4.7	**13.4**	**32.2**	**9.1**	**–**	**59.4**

Note

(i) Mr. Alfred Chan Wing-kin, Mr. Peter Wong Wai-yee and Mr. John Ho Hon-ming who are also directors of Towngas China Company Limited ("Towngas China"), a significant subsidiary of the Group. In this connection, the above emoluments included Mr. Alfred Chan Wing-kin, Mr. Peter Wong Wai-yee and Mr. John Ho Hon-ming each received directors' emoluments from Towngas China of HK$0.2 million, HK$7.2 million and HK$1.2 million (2019: HK$0.2 million and HK$6.8 million) respectively, and no share-based payments were received during the year and 2019.

(ii) Mr. John Ho Hon-ming was appointed as director on 1st October 2020. For the period from 1st January to 30th September 2020, in the role of Chief Financial Officer and Company Secretary, Mr. John Ho Hon-ming had a remuneration of HK$8.1 million from the Group, including fees of HK$0.1 million, salary, allowances and benefits in kind of HK$3.2 million, performance bonus of HK$4.0 million and contributions to retirement scheme of HK$0.8 million.

12 Benefits and interests of directors (Continued)

(a) Directors' emoluments (Continued)

Name of director	Emoluments paid or payable to every director whether of the Company or its subsidiary undertaking					
	Fees HK$'M	Salary, allowances and benefits in kind HK$'M	Performance bonus HK$'M	Contributions to retirement scheme HK$'M	Others HK$'M	Total HK$'M
2019						
Alfred Chan Wing-kin (Managing Director)	0.4	6.4	21.3	5.8	–	33.9
Peter Wong Wai-yee	0.4	4.8	9.4	2.6	–	17.2
Lee Shau-kee (note (i))	0.7	0.3	–	–	–	1.0
Colin Lam Ko-yin	0.3	0.1	–	–	–	0.4
Lee Ka-kit	0.7	–	–	–	–	0.7
Lee Ka-shing	0.7	–	–	–	–	0.7
David Li Kwok-po	0.7	–	–	–	–	0.7
Poon Chung-kwong	0.7	–	–	–	–	0.7
Moses Cheng Mo-chi (note (ii))	0.7	–	–	–	–	0.7
	5.3	11.6	30.7	8.4	–	56.0

(i) Dr. Lee Shau-kee retired on 28th May 2019.

(ii) Dr. Moses Cheng Mo-chi was appointed as director on 14th January 2019.

The above remuneration paid to directors of the Company also represents the amount of short-term employee benefits of HK$50.3 million (2019: HK$47.6 million) and post-employment benefits of HK$9.1 million (2019: HK$8.4 million) paid to the Group's senior management during the year ended 31st December 2020. There were no other long-term benefits, termination benefits and share-based payment paid to the Group's senior management during the year (2019: nil).

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements or contracts in relation to the Group's business to which the Company was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

13 Taxation

The amount of taxation charged to the profit or loss represents:

	2020 HK$'M	2019 HK$'M
Current taxation – provision for Hong Kong Profits Tax at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits for the year	**738.6**	703.0
Current taxation – provision for other jurisdictions income tax at the prevailing rates on the estimated assessable profits for the year (note)	**979.2**	867.2
Current taxation – (over)/ under provision in prior years	**(0.5)**	1.1
Deferred taxation – origination and reversal of temporary differences	**(114.9)**	603.7
Withholding tax	**110.8**	114.6
	1,713.2	2,289.6

Note

The prevailing income tax rates of mainland China and Thailand range from 15 per cent to 25 per cent (2019: 15 per cent to 25 per cent) and 50 per cent (2019: 50 per cent) respectively.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2020 HK$'M	2019 HK$'M
Profit before taxation	**8,925.6**	10,403.9
Less: Share of results of associates	**(1,187.0)**	(1,820.4)
Share of results of joint ventures	**(1,089.2)**	(741.5)
	6,649.4	7,842.0
Calculated at a tax rate of 16.5% (2019: 16.5%)	**1,097.2**	1,293.9
Effect of different tax rates in other jurisdictions	**238.6**	516.4
Income not subject to taxation	**(313.6)**	(188.1)
Expenses not deductible for taxation purposes	**448.8**	523.2
Utilisation of previously unrecognised tax losses	**(37.2)**	(24.7)
(Over)/ under provision in prior years	**(0.5)**	1.1
Withholding tax	**110.8**	114.6
Unrecognised tax losses and others	**169.1**	53.2
	1,713.2	2,289.6

Share of associates' taxation for the year ended 31st December 2020 of HK$479.0 million (2019: HK$498.0 million) is included in the profit or loss as share of results of associates.

Share of joint ventures' taxation for the year ended 31st December 2020 of HK$409.7 million (2019: HK$306.3 million) is included in the profit or loss as share of results of joint ventures.

14 Dividends

	2020 HK$'M	2019 HK$'M
Interim, paid of HK12 cents per ordinary share (2019: HK12 cents per ordinary share)	**2,132.6**	2,031.0
Final, proposed of HK23 cents per ordinary share (2019: HK23 cents per ordinary share)	**4,087.4**	3,892.8
	6,220.0	5,923.8

At a meeting held on 19th March 2021, the directors of the Company declared a final dividend of HK23 cents per ordinary share for the year ended 31st December 2020. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation of retained earnings for the year ended 31st December 2020.

15 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$6,007.3 million (2019: HK$6,965.7 million) and the weighted average of 17,771,304,856 shares (2019: 17,771,304,856 shares[1]) in issue during the year.

As there were no diluted potential ordinary shares outstanding during the year (2019: nil), the diluted earnings per share for the year ended 31st December 2020 is the same as the basic earnings per share.

1 Adjusted for the bonus share issue in 2020

16 Property, plant and equipment

	Buildings, plant and equipment HK$'M	Mains and risers HK$'M	Meters and installations HK$'M	Mining and oil properties HK$'M	Others HK$'M	Capital work in progress HK$'M	Total HK$'M
Cost							
At 1st January 2020	**23,968.1**	**41,262.5**	**4,196.7**	**3,794.6**	**916.4**	**11,202.6**	**85,340.9**
Additions	**811.2**	**747.2**	**262.3**	**3.0**	**22.1**	**5,548.0**	**7,393.8**
Acquisition of business (note 42(a))	**–**	**–**	**–**	**–**	**–**	**0.4**	**0.4**
Transfers from capital work in progress	**2,292.7**	**2,929.4**	**8.5**	**–**	**–**	**(5,230.6)**	**–**
Disposals/write off	**(224.3)**	**(6.6)**	**(107.1)**	**(8.8)**	**(5.6)**	**(16.3)**	**(368.7)**
Impairment	**(28.4)**	**–**	**–**	**(385.0)**	**–**	**–**	**(413.4)**
Exchange differences	**1,140.2**	**1,928.8**	**8.8**	**(18.8)**	**55.0**	**553.2**	**3,667.2**
At 31st December 2020	**27,959.5**	**46,861.3**	**4,369.2**	**3,385.0**	**987.9**	**12,057.3**	**95,620.2**
Accumulated depreciation							
At 1st January 2020	**9,847.1**	**10,230.3**	**2,919.6**	**1,076.2**	**185.0**	**–**	**24,258.2**
Charge for the year	**1,199.8**	**1,195.3**	**288.6**	**33.2**	**17.1**	**–**	**2,734.0**
Disposals/write off	**(176.5)**	**(4.0)**	**(83.0)**	**–**	**–**	**–**	**(263.5)**
Exchange differences	**366.4**	**378.0**	**5.4**	**(5.5)**	**13.5**	**–**	**757.8**
At 31st December 2020	**11,236.8**	**11,799.6**	**3,130.6**	**1,103.9**	**215.6**	**–**	**27,486.5**
Net book value							
At 31st December 2020	**16,722.7**	**35,061.7**	**1,238.6**	**2,281.1**	**772.3**	**12,057.3**	**68,133.7**
At 31st December 2019	14,121.0	31,032.2	1,277.1	2,718.4	731.4	11,202.6	61,082.7

The carrying values of the property, plant and equipment related to city-gas projects in mainland China as at 31st December 2020 amounted to approximately HK$31.8 billion (2019: HK$27.5 billion) in total.

The additions to property, plant and equipment mainly included HK$1,040.0 million (2019: HK$1,193.5 million) and HK$4,967.9 million (2019: HK$4,744.8 million) in relation to gas, water and related businesses in Hong Kong and mainland China respectively. Remaining balance mainly included HK$1,297.9 million (2019: HK$836.2 million) in relation to New Energy and HK$88.0 million (2019: HK$337.1 million) in other segments.

16 Property, plant and equipment (Continued)

	Buildings, plant and equipment HK$'M	Mains and risers HK$'M	Meters and installations HK$'M	Mining and oil properties HK$'M	Others HK$'M	Capital work in progress HK$'M	Total HK$'M
Cost							
At 1st January 2019	22,385.4	38,043.8	3,993.0	4,041.2	926.2	10,682.8	80,072.4
Additions	839.2	609.0	306.8	71.6	0.5	5,284.5	7,111.6
Acquisition of business	3.1	14.2	–	–	–	–	17.3
Transfers from capital work in progress	1,295.9	3,169.6	13.4	2.4	5.7	(4,487.0)	–
Disposals/write off	(222.4)	(19.1)	(114.3)	(71.4)	–	(10.7)	(437.9)
Impairment	(46.6)	(47.0)	–	(560.0)	–	(116.5)	(770.1)
Exchange differences	(286.5)	(508.0)	(2.2)	310.8	(16.0)	(150.5)	(652.4)
At 31st December 2019	23,968.1	41,262.5	4,196.7	3,794.6	916.4	11,202.6	85,340.9
Accumulated depreciation							
At 1st January 2019	9,018.9	9,248.1	2,711.2	944.4	171.0	–	22,093.6
Charge for the year	1,088.9	1,085.3	296.7	49.5	17.7	–	2,538.1
Disposals/write off	(169.5)	(8.9)	(86.9)	–	–	–	(265.3)
Exchange differences	(91.2)	(94.2)	(1.4)	82.3	(3.7)	–	(108.2)
At 31st December 2019	9,847.1	10,230.3	2,919.6	1,076.2	185.0	–	24,258.2
Net book value							
At 31st December 2019	14,121.0	31,032.2	1,277.1	2,718.4	731.4	11,202.6	61,082.7
At 31st December 2018	13,366.5	28,795.7	1,281.8	3,096.8	755.2	10,682.8	57,978.8

17 Investment property

	2020 HK$'M	2019 HK$'M
At 1st January	**830.0**	778.0
Additions	**–**	36.0
Fair value (loss)/gain (note 7)	**(3.0)**	16.0
At 31st December	**827.0**	830.0

The Group's interest in the commercial investment property is located in Hong Kong under a land lease of over 50 years. The investment property was revalued at 31st December 2020 by an independent professionally qualified valuer, Knight Frank Petty Limited which conform to The HKIS Valuation Standards (2020 Edition) shown in note 2(h).

17 Investment property (Continued)

Fair value measurements using significant unobservable inputs

Fair value of completed commercial property in Hong Kong is generally derived using the income capitalisation method. This valuation method is based on the capitalisation of the net income and reversionary income potential by adopting appropriate capitalisation rates, which are derived from analysis of sale transactions and valuer's interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have reference to valuer's view of recent lettings, within the subject properties and other comparable properties.

Information about fair value measurements using significant unobservable inputs is as follows:

Unobservable inputs	Commercial complex	Car park	Relationship of unobservable inputs to fair value
Capitalisation rate	5.4%	8.75%	The higher the capitalisation rate, the lower the fair value
Monthly rent	HK$19.0 /sq.ft.	N/A	The higher the market rent, the higher the fair value

Valuation processes of the Group

The Group's finance division includes a team that review and analyse the valuation performed by the independent valuer for financial reporting purposes. At each financial year end the finance division:

- Verifies all major inputs to the independent valuation report;
- Assesses property valuation movements when compared with the prior year valuation report;
- Holds discussions with the independent valuer.

18 Right-of-use assets

	Prepaid leasehold land HK$'M	**Buildings, plant and equipment and others HK$'M**	**Total HK$'M**
At 1st January 2020	**2,418.3**	**306.9**	**2,725.2**
Additions	**77.3**	**64.8**	**142.1**
Depreciation and amortisation	**(68.8)**	**(134.5)**	**(203.3)**
Disposals	**(8.9)**	**–**	**(8.9)**
Exchange differences	**132.3**	**15.0**	**147.3**
At 31st December 2020	**2,550.2**	**252.2**	**2,802.4**

	Prepaid leasehold land HK$'M	Buildings, plant and equipment and others HK$'M	Total HK$'M
At 1st January 2019, as restated	2,214.5	401.3	2,615.8
Additions	301.6	53.3	354.9
Acquisition of business	4.8	–	4.8
Depreciation and amortisation	(65.3)	(142.8)	(208.1)
Disposals	(7.0)	–	(7.0)
Exchange differences	(30.3)	(4.9)	(35.2)
At 31st December 2019	2,418.3	306.9	2,725.2

18 Right-of-use assets (Continued)

The Group leases various land, office buildings and customer service centres. Rental contracts are made for a range of fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Some leases contain variable payment terms that are linked to sales or net profits generated. Variable lease payments that depend on sales or net profits are recognised in the profit or loss in the period in which the condition that triggers those payments occurs. Most leases are subject to fixed payments.

Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. There are minimal lease contracts with extension or termination options.

19 Intangible assets

		2020 HK$'M	2019 HK$'M
(a)	**Goodwill**		
	At 1st January	**4,913.6**	5,280.5
	Acquisition of businesses	**–**	20.4
	Impairment	**–**	(333.0)
	Exchange differences	**167.7**	(54.3)
	At 31st December	**5,081.3**	4,913.6
(b)	**Other intangible assets**		
	Cost		
	At 1st January	**497.5**	504.9
	Exchange differences	**25.4**	(7.4)
	At 31st December	**522.9**	497.5
	Accumulated amortisation		
	At 1st January	**(120.0)**	(103.3)
	Amortisation	**(17.5)**	(17.6)
	Exchange differences	**(3.8)**	0.9
	At 31st December	**(141.3)**	(120.0)
	Net book value		
	At 31st December	**381.6**	377.5
	Total intangible assets	**5,462.9**	5,291.1

19 Intangible assets (Continued)

Goodwill is allocated to an individual cash-generating unit and a group of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, majority related to segment – gas, water and related businesses in mainland China. The goodwill balance included HK$2,242.0 million (2019: HK$2,242.0 million) related to the Group's investments in Towngas China. The remaining balance mainly represents goodwill associated with individual city-gas projects (approximately HK$2.8 billion as of 31st December 2020) (2019: HK$2.5 billion). The Group tests goodwill annually for impairment, or more frequently if there are indications that it might be impaired. For the purpose of impairment test, the recoverable amount of the cash-generating units is determined based on either fair value less costs of disposal or value-in-use calculations. The fair value less costs of disposal is by referencing to active market information. The key assumptions used in value-in-use calculations are detailed in note 4(a).

Based on impairment tests performed, no impairment provision was recognised as at 31st December 2020 (2019: HK$333.0 million).

20 Subsidiaries

Material non-controlling interests

The total non-controlling interest as at 31st December 2020 is HK$10,010.8 million (2019: HK$8,803.1 million) of which HK$7,163.3 million (2019: HK$6,557.2 million) is attributable to Towngas China and the non-controlling interest in respect of other individual subsidiaries of the Group is not material.

Set out below are the summarised financial information of Towngas China. The information below is the amount before inter-company eliminations.

	Towngas China	
Summarised statement of financial position	**2020 HK$'M**	2019 HK$'M
Assets		
Non-current assets	**33,087.0**	29,679.1
Current assets	**6,037.8**	4,992.0
	39,124.8	34,671.1
Liabilities		
Non-current liabilities	**(8,197.6)**	(8,595.1)
Current liabilities	**(11,979,9)**	(9,284.8)
	(20,177.5)	(17,879.9)
Net assets	**18,947.3**	16,791.2

20 Subsidiaries (Continued)

Summarised income statement and comprehensive income statement	Towngas China 2020 HK$'M	Towngas China 2019 HK$'M
Revenue	**12,826.2**	12,924.4
Profit before taxation	**2,202.7**	2,014.1
Taxation	**(554.9)**	(501.5)
Profit for the year	**1,647.8**	1,512.6
Other comprehensive income	**827.1**	1,106.6
Total comprehensive income	**2,474.9**	2,619.2
Total comprehensive income attributable to non-controlling interests	**291.5**	147.8
Dividend paid to non-controlling shareholders	**110.6**	90.8

Summarised cash flows statement	Towngas China 2020 HK$'M	Towngas China 2019 HK$'M
Net cash generated from operating activities	**2,199.9**	1,753.3
Net cash used in investing activities	**(2,476.2)**	(2,213.1)
Net cash inflow from financing activities	**463.4**	806.3
Net increase in cash and cash equivalents	**187.1**	346.5
Cash and cash equivalents at beginning of year	**1,937.4**	1,611.5
Effect of foreign exchange rate changes	**101.5**	(20.6)
Cash and cash equivalents at end of year	**2,226.0**	1,937.4

21 Associates

	2020 HK$'M	2019 HK$'M
Investments in associates, including goodwill	**27,735.3**	26,628.4
Loans to associates – non-current	**935.0**	847.1
	28,670.3	27,475.5
Loan and other receivables from associates – current	**401.7**	526.7
Fair value of listed investments	**13,952.4**	12,242.0

The Group's share of property, plant and equipment, together with goodwill related to individual city-gas projects accounted for as associates of the Group as at 31st December 2020 were carried at approximately HK$12.0 billion (2019: HK$9.0 billion). No impairment loss was recognised for these underlying assets of associates for the year ended 31st December 2020 (2019: an impairment loss was recognised for these underlying assets of an associate and the Group's share of such impairment loss of HK$69.0 million, which has been included in the Group's share of results of associates for the year ended 31st December 2019).

As at 31st December 2020, the Group's investments in associates, including goodwill in relation to mainland China's gas, water and related businesses, New Energy, property and other segments amounted to HK$12,743.7 million, HK$162.2 million, HK$14,798.5 million and HK$30.9 million respectively (2019: HK$11,235.1 million, HK$116.8 million, HK$15,251.8 million and HK$24.7 million respectively).

Loan and other receivables from associates are analysed below:

(i) Loans to associates in mainland China of HK$1,254.3 million (2019: HK$1,299.7 million) with effective interest rates ranging from 4.35 per cent to 7.20 per cent per annum (2019: 4.35 per cent to 7.20 per cent per annum) are unsecured and fully repayable in 2021 to 2022 (2019: 2020 to 2021).

(ii) The remaining balances are unsecured, interest free and have no fixed terms of repayment.

(iii) Loan and other receivables from associates are considered to have low credit risk and the loss allowance recognised during the year was therefore limited to 12-month expected credit loss.

(iv) Loan and other receivables are denominated in the following currencies:

	2020 HK$'M	2019 HK$'M
USD	**613.7**	586.0
RMB	**722.9**	785.8
HKD	**0.1**	2.0
	1,336.7	1,373.8

21 Associates (Continued)

Particulars of the principal associates as at 31st December 2020 are listed below:

Name	Note	Issued share capital/ registered capital	Percentage of the Group's equity interest	Place of incorporation/ operation	Principal activity
China-Singapore Suzhou Industrial Park Broad Energy Services Co., Ltd.		RMB71.1 million	25	PRC	Cooling and heating system business
Hainan Petrochina Kunlun Hong Kong & China Gas Co., Ltd.		RMB50.4 million	49	PRC	Gas sales and related businesses
^ Shenzhen Gas Corporation Ltd.		RMB2,876.8 million	26.5	PRC	Gas sales and related businesses
港華儲氣有限公司		RMB200.0 million	39	PRC	Gas storage project
Central Waterfront Property Investment Holdings Limited	(i)	US$100	15.8	British Virgin Islands	Investment holding
GH-Fusion Limited	(ii)	US$200	50	British Virgin Islands	Investment holding
[1] 蘇州工業園區蘇相合作區市政公用發展有限公司		RMB50.0 million	49	PRC	Investment holding
河北金建佳天然氣有限公司		RMB90.0 million	20	PRC	LNG receiving terminal; pier
江蘇海企港華燃氣股份有限公司		RMB216.7 million	32.9	PRC	LNG refilling station for vessels
Hangzhou Natural Gas Company Limited		RMB1,195.0 million	32	PRC	Mid-stream natural gas and piped city-gas project
^ Anhui Province Natural Gas Development Co., Ltd.		RMB336.0 million	20.6	PRC	Mid-stream natural gas project
Hebei Natural Gas Company Limited		RMB1,680.0 million	43	PRC	Mid-stream natural gas project
河南省中原石油天然氣管網有限公司		RMB60.0 million	49	PRC	Mid-stream natural gas project
泰州城投天然氣管網有限公司		RMB150.0 million	47.6	PRC	Natural gas pipeline project
S&T International Natural Gas Trading Company Limited		HK$10.0 million	40	Hong Kong	Natural gas trading

^ A listed company in the Shanghai Stock Exchange
[1] Newly formed during the year

Notes

(i) The Group has an effective interest of approximately 15.8 per cent in the IFC complex through its interest in Central Waterfront Property Investment Holdings Limited ("CWPI"). With the Group's presence on the board of directors of CWPI and participation in the financial and operating policies of the IFC complex, the Group could exercise significant influence over CWPI and accordingly the investment is accounted for as an associate.

(ii) The Group can only exercise significant influence over the board of directors in the associates.

21 Associates (Continued)

Particulars of the principal associates as at 31st December 2020 are listed below: (Continued)

Name	Note	Issued share capital/ registered capital	Percentage of the Group's equity interest	Place of incorporation/ operation	Principal activity
Towngas DETA Telecom (Dalian) Co., Ltd.		RMB10.0 million	49	PRC	Telecommunications business
Ying Tong TGT Network Services (Shenzhen) Co. Ltd.		RMB100.0 million	49	PRC	Telecommunications business
中經名氣網絡技術（北京）有限公司		RMB10.0 million	49	PRC	Telecommunications business
Shanxi Yuanping Guoxin Compressed Natural Gas Company Limited		RMB20.0 million	42	PRC	Vehicular fuel refilling station
道勝環境產業有限公司	1	RMB1,000.0 million	49	PRC	Waste treatment project
佛山水務環保股份有限公司	#	RMB831.8 million	26.7	PRC	Water project
China-Singapore Suzhou Industrial Park Environmental Technology Co., Ltd.		RMB185.0 million	49	PRC	Water treatment project
Held by Towngas China and the respective equity interest held by Towngas China is shown accordingly.					
四川能投分布式能源有限公司		*RMB512.6 million*	*24.4*	*PRC*	*Distributed energy systems businesses*
Zhuojia Public Engineering (Maanshan) Co., Ltd.		*RMB12.0 million*	*37.5*	*PRC*	*Gas pipe assembly*
Changchun Gas Co., Ltd.	^	*RMB609.0 million*	*28.2*	*PRC*	*Gas sales and related businesses*
Dalian DETA Hong Kong and China Gas Co., Ltd.		*RMB137.2 million*	*40*	*PRC*	*Gas sales and related businesses*
Foran Energy Group Co., Ltd.	Ω	*RMB556.0 million*	*38.7*	*PRC*	*Gas sales and related businesses*
Shandong Jihua Gas Co., Ltd.		*RMB400.0 million*	*49*	*PRC*	*Gas sales and related businesses*
Zibo Lubo Gas Company Limited		*RMB100.0 million*	*27*	*PRC*	*Gas sales and related businesses*
撫州市撫北天然氣有限公司		*RMB16.0 million*	*40*	*PRC*	*Gas sales and related businesses*
臨朐港華燃氣有限公司		*US$10.6 million*	*42.4*	*PRC*	*Gas sales and related businesses*
石家莊華博燃氣有限公司		*RMB45.0 million*	*45*	*PRC*	*Gas sales and related businesses*
Anhui Province Wenery Towngas Natural Gas Company Limited		*RMB240.0 million*	*49*	*PRC*	*Mid-stream natural gas project*

1 Newly formed during the year
Direct associate of the Company
^ A listed company in the Shanghai Stock Exchange
Ω A listed company in the Shenzhen Stock Exchange

21 Associates (Continued)

The following amounts represent the Group's share of income and results of the associates and are included in the consolidated income statement and statement of comprehensive income:

	2020 HK$'M	2019 HK$'M
Income	**17,903.1**	18,082.5
Expenses, including taxation	**(16,716.1)**	(16,262.1)
Profit after taxation	**1,187.0**	1,820.4
Other comprehensive (loss)/income	**(15.6)**	81.8
Total comprehensive income	**1,171.4**	1,902.2

Set out below are the summarised financial information of CWPI which is considered to be the only material associate in the Group and it is accounted for using the equity method. CWPI holds IFC complex as the commercial investment property for rental income in Hong Kong.

	CWPI	
Summarised statement of financial position	**2020 HK$'M**	2019 HK$'M
Assets		
Non-current assets	**113,531.1**	116,502.0
Current assets	**605.2**	1,294.2
	114,136.3	117,796.2
Liabilities		
Non-current liabilities	**(17,986.9)**	(18,395.7)
Current liabilities	**(2,434.4)**	(2,814.5)
	(20,421.3)	(21,210.2)
Net assets	**93,715.0**	96,586.0

21 Associates (Continued)

Summarised income statement and statement of comprehensive income	CWPI **2020** **HK$'M**	 2019 HK$'M
Income	**1,997.4**	7,604.6
Expenses, including taxation	**(2,244.3)**	(2,834.0)
(Loss)/profit after taxation	**(246.9)**	4,770.6
Other comprehensive income	**25.9**	68.3
Total comprehensive (loss)/income	**(221.0)**	4,838.9
Share of total comprehensive (loss)/income (15.79%)	**(34.9)**	764.1
Dividend received from the associate	**418.4**	547.9

The information above reflects the amounts presented in the financial statements of the associate adjusted for differences in accounting policies between the Group and the associate.

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the associate:

	CWPI **2020** **HK$'M**	 2019 HK$'M
Net assets		
At 1st January	**96,586.0**	95,217.1
(Loss)/profit for the year	**(246.9)**	4,770.6
Other comprehensive income	**25.9**	68.3
Dividend paid	**(2,650.0)**	(3,470.0)
At 31st December	**93,715.0**	96,586.0

	2020 **HK$'M**	2019 HK$'M
Carrying value		
Interest in an associate (15.79%)	**14,797.6**	15,250.9

22 Joint ventures

	2020 HK$'M	2019 HK$'M
Investments in joint ventures, including goodwill	**11,981.2**	10,613.5
Loan and other receivables from joint ventures – current	**442.9**	800.4
Amounts due to joint ventures – current	**(486.3)**	(943.2)

The Group's share of property, plant and equipment, together with goodwill related to individual city-gas projects accounted for as joint ventures of the Group as at 31st December 2020 were carried at approximately HK$17.0 billion (2019: HK$15.0 billion). No impairment loss was recognised for these underlying assets of joint ventures for the year ended 31st December 2020 (2019: impairment losses were recognised for these underlying assets of certain joint ventures and the Group's share of such impairment losses, in aggregate, of HK$581.0 million, which have been included in the Group's share of results of joint ventures for the year ended 31st December 2019).

As at 31st December 2020, the Group's investments in joint ventures, including goodwill in relation to mainland China's gas, water and related businesses, New Energy and property segment amounted to HK$11,969.3 million, HK$9.2 million and HK$2.7 million respectively (2019: HK$10,603.1 million, HK$7.9 million and HK$2.5 million respectively).

Loan and other receivables from joint ventures are analysed below:

(i) Loans to joint ventures in mainland China of HK$209.7 million (2019: HK$332.0 million) with effective interest rates of 4.35 per cent per annum (2019: ranging from 4.35 per cent to 4.79 per cent per annum) are unsecured and fully repayable in 2021 (2019: 2020).

(ii) Loan to a joint venture in Hong Kong of HK$88.2 million (2019: HK$67.3 million) is unsecured, interest free and has no fixed terms of repayment.

(iii) The remaining balances are unsecured, interest free and with no fixed terms of repayment.

(iv) Loan and other receivables from joint ventures are considered to have low credit risk and the loss allowance recognised during the year was therefore limited to 12-month expected credit loss.

(v) Loans and other receivables are denominated in the following currencies:

	2020 HK$'M	2019 HK$'M
RMB	**354.7**	710.5
HKD	**88.2**	89.9
	442.9	800.4

Amounts due to joint ventures are analysed below:

(i) Loan from a joint venture of HK$242.7 million (2019: HK$454.0 million) with effective interest rate of 4.44 per cent per annum (2019: 4.44 per cent per annum) is unsecured and repayable in 2021.

(ii) Loans from joint ventures of HK$243.6 million (2019: HK$489.1 million) with effective interest rate of 2.15 per cent per annum (2019: 2.58 per cent per annum) are unsecured and have no fixed terms of repayment.

(iii) The remaining balances are unsecured, interest free and with no fixed terms of repayment.

(iv) Loan and other payables to joint ventures are denominated in RMB (2019: denominated in RMB).

22 Joint ventures (Continued)

Particulars of the principal joint ventures as at 31st December 2020 are listed below:

Name	Note	Issued share capital/ registered capital	Percentage of the Group's equity interest	Place of incorporation/ operation	Principal activity
Hua Yan Environmental Industry Development (Suzhou) Co., Ltd.	(i)	RMB75.0 million	55	PRC	Food and green waste treatment project
# Beijing Beiran & HKCG Gas Company Limited		RMB44.4 million	49	PRC	Gas sales and related businesses
Changzhou Hong Kong and China Gas Company Limited		RMB166.0 million	50	PRC	Gas sales and related businesses
Jinan Hong Kong and China Gas Company Limited		RMB700.0 million	49	PRC	Gas sales and related businesses
Nanjing Hong Kong and China Gas Company Limited		RMB700.0 million	49	PRC	Gas sales and related businesses
Suzhou Hong Kong and China Gas Co., Ltd.	(i)	RMB200.0 million	55	PRC	Gas sales and related businesses
# Tongling Hong Kong and China Gas Company Limited	(i)	RMB100.0 million	70	PRC	Gas sales and related businesses
Wuhan Natural Gas Company Limited		RMB420.0 million	49	PRC	Gas sales and related businesses
# Xian Qinhua Gas Group Company Limited (Formerly named as Xian Qinhua Natural Gas Company Limited)		RMB1,000.0 million	49	PRC	Gas sales and related businesses
Zhangjiagang Hong Kong and China Gas Company Limited		RMB100.0 million	50	PRC	Gas sales and related businesses
Jilin Province Natural Gas Limited Company		RMB220.0 million	49	PRC	Mid-stream natural gas project
Yieldway International Limited		HK$2	50	Hong Kong	Property development
Maanshan ECO Auto Fuel Company Limited		RMB10.5 million	30	PRC	Vehicular fuel refilling station
Suzhou Industrial Park Qingyuan Hong Kong & China Water Co., Ltd.		RMB1,200.0 million	50	PRC	Water supply and sewage treatment

Direct joint ventures of the Company

Note

(i) The Group can only exercise joint control over the board of directors in the joint ventures.

22 Joint ventures (Continued)

Particulars of the principal joint ventures as at 31st December 2020 are listed below: (Continued)

Name	Note	Issued share capital/ registered capital	Percentage of the Group's equity interest	Place of incorporation/ operation	Principal activity
Held by Towngas China and the respective equity interest held by Towngas China is shown accordingly.					
Anhui Towngas Keda Power Sales Co., Ltd.		*RMB200.0 million*	*50*	*PRC*	*Distributed energy systems businesses*
Tongling Towngas China Energy Co., Ltd.	1	*RMB24.5 million*	*40*	*PRC*	*Distributed energy systems businesses*
Anqing Hong Kong and China Gas Company Limited		*RMB73.0 million*	*50*	*PRC*	*Gas sales and related businesses*
Hangzhou Hong Kong and China Gas Company Limited		*US$20.0 million*	*50*	*PRC*	*Gas sales and related businesses*
Maanshan Hong Kong and China Gas Company Limited		*US$13.0 million*	*50*	*PRC*	*Gas sales and related businesses*
Taian Taishan Hong Kong and China Gas Company Limited		*RMB150.0 million*	*49*	*PRC*	*Gas sales and related businesses*
Weifang Hong Kong and China Gas Company Limited		*RMB400.0 million*	*50*	*PRC*	*Gas sales and related businesses*
Weihai Hong Kong and China Gas Company Limited		*RMB99.2 million*	*50*	*PRC*	*Gas sales and related businesses*
Wuhu Hong Kong & China Gas Company Limited		*RMB52.8 million*	*50*	*PRC*	*Gas sales and related businesses*
Zibo Hong Kong and China Gas Company Limited		*RMB100.0 million*	*50*	*PRC*	*Gas sales and related businesses*
重慶港華燃氣有限公司		*RMB20.0 million*	*50*	*PRC*	*Gas sales and related businesses*
泰安市泰港燃氣有限公司		*RMB139.2 million*	*49*	*PRC*	*Mid-stream natural gas project*

1 Newly formed during the year

The following amounts represent the Group's share of income and results of the joint ventures and are included in the consolidated income statement and statement of comprehensive income:

	2020 HK$'M	2019 HK$'M
Income	**14,493.5**	15,840.2
Expenses, including taxation	**(13,404.3)**	(15,098.7)
Profit after taxation and total comprehensive income	**1,089.2**	741.5

No individual joint ventures are considered to be material in the Group.

23 Financial assets at fair value through other comprehensive income

	2020 HK$'M	2019 HK$'M
Debt securities (note (a))	**158.7**	213.9
Equity securities (note (b))	**2,334.1**	2,928.0
	2,492.8	3,141.9

Notes

		2020 HK$'M	2019 HK$'M
(a)	Debt securities		
	Listed – Hong Kong	**15.7**	81.9
	Listed – outside Hong Kong	**143.0**	132.0
		158.7	213.9

		2020 HK$'M	2019 HK$'M
(b)	Equity securities		
	Listed – Hong Kong	**247.9**	227.8
	Listed – outside Hong Kong	**1,682.8**	2,378.4
	Unlisted	**403.4**	321.8
		2,334.1	2,928.0

Included in the equity securities, it comprises HK$200.1 million (2019: HK$168.6 million) of perpetual bonds and HK$2,134.0 million (2019: HK$2,759.4 million) of investments that are engaged in the provision of natural gas and related services and gas pipeline construction services. These are strategic investments and the Group considers the classification of FVOCI to be more relevant.

Financial assets at FVOCI are denominated in the following currencies:

	2020 HK$'M	2019 HK$'M
RMB	**1,982.0**	2,625.8
HKD	**120.6**	133.6
USD	**390.2**	382.5
	2,492.8	3,141.9

24 Financial assets at fair value through profit or loss

	2020 HK$'M	2019 HK$'M
Equity securities (note (a))		
Current	**205.4**	188.5
Non-current	**4,687.3**	5,030.6
	4,892.7	5,219.1

Note

		2020 HK$'M	2019 HK$'M
(a)	Equity securities		
	Listed – Hong Kong	**110.0**	111.4
	Listed – outside Hong Kong	**1,632.0**	2,124.9
	Unlisted	**3,150.7**	2,982.8
		4,892.7	5,219.1

Financial assets at FVPL are denominated in the following currencies:

	2020 HK$'M	2019 HK$'M
HKD	**110.0**	111.4
USD	**95.4**	77.1
RMB	**4,687.3**	5,030.6
	4,892.7	5,219.1

25 Derivative financial instruments

	2020		2019	
	Assets HK$'M	**Liabilities HK$'M**	Assets HK$'M	Liabilities HK$'M
Non-current				
Cross currency swap and interest rate swap contracts – cash flow hedges	**35.0**	**(477.3)**	42.8	(571.0)
Foreign currency forward contracts – held-for-trading	**0.9**	**(1.3)**	–	–
Cross currency swap contracts – held-for-trading	**8.7**	**–**	42.9	–
Interest rate swap contracts – held-for-trading	**6.0**	**–**	3.3	–
Put option – held-for-trading (note 3)	**254.4**	**–**	265.1	–
	305.0	**(478.6)**	354.1	(571.0)
Current				
Cross currency swap and interest rate swap contracts – cash flow hedges	**28.5**	**(140.1)**	–	–
Foreign currency forward contracts – held-for-trading	**–**	**(0.1)**	1.4	–
	28.5	**(140.2)**	1.4	–

The fair value of hedging derivatives is classified as current assets or liabilities when the remaining maturity of the hedged item is less than 12 months.

The full fair values of hedging derivatives are classified as non-current assets or liabilities when the remaining maturity of the hedged items is more than 12 months.

Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The ineffective portion recognised in the profit or loss that arises from cash flow hedges amounts to a gain of HK$6.9 million (2019: HK$0.2 million).

The major terms of the outstanding derivative contracts held for hedging as at 31st December 2020 are as follows:

Notional amount	Maturity	Forward contract rate
Cross currency swap and interest rate swap contracts – cash flow hedges		
RMB1,426 million	**2021 – 2023**	**HKD1 to RMB0.8539 – RMB0.88**
USD150 million	**2021 – 2024**	**USD1 to RMB6.87 – RMB6.927**
AUD161 million	**2021 – 2025**	**AUD1 to HKD5.42 – HKD8.21**
JPY12 billion	**2022 – 2027**	**JPY100 to HKD6.877 – HKD9.897**

Gains and losses recognised in the hedging reserve in equity (note 36) on the swaps as of 31st December 2020 will be continuously released to the profit or loss until the repayment of relevant borrowings.

26 Retirement benefit assets

	2020 HK$'M	2019 HK$'M
At 31st December	**111.9**	66.3

The Group operates a defined benefit retirement scheme in Hong Kong, namely the Workmen Retirement Scheme which is a final salary defined benefit scheme.

The amounts recognised in the consolidated statement of financial position are shown as follows:

	2020 HK$'M	2019 HK$'M
Fair value of plan assets	**730.1**	632.6
Present value of funded obligations	**(618.2)**	(566.3)
Net assets in the consolidated statement of financial position	**111.9**	66.3

The plan assets did not include any shares of the Company as at 31st December 2020 (2019: nil).

The cost of the defined benefit retirement scheme recognised in the consolidated income statement is as follows:

	2020 HK$'M	2019 HK$'M
Current service cost	**15.1**	15.8
Net interest (income)/cost	**(1.3)**	0.4
Administrative expenses	**0.1**	0.1
Total (note 11)	**13.9**	16.3

The amounts recognised in the other comprehensive income are as follows:

	2020 HK$'M	2019 HK$'M
Actuarial (gain)/loss due to liability experience	**(6.3)**	2.4
Actuarial loss/(gain) due to financial assumption changes	**51.2**	(7.1)
Actuarial (gain)/loss due to demographic assumption changes	**(0.1)**	0.1
Actuarial losses/(gains)	**44.8**	(4.6)
Return on plan assets, excluding amounts included in interest income	**(100.0)**	(97.5)
Total	**(55.2)**	(102.1)

26 Retirement benefit assets (Continued)

The movements in the defined benefit obligations are as follows:

	2020 HK$'M	2019 HK$'M
At 1st January	**566.3**	570.5
Current service cost	**15.1**	15.8
Interest cost	**9.9**	11.6
Benefits paid	**(17.9)**	(27.0)
Actuarial losses/(gains)	**44.8**	(4.6)
At 31st December	**618.2**	566.3

The movements in the fair value of plan assets are as follows:

	2020 HK$'M	2019 HK$'M
At 1st January	**632.6**	546.7
Return on plan assets, excluding amounts included in interest income	**100.0**	97.5
Interest income recognised in consolidated income statement	**11.2**	11.2
Contribution paid by employer	**4.3**	4.3
Benefits paid	**(17.9)**	(27.0)
Administrative expenses	**(0.1)**	(0.1)
At 31st December	**730.1**	632.6

The movements in the assets recognised in the consolidated statement of financial position are as follows:

	2020 HK$'M	2019 HK$'M
At 1st January	**66.3**	(23.8)
Remeasurement effects recognised in other comprehensive income	**55.2**	102.1
Total cost of defined benefit retirement scheme (note 11)	**(13.9)**	(16.3)
Contribution paid by employer	**4.3**	4.3
At 31st December	**111.9**	66.3

The major categories of plan assets as a percentage of total plan assets are as follows:

	2020 %	2019 %
Equity securities	**78.1**	79.0
Debt securities	**15.7**	19.0
Cash	**6.2**	2.0

The principal actuarial assumptions used are as follows:

	2020 %	2019 %
Discount rate	**0.9**	1.8
Expected rate of future salary increases	**4.0**	4.0

26 Retirement benefit assets (Continued)

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligations		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	**0.25%**	**Decrease by 2.5%**	**Increase by 2.5%**
Salary increase rate	**0.25%**	**Increase by 2.4%**	**Decrease by 2.4%**
Maximum salary scale increase rate	**0.25%**	**Increase by 0.0%**	**Decrease by 0.1%**

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the consolidated statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

Expected contributions to the scheme for the year ending 31st December 2021 are HK$4.1 million.

Through its defined benefit pension plans, the Group is exposed to a number of risks, the most significant of which are detailed below:

Investment risk	Strong investment returns tend to increase the fair value of scheme assets and therefore improve the scheme's financial position as measured by the net defined benefit asset/liability, whilst poor or negative investment returns tend to weaken the position. The scheme assets are invested in a diversified portfolio of equities, bonds and cash, covering major geographical locations around the world. The diversification of asset classes and geographical locations helps to reduce the concentration of risk associated with the scheme investments.
Interest rate risk	The defined benefit obligation (the "DBO") is calculated using a discount rate based on market bond yields. A decrease in the bond yields will increase the DBO.
Salary risk	The DBO is calculated with reference to the future salaries of members because the scheme's benefits are salary-related. Salary increases that are higher than expected will increase the DBO.

The weighted average duration of the benefit obligation is 10.1 years. Expected maturity analysis of benefit undiscounted payments:

	Within 5 years HK$'M	Beyond 5 years but within 10 years HK$'M	Beyond 10 years HK$'M
As 31st December 2020			
Expected benefit payments	**146.0**	**201.3**	**502.7**

27 Other non-current assets

	2020 HK$'M	2019 HK$'M
Aviation fuel facility construction receivable (note (a))	**3,279.9**	2,827.2
Other receivables and prepayments (note(b))	**953.4**	902.6
Deposit paid for acquisition of an associate (note 39(c))	**415.8**	–
	4,649.1	3,729.8

Notes

(a) Aviation fuel facility construction receivable is denominated in HKD, unsecured and will be recovered by monthly instalments up to 2047.

(b) The balance includes prepayments for inventory and capital expenditures to suppliers.

28 Inventories

	2020 HK$'M	2019 HK$'M
Stores and materials	**1,984.5**	1,654.2
Work in progress	**686.5**	709.5
	2,671.0	2,363.7

The Group wrote down the carrying value of inventories by HK$20.2 million (2019: HK$14.4 million) to its net realisable value during the year ended 31st December 2020.

29 Trade and other receivables

	2020 HK$'M	2019 HK$'M
Trade receivables (note (a))	**3,827.9**	3,819.8
Payments in advance (note (b))	**2,158.6**	1,735.9
Other receivables	**2,586.0**	2,445.5
	8,572.5	8,001.2

Trade and other receivables are denominated in the following currencies:

	2020 HK$'M	2019 HK$'M
RMB	**5,709.3**	4,973.2
HKD	**2,749.6**	2,961.9
USD	**106.6**	60.0
Others	**7.0**	6.1
	8,572.5	8,001.2

29 Trade and other receivables (Continued)

Notes

(a) The Group has established credit policies for different types of customers. The credit periods offered for trade receivables, which are subject to periodic review by management, range from 30 to 60 days except for gas receivables of the Company which are due by 8 working days after billing date. The aging analysis of the trade receivables, net of impairment provision, is as follows:

	2020 HK$'M	2019 HK$'M
0 – 30 days	**3,360.6**	3,408.5
31 – 60 days	**125.2**	90.4
61 – 90 days	**50.9**	100.4
Over 90 days	**291.2**	220.5
	3,827.9	3,819.8

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for trade receivables. Note 3(b) provides for details about the calculation of the allowance.

The loss allowance further increased from HK$248.0 million to HK$300.9 million during the year.

(b) Balance mainly represents prepayment for purchase of materials and services in relation to the Group's gas, water and New Energy businesses in Hong Kong and mainland China. As at 31st December 2020, the directors of the Company reviewed the composition of the balance and considered the amount is recoverable.

30 Time deposits, cash and bank balances

	2020 HK$'M	2019 HK$'M
Time deposits over three months	**173.3**	158.6
Time deposits up to three months	**1,679.6**	2,463.6
Cash and bank balances	**5,775.4**	5,385.3
	7,455.0	7,848.9

The average effective interest rates on time deposits in Hong Kong and mainland China are 1.75 per cent and 2.18 per cent per annum respectively (2019: 3.02 per cent and 1.79 per cent per annum). These deposits have average maturity dates within 54 days (2019: 56 days).

30 Time deposits, cash and bank balances (Continued)

Time deposits, cash and bank balances are denominated in the following currencies:

	2020 HK$'M	2019 HK$'M
USD	**219.5**	106.7
RMB	**6,162.1**	5,249.1
HKD	**1,233.6**	2,604.6
THB	**9.7**	24.9
Others	**3.4**	22.2
	7,628.3	8,007.5

The conversion of Renminbi denominated balances into foreign currencies and the remittance of foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

31 Trade payables and other liabilities

	2020 HK$'M	2019 HK$'M
Trade payables (note (a))	**3,586.4**	3,006.5
Other payables and accruals (note (b))	**4,808.6**	4,289.7
Contract liabilities (note (c))	**8,531.3**	7,310.3
Lease liabilities (note (d))	**104.8**	111.5
	17,031.1	14,718.0

Notes

(a) The aging analysis of the trade payables is as follows:

	2020 HK$'M	2019 HK$'M
0 – 30 days	**1,587.5**	1,292.7
31 – 60 days	**464.3**	499.2
61 – 90 days	**327.2**	304.5
Over 90 days	**1,207.4**	910.1
	3,586.4	3,006.5

(b) The balances mainly represent accrual for services or goods received from suppliers.

31 Trade payables and other liabilities (Continued)

(c) The balances mainly represent non-refundable advance received from customers for utility connection services, provision of gas and provision of maintenance services.

The following table shows the amount of the revenue recognised in the current reporting period relates to contract liability balance at the beginning of the year:

	2020 HK$'M	2019 HK$'M
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**3,463.9**	3,265.4

(d) As at 31st December 2020, the weighted average incremental borrowing rate applied to the lease liabilities were 3 per cent (2019: 3 per cent) for leases in Hong Kong and 5 per cent (2019: 5 per cent) for leases in mainland China.

(e) As at 31st December 2020, the amount of unsatisfied performance obligations expected to be recognised within one year and after one year are HK$4,471.9 million (2019: HK$3,773.2 million) and HK$5,300.9 million (2019: HK$4,032.5 million) respectively.

Trade payables and other liabilities are denominated in the following currencies:

	2020 HK$'M	2019 HK$'M
RMB	**14,538.0**	12,497.7
HKD	**2,159.8**	2,037.3
USD	**313.7**	163.6
Others	**19.6**	19.4
	17,031.1	14,718.0

32 Borrowings

	2020 HK$'M	2019 HK$'M
Non-current		
Bank and other loans	**12,164.8**	14,646.2
Guaranteed notes (note (a))	**19,121.5**	14,049.4
	31,286.3	28,695.6
Current		
Bank and other loans	**9,809.2**	9,240.6
Guaranteed notes (note (a))	**1,043.1**	–
	10,852.3	9,240.6
Total borrowings	**42,138.6**	37,936.2

Notes

(a) Guaranteed notes comprise:

The HK$17,330.5 million, RMB935.0 million, AUD161.0 million and JPY12,000.0 million (2019: HK$11,966.0 million, RMB400.0 million, AUD161.0 million and JPY12,000.0 million) which in aggregate is equivalent to HK$20,302.3 million (2019: HK$14,154.3 million) guaranteed notes were issued by HKCG (Finance) Limited, a wholly-owned subsidiary of the Company, between 2nd June 2009 and 7th December 2020. The notes are unsecured and guaranteed by the Company as to repayment, carry fixed coupon rates ranging from 0.35 per cent to 6.43 per cent per annum payable quarterly, half-yearly or annually in arrear and have maturity terms between 3 to 40 years.

(b) The maturity of borrowings is as follows:

	Bank and other loans		Guaranteed notes	
	2020 HK$'M	2019 HK$'M	**2020 HK$'M**	2019 HK$'M
Within 1 year	**9,809.2**	9,240.6	**1,043.1**	–
Between 1 and 2 years	**5,909.8**	4,775.7	**2,720.5**	988.4
Between 2 and 5 years	**5,847.3**	9,686.3	**3,333.5**	3,990.7
Wholly repayable within 5 years	**21,566.3**	23,702.6	**7,097.1**	4,979.1
Wholly repayable over 5 years	**407.7**	184.2	**13,067.5**	9,070.3

32 Borrowings (Continued)

Notes (Continued)

(c) As at 31st December 2020, the Group's borrowings amounted to HK$42,138.6 million (2019: HK$37,936.2 million). While the guaranteed notes together with the bank and other loans of HK$8,138.7 million (2019: HK$6,861.9 million) had fixed interest rate and were unsecured, the remaining bank and other loans were unsecured and had a floating interest rate, of which HK$6,935.4 million (2019: HK$9,758.8 million) were long-term bank loans and HK$6,899.9 million (2019: HK$7,266.1 million) had maturities within one year on revolving credit or term loan facilities. Guaranteed notes of HK$2,971.5 million (2019: HK$2,188.0 million) were hedged.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates are mainly within 6 months from the date of statement of financial position, except for guaranteed notes and some bank loans as they are subjected to fixed interest rate and with maturity term ranged from 1 to 40 years. The effective interest rates of the Group's borrowings at the date of statement of financial position are as follows:

	2020					2019				
	HKD	**USD**	**RMB**	**AUD**	**JPY**	HKD	USD	RMB	AUD	JPY
Bank and other loans	**1.1%**	**4.3%**	**3.9%**	**N/A**	**1.2%**	3.3%	4.3%	4.3%	N/A	1.2%
Guaranteed notes	**3.0%**	**N/A**	**0.9%**	**3.1%**	**3.3%**	3.4%	N/A	2.9%	3.1%	3.3%

(d) The carrying values of borrowings approximate their fair values as the balances either at variable rates or the impact of discounting is not significant.

(e) The carrying amounts of the borrowings are denominated in the following currencies:

	2020 HK$'M	2019 HK$'M
HKD	**23,128.6**	20,694.2
RMB	**15,960.5**	14,305.0
USD	**1,175.0**	1,181.7
AUD	**959.6**	880.2
JPY	**914.9**	875.1
	42,138.6	37,936.2

33 Deferred taxation

The movements in the deferred taxation are as follows:

	2020 HK$'M	2019 HK$'M
At 1st January	**7,180.5**	6,099.1
Changes in accounting policy	**–**	(5.7)
At 1st January	**7,180.5**	6,093.4
(Credited)/charged to the profit or loss	**(4.1)**	718.3
(Credited)/charged to other comprehensive income	**(195.8)**	497.2
Withholding tax	**(51.2)**	(45.1)
Exchange differences	**129.7**	(83.3)
At 31st December	**7,059.1**	7,180.5

Prior to offsetting of balances within the same taxation jurisdiction, the movements in deferred tax liabilities and assets during the year are as follows:

	Accelerated tax depreciation		Mining and oil properties		Financial instruments		Others		Total	
Deferred tax liabilities	**2020 HK$'M**	2019 HK$'M	**2020 HK$'M**	2019 HK$'M	**2020 HK$'M**	2019 HK$'M	**2020 HK$'M**	2019 HK$'M	**2020 HK$'M**	2019 HK$'M
At 1st January	**3,608.0**	3,499.0	**1,718.3**	1,679.1	**1,034.0**	110.0	**839.3**	830.1	**7,199.6**	6,118.2
Changes in accounting policy	**–**	–	**–**	(0.3)	**–**	–	**–**	(5.4)	**–**	(5.7)
At 1st January	**3,608.0**	3,499.0	**1,718.3**	1,678.8	**1,034.0**	110.0	**839.3**	824.7	**7,199.6**	6,112.5
(Credited)/charged to profit or loss	**247.4**	275.0	**(210.3)**	(88.7)	**(150.4)**	434.9	**109.2**	97.1	**(4.1)**	718.3
(Credited)/charged to other comprehensive income	**–**	–	**–**	–	**(195.8)**	497.2	**–**	–	**(195.8)**	497.2
Withholding tax	**–**	–	**–**	–	**–**	–	**(51.2)**	(45.1)	**(51.2)**	(45.1)
Exchange differences	**69.2**	(166.0)	**(17.3)**	128.2	**25.4**	(8.1)	**52.4**	(37.4)	**129.7**	(83.3)
At 31st December	**3,924.6**	3,608.0	**1,490.7**	1,718.3	**713.2**	1,034.0	**949.7**	839.3	**7,078.2**	7,199.6

	Provisions		Tax losses		Total	
Deferred tax assets	**2020 HK$'M**	2019 HK$'M	**2020 HK$'M**	2019 HK$'M	**2020 HK$'M**	2019 HK$'M
At 1st January and 31st December	**(8.3)**	(8.3)	**(10.8)**	(10.8)	**(19.1)**	(19.1)
Net deferred tax liabilities at 31st December					**7,059.1**	7,180.5

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of HK$807.9 million (2019: HK$762.6 million) in respect of losses amounting to HK$3,461.7 million (2019: HK$3,270.7 million) that can be carried forward and set off against future taxable income. These tax losses have no expiry dates except for the tax losses of HK$2,784.7 million (2019: HK$2,622.2 million) which will expire at various dates up to and including 2025 (2019: 2024).

34 Other non-current liabilities

	2020 HK$'M	2019 HK$'M
Customers' deposits (note (a))	**1,392.2**	1,389.3
Contract liabilities (note (b))	**839.4**	734.3
Loan payable to non-controlling shareholders	**20.9**	30.2
Lease liabilities (note (c))	**175.0**	226.9
Asset retirement obligations	**69.1**	78.1
	2,496.6	2,458.8

Notes

(a) Customers' deposits mainly represent deposits received from customers pursuant to gas supply contracts agreed with customers and are repayable upon termination of gas supply contracts. The carrying values of the deposits approximate the fair value as the impact of discount is not significant.

(b) Contract liabilities include only the non-current portion. The current portion is disclosed in note 31.

(c) Lease liabilities include only lease with contractual maturities over 1 year, the current portion is disclosed in note 31.

35 Share capital

	Number of shares		Share capital	
	2020	2019	**2020 HK$'M**	2019 HK$'M
Issued and fully paid:				
At beginning of year	**16,925,052,244**	15,386,411,131	**5,474.7**	5,474.7
Bonus shares	**846,252,612**	1,538,641,113	**–**	–
At end of year	**17,771,304,856**	16,925,052,244	**5,474.7**	5,474.7

36 Reserves

	Investment revaluation reserve HK$'M	Hedging reserve HK$'M	Exchange reserve HK$'M	Retained profits HK$'M	Total HK$'M
As at 1st January 2020	1,194.9	49.4	(1,428.3)	58,918.7	58,734.7
Profit attributable to shareholders	–	–	–	6,007.3	6,007.3
Other comprehensive income:					
Remeasurements of retirement benefit	–	–	–	55.2	55.2
Change in value of financial assets at FVOCI	(405.2)	–	–	–	(405.2)
Change in fair value of cash flow hedges	–	(83.6)	–	–	(83.6)
Share of other comprehensive loss of associates	(19.7)	4.1	–	–	(15.6)
Exchange differences	–	–	2,975.9	–	2,975.9
Total comprehensive income for the year	(424.9)	(79.5)	2,975.9	6,062.5	8,534.0
Further acquisition of subsidiaries (note 42(b))	–	–	–	40.5	40.5
2019 final dividend paid	–	–	–	(3,892.8)	(3,892.8)
2020 interim dividend paid	–	–	–	(2,132.6)	(2,132.6)
At 31st December 2020	770.0	(30.1)	1,547.6	58,996.3	61,283.8
Balance after 2020 final dividend proposed	770.0	(30.1)	1,547.6	54,908.9	57,196.4
2020 final dividend proposed	–	–	–	4,087.4	4,087.4
	770.0	(30.1)	1,547.6	58,996.3	61,283.8

36 Reserves (Continued)

	Investment revaluation reserve HK$'M	Hedging reserve HK$'M	Exchange reserve HK$'M	Retained profits HK$'M	Total HK$'M
As at 1st January 2019	93.3	53.7	(651.3)	57,430.3	56,926.0
Adjustment on adoption of HKFRS 16, net of taxation	–	–	–	(30.6)	(30.6)
As at 1st January 2019 (restated)	93.3	53.7	(651.3)	57,399.7	56,895.4
Profit attributable to shareholders	–	–	–	6,965.7	6,965.7
Other comprehensive income:					
Remeasurements of retirement benefit	–	–	–	102.1	102.1
Change in value of financial assets at FVOCI	1,030.6	–	–	–	1,030.6
Change in fair value of cash flow hedges	–	(15.1)	–	–	(15.1)
Share of other comprehensive income of associates	71.0	10.8	–	–	81.8
Exchange differences	–	–	(777.0)	–	(777.0)
Total comprehensive income for the year	1,101.6	(4.3)	(777.0)	7,067.8	7,388.1
Further acquisition of subsidiaries	–	–	–	21.1	21.1
2018 final dividend paid	–	–	–	(3,538.9)	(3,538.9)
2019 interim dividend paid	–	–	–	(2,031.0)	(2,031.0)
At 31st December 2019	1,194.9	49.4	(1,428.3)	58,918.7	58,734.7
Balance after 2019 final dividend proposed	1,194.9	49.4	(1,428.3)	55,025.9	54,841.9
2019 final dividend proposed	–	–	–	3,892.8	3,892.8
	1,194.9	49.4	(1,428.3)	58,918.7	58,734.7

37 Perpetual capital securities

In February 2019, the Group issued the new perpetual capital securities, amounting to US$300 million, through Towngas (Finance) Limited, a wholly-owned subsidiary for cash. The proceeds were mainly used to refinance the 2014 first-issued perpetual capital securities redeemed in January 2019.

The new perpetual capital securities are guaranteed by the Company, bear distribution at a rate of 4.75 per cent per annum for the first five years and thereafter at a fixed distribution rate. With no fixed maturity and the distribution payment can be deferred at the discretion of the Group, and these perpetual capital securities are redeemable at the Group's option on or after 12th February 2024, they are classified as equity instruments, and recorded in equity in the consolidated statement of financial position.

38 Contingent liabilities

The Company and the Group did not have any material contingent liabilities as at 31st December 2020 and 2019.

39 Commitments

(a) Capital expenditures for property, plant and equipment

	2020 HK$'M	2019 HK$'M
Contracts had been entered into but not brought into the consolidated financial statements at 31st December	**5,662.6**	4,491.2

(b) Share of capital expenditures for property, plant and equipment of joint ventures

	2020 HK$'M	2019 HK$'M
Contracts had been entered into but not brought into the consolidated financial statements at 31st December	**3,957.4**	3,062.6

(c) The Group has committed to provide sufficient funds in the forms of capital and loan contributions to finance certain new projects under various contracts in mainland China. The directors of the Company estimate that as at 31st December 2020, the Group's commitments to these projects were approximately HK$9,658.4 million (2019: HK$2,303.8 million).

Included in the above commitments, Towngas China entered into a capital increase agreement with Shenergy (Group) Company Limited and Shanghai Gas Co., Ltd. ("Shanghai Gas") on 27 October 2020, pursuant to which Towngas China agreed to increase the registered capital and capital reserves of Shanghai Gas by way of capital contribution in the amount of RMB4,700,000,000 (equivalent to approximately HK$5,583,274,000) and Towngas China will own 25 per cent equity interests in Shanghai Gas upon completion. An amount of RMB350,000,000 (equivalent to approximately HK$415,776,000) (note 27) was paid to Shanghai United Assets and Equity Exchange as a deposit for such acquisition of associate of Towngas China.

(d) Lease commitments

Lessor

The Group leases out the building facilities of the commercial complex and car parks of Grand Waterfront (further details of the carrying value of the property are contained in note 17). Except for certain car parks rented out on an hourly or a monthly basis, these leases typically run for a period of 2 to 5 years.

At 31st December 2020 and 2019, future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	2020 HK$'M	2019 HK$'M
Not later than 1 year	**19.3**	16.4
Later than 1 year and not later than 5 years	**5.7**	14.4
	25.0	30.8

40 Related party transactions

Henderson Land Development Company Limited ("Henderson") is a related party of the Group by virtue of its significant interest in and influence over the Group. Other related parties include subsidiaries of Henderson and one bank with a common director with the Company during the year. During the year, the transactions carried out and year end balances with the associates, joint ventures and other related parties are shown as follows:

(a) Interest income and sales of goods and services

	2020 HK$'M	2019 HK$'M
Associates		
Sale of goods and services (note (i))	**257.6**	18.2
Loan interest income (note (ii))	**60.3**	53.7
Joint ventures		
Sale of goods and services (note (i))	**143.4**	85.4
Loan interest income (note (ii))	**3.6**	9.5
Other related parties		
Sale of goods and services (note (i))	**26.3**	25.0
Interest income from bank deposits (note (i))	**3.3**	1.3

(b) Interest expense and purchase of goods and services

	2020 HK$'M	2019 HK$'M
Associates		
Purchase of goods and services (note (i))	**623.6**	538.6
Joint ventures		
Purchase of goods and services (note (i))	**53.4**	44.6
Loan interest expenses (note (ii))	**27.9**	32.5
Other related parties		
Purchase of goods and services (note (i))	**13.5**	22.5
Interest expense on bank loans (note (i))	**7.7**	18.2

Notes

(i) These related party transactions were conducted at prices and terms as agreed by parties involved.

(ii) For the terms and year end balances of loans, please refer to notes 21 and 22.

40 Related party transactions (Continued)

(c) Year end balances arising from interest income, interest expense and sale or purchase of goods and services from other related parties

	2020 HK$'M	2019 HK$'M
Time deposits and interest receivables	–	404.9
Bank loans and interest payables	–	156.4
Trade receivables	**2.5**	3.8
Trade payables	–	0.1

Note

For the terms and year end balances of time deposits and interest receivables, bank loans and interest payables, trade receivables and trade payables, please refer to notes 29, 30, 31 and 32.

(d) Other related party transactions are also disclosed in note 12.

41 Notes to consolidated cash flow statement

(a) Reconciliation of profit before taxation to net cash from operating activities

	2020 HK$'M	2019 HK$'M
Profit before taxation	**8,925.6**	10,403.9
Share of results of associates	**(1,187.0)**	(1,820.4)
Share of results of joint ventures	**(1,089.2)**	(741.5)
Fair value loss/(gain) on investment property	**3.0**	(16.0)
Impairment of trade receivables	**42.5**	53.7
Provision for assets	**446.8**	851.9
Ineffective portion on cash flow hedges	**(6.9)**	(0.2)
Interest income	**(187.2)**	(219.6)
Interest expense	**1,268.6**	1,230.4
Dividend income from investments in securities	**(143.9)**	(105.4)
Depreciation and amortisation	**2,940.6**	2,753.5
Impairment provision on goodwill	**–**	333.0
Loss on disposal/write off of property, plant and equipment	**72.6**	25.8
Loss/(gain) on disposal of right-of-use assets	**1.4**	(0.1)
Net realised and unrealised losses on financial assets at FVOCI	**2.0**	3.7
Net realised and unrealised losses/(gains) on financial assets at FVPL and derivative financial instruments	**618.5**	(1,861.7)
Tax paid	**(1,871.4)**	(930.0)
Exchange differences	**(127.1)**	(45.0)
Changes in working capital		
Increase in customers' deposits	**98.7**	17.9
(Increase)/decrease in inventories	**(216.5)**	92.8
Increase in trade and other receivables	**(783.5)**	(953.7)
Increase in trade payables and other liabilities	**1,102.0**	797.9
(Decrease)/increase in asset retirement obligations	**(9.0)**	29.5
Changes in retirement benefit assets	**9.6**	12.0
Net cash from operating activities	**9,910.2**	9,912.4

41 Notes to consolidated cash flow statement (Continued)

(b) Reconciliation of liabilities arising from financing activities

	Leases HK$'M	Borrowings HK$'M
At 1st January 2019	**432.4**	**38,021.6**
Cash flows	**(144.9)**	**2,570.8**
Exchange differences	**(7.3)**	**(245.9)**
Reclassified from perpetual capital securities	**–**	**(2,405.4)**
Other non-cash movement	**58.2**	**(4.9)**
At 31st December 2019	**338.4**	**37,936.2**
Cash flows	**(148.0)**	**3,655.4**
Exchange differences	**24.6**	**376.9**
Other non-cash movement	**64.8**	**170.1**
At 31st December 2020	**279.8**	**42,138.6**

(c) During the year ended 31st December 2020, total cash outflow for lease was included in the statement of cash flows in (a) interest paid of HK$13.2 million (2019: 16.3 million) under "financing activities", (b) principal elements of lease payments of HK$134.8 million (2019: 128.6 million) under "financing activities".

42 Business combinations

(a) Business combination under Towngas China

For the year ended 31st December 2020, Towngas China acquired the following business:

	Purchase consideration HK$'M
Changzhou Towngas China Energy Co., Ltd.	**15.3**

The inclusion of the acquired business does not have a significant impact of the Group's turnover and profit for the year.

42 Business combinations (Continued)

(a) Business combination under Towngas China (Continued)

The details of fair value of net identifiable assets acquired are as follows:

	Acquiree's fair value at acquisition date HK$'M
Property, plant and equipment (note 16)	**0.4**
Trade and other receivables	**0.1**
Cash and bank balances	**33.5**
Net assets	**34.0**
Non-controlling interests	**(18.7)**
Net identifiable assets acquired	**15.3**
Purchase consideration	**15.3**

Net cash flow arising on acquisition:

	HK$'M
Purchase consideration for acquisition of business, settled in cash	**15.3**
Cash and cash equivalents in business acquired	**(33.5)**
Cash inflow on acquisition of business	**(18.2)**

(b) Further acquisition of subsidiaries

During the year, the Group has further acquired the interest in several subsidiaries. The total consideration for all further acquisitions is approximately HK$63.1 million. The difference between the share of net assets value acquired and total consideration of HK$40.5 million was recognised directly in equity for these transactions with non-controlling interests.

(c) Apart from the above, there were no other material acquisitions during the year ended 31st December 2020.

43 Statement of financial position of the Company

	2020 HK$'M	2019 HK$'M
Assets		
Non-current assets		
Property, plant and equipment	**12,731.5**	12,510.2
Right-of-use assets	**262.8**	285.5
Subsidiaries	**22,842.0**	22,169.1
Associate	**664.7**	664.7
Joint ventures	**831.7**	831.7
Financial assets at fair value through other comprehensive income	**31.3**	–
Retirement benefit assets	**111.9**	66.3
	37,475.9	36,527.5
Current assets		
Inventories	**1,071.1**	1,039.4
Trade and other receivables	**2,256.9**	2,203.4
Loan and other receivables from associates	**22.3**	21.6
Other receivables from joint ventures	**30.6**	32.6
Derivative financial instruments	**–**	0.5
Time deposits up to three months, cash and bank balances	**1,063.8**	1,006.2
	4,444.7	4,303.7
Current liabilities		
Trade payables and other liabilities	**(1,790.0)**	(1,500.5)
Provision for taxation	**(640.3)**	(663.6)
Borrowings	**–**	(1,650.0)
	(2,430.3)	(3,814.1)
Total assets less current liabilities	**39,490.3**	37,017.1
Non-current liabilities		
Loan and other payables to subsidiaries	**(15,887.3)**	(13,456.2)
Deferred taxation	**(1,463.8)**	(1,439.4)
Borrowings	**(1,489.4)**	(791.8)
Other non-current liabilities	**(1,402.2)**	(1,413.3)
	(20,242.7)	(17,100.7)
Net assets	**19,247.6**	19,916.4

43 Statement of financial position of the Company (Continued)

	2020 HK$'M	2019 HK$'M
Capital and reserves		
Share capital	**5,474.7**	5,474.7
Retained profits (note (a))	**13,772.9**	14,441.7
	19,247.6	19,916.4

Approved by the Board of Directors on 19th March 2021

Lee Ka-kit
Director

David Li Kwok-po
Director

43 Statement of financial position of the Company (Continued)

Note

(a) Retained profits

	HK$'M
At 1st January 2020	**14,441.7**
Profit attributable to shareholders	**5,301.4**
Other comprehensive income:	
Remeasurements of retirement benefit	**55.2**
Total comprehensive income for the year	**5,356.6**
2019 final dividend paid	**(3,892.8)**
2020 interim dividend paid	**(2,132.6)**
At 31st December 2020	**13,772.9**
Balance after 2020 final dividend proposed	**9,685.5**
2020 final dividend proposed	**4,087.4**
	13,772.9
At 1st January 2019	14,818.9
Changes in accounting policy (in relation to HKFRS 16)	(1.4)
At 1st January 2019 (restated)	14,817.5
Profit attributable to shareholders	5,092.0
Other comprehensive income:	
Remeasurements of retirement benefit	102.1
Total comprehensive income for the year	5,194.1
2018 final dividend paid	(3,538.9)
2019 interim dividend paid	(2,031.0)
At 31st December 2019	14,441.7
Balance after 2019 final dividend proposed	10,548.9
2019 final dividend proposed	3,892.8
	14,441.7

Subsidiaries

The following is a list of the principal subsidiaries as at 31st December 2020:

	Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of incorporation/ operation	Principal activity
	Gas and related businesses in Hong Kong				
	Towngas Enterprise Limited	HK$2	100	Hong Kong	Café, restaurant and retail sales
	Summit Result Developments Limited	HK$100	100	Hong Kong	Customers centre
	Uticom Limited	HK$100	100	Hong Kong	Development of automatic meter reading system
#	Quality Testing Services Limited	HK$10,000	100	Hong Kong	Laboratory testing
	Gas, water and related businesses in mainland China				
	Hong Kong and China Gas Agricultural Investment (Nanjing) Limited	RMB30.0 million	100	PRC	Agricultural and related businesses
	港華紫荊農莊（句容）有限公司	RMB40.0 million	78.3	PRC	Agricultural and related businesses
†1	長沙港能投智慧能源有限公司	RMB5.0 million	100	PRC	Energy conservation project
1	Danyang Towngas China Energy Storage Power Plant Co., Ltd.	RMB30.0 million	90	PRC	Energy storage project
†1	Dunhuang Towngas China Energy Storage Power Plant Co., Ltd.	RMB14.0 million	100	PRC	Energy storage project
	Chaozhou Hong Kong and China Gas Co., Ltd.	HK$100.0 million	60	PRC	Gas sales and related businesses
	Danyang Hongkong & China Gas Co., Ltd.	RMB60.0 million	80	PRC	Gas sales and related businesses
	Fengcheng Hong Kong & China Gas Co. Ltd.	RMB88.0 million	55	PRC	Gas sales and related businesses
	Guangzhou Dongyong Hong Kong & China Gas Company Limited	HK$71.3 million	82.6	PRC	Gas sales and related businesses
	Guangzhou Hong Kong and China Gas Company Limited	RMB105.0 million	80	PRC	Gas sales and related businesses
	Jiangxi Hong Kong & China Gas Co., Ltd.	RMB25.9 million	56	PRC	Gas sales and related businesses
	Jilin Hong Kong and China Gas Company Limited	RMB100.0 million	63	PRC	Gas sales and related businesses
	Jingxian Hong Kong and China Gas Company Limited	RMB79.0 million	81	PRC	Gas sales and related businesses
†	Peixian Hongkong and China Gas Company Limited	RMB100.0 million	100	PRC	Gas sales and related businesses
†	Pingxiang Hong Kong & China Gas Co., Ltd.	RMB104.8 million	100	PRC	Gas sales and related businesses
†	Suining Hong Kong and China Gas Co., Ltd.	RMB66.5 million	100	PRC	Gas sales and related businesses
	Taizhou Hong Kong and China Gas Company Limited	RMB83.0 million	65	PRC	Gas sales and related businesses
	Taizhou Yongan Hong Kong & China Gas Co., Ltd.	US$10.0 million	93.9	PRC	Gas sales and related businesses
	Wujiang Hong Kong and China Gas Company Limited	RMB60.0 million	80	PRC	Gas sales and related businesses

\# Direct subsidiaries of the Company
† Wholly foreign-owned enterprises
1 Newly formed during the year

Subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31st December 2020: (Continued)

Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of incorporation/ operation	Principal activity
Gas, water and related businesses in mainland China (Continued)				
Xuzhou Hong Kong and China Gas Company Limited	RMB125.0 million	80	PRC	Gas sales and related businesses
Yixing Hong Kong and China Gas Company Limited	RMB124.0 million	80	PRC	Gas sales and related businesses
† Zhang Shu Hong Kong & China Gas Co., Ltd.	US$5.0 million	100	PRC	Gas sales and related businesses
Zhongshan Hong Kong and China Gas Limited	RMB96.0 million	70	PRC	Gas sales and related businesses
常州金壇港華燃氣有限公司	RMB60.0 million	60	PRC	Gas sales and related businesses
† 豐縣港華燃氣有限公司	US$4.5 million	100	PRC	Gas sales and related businesses
饒平港華燃氣有限公司	HK$126.0 million	60	PRC	Gas sales and related businesses
† 新密港華燃氣有限公司	US$12.5 million	100	PRC	Gas sales and related businesses
† 港華儲氣（金壇）有限公司	RMB300.0 million	100	PRC	Gas storage project
†1 C-Tech Investment Company Limited	RMB210.0 million	100	PRC	Investment holding
† Hong Kong & China Gas Investment Limited	US$75.0 million	100	PRC	Investment holding
†1 Hua Yan Environmental Investment (JiangSu) Co., Ltd.	RMB800.0 million	100	PRC	Investment holding
* Towngas China Company Limited	2,968,934,833 shares of HK$0.1 each	68.2	Cayman Islands/ Hong Kong	Investment holding
†1 港華分布式能源投資（深圳）有限公司	RMB210.0 million	100	PRC	Investment holding
†1 港華綜合電能投資（深圳）有限公司	RMB210.0 million	100	PRC	Investment holding
1 丹陽卓惠洗滌有限公司	RMB20.0 million	80	PRC	Laundry business
1 唐山卓惠洗滌有限公司	RMB20.0 million	80	PRC	Laundry business
†1 唐山皓華貿易有限公司	RMB250.0 million	100	PRC	LNG storage tanks and terminal
† 港華支付科技（深圳）有限公司	RMB28.0 million	100	PRC	Payment gateway and related businesses
†1 Anqiu Towngas China PV Power Generation Co., Ltd.	RMB24.0 million	100	PRC	Photovoltaic project
†1 Foshan Towngas China PV Power Generation Co., Ltd.	RMB21.0 million	100	PRC	Photovoltaic project
†1 Qingdao Towngas China PV Power Generation Co., Ltd.	RMB29.0 million	100	PRC	Photovoltaic project
†1 廣東晟桂電力有限公司	RMB15.0 million	100	PRC	Photovoltaic project
1 溧陽恒電新能源科技有限公司	RMB22.5 million	60	PRC	Photovoltaic project
†1 泉州港能投光伏有限公司	RMB24.0 million	100	PRC	Photovoltaic project
†1 宿遷港能投光伏有限公司	RMB30.0 million	100	PRC	Photovoltaic project
†1 廈門港能投光伏有限公司	RMB46.0 million	100	PRC	Photovoltaic project
†1 新野縣啟電光伏科技有限公司	RMB13.0 million	100	PRC	Photovoltaic project
† Maanshan Hong Kong and China Water Company Limited	RMB212.6 million	100	PRC	Water supply and related businesses
# Wuhu Hong Kong and China Water Company Limited	RMB400.0 million	75	PRC	Water supply and related businesses

† Wholly foreign-owned enterprises
1 Newly formed during the year
* Listed on The Stock Exchange of Hong Kong Limited
\# Direct subsidiaries of the Company

Subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31st December 2020: (Continued)

Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of incorporation/ operation	Principal activity
Gas, water and related businesses in mainland China (Continued)				
Wujiang Hong Kong & China Water Co., Ltd.	RMB860.0 million	80	PRC	Water supply and related businesses
† 安徽省江北華衍水務有限公司	RMB374.4 million	100	PRC	Water supply and related businesses
The following subsidiaries engaged in gas businesses are held by Towngas China and the respective equity interest held by Towngas China is shown accordingly.				
Changzhou Towngas China Energy Co., Ltd.	*RMB31.0 million*	*45*	*PRC*	*Distributed energy systems businesses*
Maanshan Towngas China Energy Co., Ltd.	*RMB50.0 million*	*85*	*PRC*	*Distributed energy systems businesses*
Qingdao Towngas China Energy Co., Ltd.	*RMB15.4 million*	*62.4*	*PRC*	*Distributed energy systems businesses*
† *Shenzhen Towngas China Energy Co., Ltd.*	*RMB6.0 million*	*100*	*PRC*	*Distributed energy systems businesses*
Songyang Towngas China Energy Co., Ltd	*RMB30.0 million*	*85.4*	*PRC*	*Distributed energy systems businesses*
Tangshan Fengnan Towngas China Energy Co., Ltd.	*RMB96.0 million*	*45*	*PRC*	*Distributed energy systems businesses*
Xuzhou Economic and Technological Development Zone Towngas China Energy Co., Ltd.	*RMB80.0 million*	*70*	*PRC*	*Distributed energy systems businesses*
† *廣西港華智慧能源有限公司*	*RMB10.0 million*	*100*	*PRC*	*Distributed energy systems businesses*
瀋陽智慧能源系統科技有限公司	*RMB100.0 million*	*55*	*PRC*	*Distributed energy systems businesses*
唐山港能投智慧能源有限公司	*RMB80.0 million*	*49*	*PRC*	*Distributed energy systems businesses*
徐州工業園區中港熱力有限公司	*RMB160.0 million*	*49.8*	*PRC*	*Distributed energy systems businesses*
陽信港能投智慧能源有限公司	*RMB15.0 million*	*67.8*	*PRC*	*Distributed energy systems businesses*
† *U-Tech (Guang Dong) Engineering Construction Co., Ltd*	*RMB74.0 million*	*100*	*PRC*	*Engineering and related business*
† *An Shan Hong Kong and China Gas Company Limited*	*US$15.0 million*	*100*	*PRC*	*Gas sales and related businesses*
Baotou Hong Kong & China Gas Company Limited	*RMB20.0 million*	*85*	*PRC*	*Gas sales and related businesses*
Beipiao Hong Kong and China Gas Company Limited	*RMB56.0 million*	*80*	*PRC*	*Gas sales and related businesses*
Ben Xi Hongkong and China Gas Company Limited	*RMB335.0 million*	*80*	*PRC*	*Gas sales and related businesses*
Boxing Hong Kong & China Gas Co., Ltd	*RMB40.0 million*	*65*	*PRC*	*Gas sales and related businesses*
† *Cang Xi Hong Kong and China Gas Company Limited*	*RMB20.0 million*	*100*	*PRC*	*Gas sales and related businesses*
Cangxian Hong Kong & China Gas Co., Ltd.	*RMB10.0 million*	*90*	*PRC*	*Gas sales and related businesses*
Changting Hong Kong and China Gas Company Limited	*RMB22.0 million*	*90*	*PRC*	*Gas sales and related businesses*
Chaoyang Hongkong and China Gas Company Limited	*US$10.8 million*	*90*	*PRC*	*Gas sales and related businesses*

† Wholly foreign-owned enterprises

Subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31st December 2020: (Continued)

	Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of incorporation/ operation	Principal activity
	Gas, water and related businesses in mainland China (Continued)				
	Chi Ping Hongkong and China Gas Co. Ltd.	*RMB40.0 million*	*85*	*PRC*	*Gas sales and related businesses*
†	*Chizhou Hong Kong and China Gas Company Ltd*	*RMB70.0 million*	*100*	*PRC*	*Gas sales and related businesses*
	Da Yi Hong Kong and China Gas Company Limited	*RMB20.0 million*	*100*	*PRC*	*Gas sales and related businesses*
	Dafeng Hong Kong and China Gas Company Limited	*RMB80.0 million*	*51*	*PRC*	*Gas sales and related businesses*
†	*Dalian Changxing Hong Kong and China Gas Co. Ltd.*	*US$14.0 million*	*100*	*PRC*	*Gas sales and related businesses*
†	*Dalian Lvshun Hong Kong and China Gas Co. Ltd.*	*US$15.0 million*	*100*	*PRC*	*Gas sales and related businesses*
†	*Feicheng Hong Kong and China Gas Company Limited*	*RMB32.0 million*	*100*	*PRC*	*Gas sales and related businesses*
	Fuxin Hongkong and China Gas Company Limited	*RMB77.2 million*	*90*	*PRC*	*Gas sales and related businesses*
†	*Gao Chun Hong Kong and China Gas Co., Ltd.*	*US$9.5 million*	*100*	*PRC*	*Gas sales and related businesses*
†	*Gongzhuling Hong Kong and China Gas Company Limited*	*RMB88.0 million*	*100*	*PRC*	*Gas sales and related businesses*
†	*Guilin Hong Kong & China Gas Co., Ltd.*	*RMB30.0 million*	*100*	*PRC*	*Gas sales and related businesses*
†	*Huang Shan Hong Kong & China Gas Co., Ltd.*	*RMB40.0 million*	*100*	*PRC*	*Gas sales and related businesses*
†	*Huang Shan Taiping Hong Kong & China Gas Co., Ltd.*	*US$3.5 million*	*100*	*PRC*	*Gas sales and related businesses*
†	*Huangshan Huizhou Hong Kong & China Gas Co., Ltd.*	*US$2.1 million*	*100*	*PRC*	*Gas sales and related businesses*
	Huzhou Hong Kong and China Gas Company Limited	*US$10.5 million*	*98.9*	*PRC*	*Gas sales and related businesses*
	Ji Nan Ping Yin Hong Kong & China Gas Co., Ltd.	*RMB200.0 million*	*82.2*	*PRC*	*Gas sales and related businesses*
	Jiajiang Hong Kong & China Gas Company Limited	*RMB20.0 million*	*70*	*PRC*	*Gas sales and related businesses*
	Jianping Hong Kong and China Gas Company Limited	*RMB58.0 million*	*80*	*PRC*	*Gas sales and related businesses*
†	*Kazuo Hong Kong & China Gas Co., Ltd.*	*US$6.4 million*	*100*	*PRC*	*Gas sales and related businesses*
†	*Laiyang Hong Kong and China Gas Co., Ltd.*	*US$11.5 million*	*100*	*PRC*	*Gas sales and related businesses*
†	*Lezhi Hong Kong and China Gas Company Limited*	*RMB30.0 million*	*100*	*PRC*	*Gas sales and related businesses*
†	*Liuzhou Hong Kong & China Gas Co., Ltd.*	*RMB50.0 million*	*100*	*PRC*	*Gas sales and related businesses*
†	*Longkou Hongkong and China Gas Company Limited*	*US$7.1 million*	*100*	*PRC*	*Gas sales and related businesses*
†	*Luliang Hong Kong & China Gas Company Limited*	*RMB52.0 million*	*100*	*PRC*	*Gas sales and related businesses*
	Maanshan Bowang Hong Kong & China Gas Co., Ltd.	*US$10.0 million*	*75.1*	*PRC*	*Gas sales and related businesses*
†	*Maanshan Jiangbei Hong Kong and China Towngas Company Limited*	*US$10.0 million*	*100*	*PRC*	*Gas sales and related businesses*

† Wholly foreign-owned enterprises

Subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31st December 2020: (Continued)

Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of incorporation/ operation	Principal activity
Gas, water and related businesses in mainland China (Continued)				
Mei Shan Peng Shan Hong Kong and China Gas Company Limited	*RMB20.0 million*	*70*	*PRC*	*Gas sales and related businesses*
Mengcun Hong Kong & China Gas Co., Ltd.	*RMB10.0 million*	*90*	*PRC*	*Gas sales and related businesses*
Mianyang Heqing Towngas Co., Ltd.	*RMB10.0 million*	*80*	*PRC*	*Gas sales and related businesses*
† *Mianyang Hong Kong & China Gas Co., Ltd.*	*RMB90.0 million*	*100*	*PRC*	*Gas sales and related businesses*
Mianzhu Hong Kong and China Gas Co., Ltd.	*RMB30.0 million*	*80*	*PRC*	*Gas sales and related businesses*
Mianzhu Yuquan Hong Kong and China Gas Co., Ltd.	*RMB5.0 million*	*80*	*PRC*	*Gas sales and related businesses*
Miluo Hong Kong and China Gas Co. Ltd	*RMB50.0 million*	*70*	*PRC*	*Gas sales and related businesses*
Peng Xi Hong Kong and China Gas Company Limited	*RMB20.0 million*	*100*	*PRC*	*Gas sales and related businesses*
Qingdao Dong Yi Hong Kong and China Gas Company Limited	*RMB30.0 million*	*60*	*PRC*	*Gas sales and related businesses*
Qingdao Zhongji Hong Kong and China Gas Company Limited	*RMB73.5 million*	*90*	*PRC*	*Gas sales and related businesses*
Qinhuangdao Hong Kong & China Gas Co., Ltd.	*RMB15.0 million*	*51*	*PRC*	*Gas sales and related businesses*
† *Shenyang Hong Kong & China Gas Company Limited*	*US$24.5 million*	*100*	*PRC*	*Gas sales and related businesses*
Siping Hong Kong & China Gas Company Limited	*RMB45.0 million*	*80*	*PRC*	*Gas sales and related businesses*
Tie Ling Hong Kong and China Gas Company Limited	*RMB233.0 million*	*80*	*PRC*	*Gas sales and related businesses*
† *Tongshan Hong Kong and China Gas Co. Ltd*	*RMB124.0 million*	*100*	*PRC*	*Gas sales and related businesses*
Tongxiang Hong Kong and China Gas Company Limited	*US$7.0 million*	*76*	*PRC*	*Gas sales and related businesses*
† *Wuhu Jiangbei Hong Kong & China Gas Company Limited*	*RMB200.0 million*	*100*	*PRC*	*Gas sales and related businesses*
Wulian Hong Kong & China Gas Company Limited	*RMB20.0 million*	*70*	*PRC*	*Gas sales and related businesses*
† *Wuning Hong Kong & China Gas Co., Ltd.*	*RMB40.0 million*	*100*	*PRC*	*Gas sales and related businesses*
Xin Jin Hong Kong and China Gas Company Limited	*RMB40.0 million*	*60*	*PRC*	*Gas sales and related businesses*
Xingyi Hong Kong & China Gas Company Limited	*RMB50.0 million*	*70*	*PRC*	*Gas sales and related businesses*
Yan Shan Hong Kong & China Gas Co., Ltd.	*RMB10.0 million*	*90*	*PRC*	*Gas sales and related businesses*
† *Yang Jiang Hong Kong and China Gas Company Limited*	*RMB50.0 million*	*100*	*PRC*	*Gas sales and related businesses*
Yangxin Hongkong & China Gas Company Limited	*RMB18.0 million*	*51*	*PRC*	*Gas sales and related businesses*
† *Yifeng Hongkong and China Gas Co., Ltd.*	*RMB32.0 million*	*100*	*PRC*	*Gas sales and related businesses*

† Wholly foreign-owned enterprises

Subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31st December 2020: (Continued)

Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of incorporation/ operation	Principal activity
Gas, water and related businesses in mainland China (Continued)				
† *Yingkou Hong Kong and China Gas Co., Ltd.*	*US$9.4 million*	*100*	*PRC*	*Gas sales and related businesses*
Yue Chi Hong Kong and China Gas Company Limited	*RMB30.0 million*	*90*	*PRC*	*Gas sales and related businesses*
† *Zhao Yuan Hong Kong & China Gas Co., Ltd.*	*RMB22.0 million*	*100*	*PRC*	*Gas sales and related businesses*
† *Zhong Jiang Hong Kong and China Gas Company Limited*	*RMB30.0 million*	*100*	*PRC*	*Gas sales and related businesses*
† *Zhongxiang Hong Kong & China Gas Co., Ltd.*	*RMB42.0 million*	*100*	*PRC*	*Gas sales and related businesses*
潮州楓溪港華燃氣有限公司	*RMB60.0 million*	*60*	*PRC*	*Gas sales and related businesses*
成都新都港華燃氣有限公司	*RMB30.0 million*	*100*	*PRC*	*Gas sales and related businesses*
大連瓦房店港華燃氣有限公司	*RMB40.0 million*	*90*	*PRC*	*Gas sales and related businesses*
† *阜新大力燃氣有限責任公司*	*RMB13.9 million*	*100*	*PRC*	*Gas sales and related businesses*
† *阜新新邱港華燃氣有限公司*	*RMB34.0 million*	*100*	*PRC*	*Gas sales and related businesses*
† *廣西中威管道燃氣發展集團有限責任公司*	*RMB30.0 million*	*100*	*PRC*	*Gas sales and related businesses*
簡陽港華燃氣有限公司	*RMB150.0 million*	*100*	*PRC*	*Gas sales and related businesses*
九江港華燃氣有限公司	*RMB10.0 million*	*60*	*PRC*	*Gas sales and related businesses*
平昌港華燃氣有限公司	*RMB20.0 million*	*90*	*PRC*	*Gas sales and related businesses*
齊齊哈爾港華燃氣有限公司	*RMB128.6 million*	*61.7*	*PRC*	*Gas sales and related businesses*
青島嶗山灣港華能源有限公司	*RMB30.0 million*	*60*	*PRC*	*Gas sales and related businesses*
清遠港華燃氣有限公司	*RMB50.0 million*	*80*	*PRC*	*Gas sales and related businesses*
韶關港華燃氣有限公司	*RMB50.0 million*	*100*	*PRC*	*Gas sales and related businesses*
松陽港華燃氣有限公司	*RMB80.0 million*	*51.4*	*PRC*	*Gas sales and related businesses*
威遠港華燃氣有限公司	*RMB30.0 million*	*100*	*PRC*	*Gas sales and related businesses*
修水港華燃氣有限公司	*RMB30.0 million*	*80*	*PRC*	*Gas sales and related businesses*
資陽港華燃氣有限公司	*RMB30.0 million*	*90*	*PRC*	*Gas sales and related businesses*
†1 *C-Tech Laundry Company Limited*	*RMB50.0 million*	*100*	*PRC*	*Investment holding*
† *Towngas China Energy Investment Limited*	*RMB250.0 million*	*100*	*PRC*	*Investment holding*
† *Towngas Investments Limited*	*US$200.0 million*	*100*	*PRC*	*Investment holding*
†1 *港華舒適家（成都）科技服務有限公司*	*RMB10.0 million*	*100*	*PRC*	*Investment holding*
內蒙古港億天然氣有限公司	*RMB80.0 million*	*85*	*PRC*	*Mid-stream natural gas project*
† *Towngas Natural Gas Sales Co., Ltd.*	*RMB50.0 million*	*100*	*PRC*	*Procurement of natural gas sources*
1 *四川港華合縱能源有限公司*	*RMB230.0 million*	*98.8*	*PRC*	*Upstream natural gas project*
Heilongjiang Hong Kong & China Lianfu New Energy Company Limited	*RMB13.0 million*	*55*	*PRC*	*Vehicle gas refilling stations*
† *Qiqihar Xingqixiang Gas Company Limited*	*RMB60.0 million*	*100*	*PRC*	*Vehicle gas refilling stations*

† Wholly foreign-owned enterprises
1 Newly formed during the year

Subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31st December 2020: (Continued)

Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of incorporation/ operation	Principal activity
New Energy businesses				
ECO Aviation Fuel Development Limited	HK$2	100	Hong Kong	Aviation fuel facility
ECO Aviation Fuel Services Limited	HK$10,000	100	Hong Kong	Aviation fuel facility
ECO Landfill Gas (NENT) Limited	HK$100	100	Hong Kong	Landfill gas project
P-Tech Landfill Gas (SENT) Company Limited	HK$100	100	Hong Kong	Landfill gas project
ECO Biochemical Technology (Zhangjiagang) Company Limited	US$59.9 million	100	PRC	Chemical business
Hebei ECO Biofuel Company Limited	RMB200.0 million	100	PRC	Chemical business
Hebei ECO Bioenergy Company Limited	RMB187.5 million	100	PRC	Chemical business
Hubei ECO Bioenergy Company Limited	RMB15.0 million	100	PRC	Chemical business
Inner Mongolia ECO Coal Chemical Technology Company Limited	RMB1,407.2 million	100	PRC	Chemical business
唐山易高農業科技有限公司	RMB3.0 million	100	PRC	Chemical business
Inner Mongolia Ke Jian Coal Company Limited	RMB486.0 million	100	PRC	Coal related business
Qinhuangdao YiTeng Trade Co. Ltd.	US$20.0 million	100	PRC	Coal related business
濟寧易祥煤炭貿易有限公司	RMB2.0 million	100	PRC	Coal related business
易高卓新節能技術（上海）有限公司	RMB14.0 million	100	PRC	Consultancy service
易高清潔能源管理服務（西安）有限公司	US$1.5 million	100	PRC	Engineering service
易高新能源工程管理服務（深圳）有限公司	RMB15.0 million	100	PRC	Engineering service
† ECO Environmental Energy Investments Limited	US$100.0 million	100	PRC	Investment holding
† ECO Environmental Resources Investments Limited	US$299.0 million	100	PRC	Investment holding
Shanxi ECO Coalbed Methane Co., Ltd.	RMB200.0 million	70	PRC	LNG business
Xuzhou ECO ZhongTai New Energy Co., Ltd.	US$24.5 million	100	PRC	LNG business
1 寧夏易達天然氣有限公司	RMB210.0 million	70	PRC	LNG business
山東嘉祥易隆港務有限公司	RMB180.0 million	88	PRC	Logistics business
ECO Orient Resources (Thailand) Ltd.	THB 425.0 million	100	Thailand	Oil business
† ECO Services Management Company Limited	RMB80.0 million	100	PRC	Project management
易高環保能源科技（張家港）有限公司	US$3.3 million	100	PRC	Research and development
ECO Resources Trading Limited	HK$100	100	Hong Kong	Trading of chemicals
Chifeng ECO Clean Energy Co., Ltd.	RMB14.9 million	100	PRC	Vehicular fuel refilling station
Chiping ECO Yi Yun Gas Co. Ltd.	RMB15.0 million	100	PRC	Vehicular fuel refilling station
Dong Ping ECO Energy Co. Ltd.	RMB25.5 million	91	PRC	Vehicular fuel refilling station
Fengxiang ECO Clean Energy Company Limited	RMB15.0 million	100	PRC	Vehicular fuel refilling station
Guangzhou ECO Environmental Energy Co., Ltd.	US$2.1 million	100	PRC	Vehicular fuel refilling station
Hebei ECO Hua Tong Clean Energy Co., Ltd	RMB31.0 million	100	PRC	Vehicular fuel refilling station
† Henan ECO Clean Energy Co., Ltd.	US$2.2 million	100	PRC	Vehicular fuel refilling station

† Wholly foreign-owned enterprises
1 Newly formed during the year

Subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31st December 2020: (Continued)

Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of incorporation/ operation	Principal activity
New Energy businesses (Continued)				
Jiaxiang ECO Energy Co., Ltd.	RMB28.0 million	100	PRC	Vehicular fuel refilling station
Kaifeng ECO Clean Energy Co., Ltd.	US$2.4 million	100	PRC	Vehicular fuel refilling station
Liaocheng ECO Clean Energy Co. Ltd.	US$2.1 million	100	PRC	Vehicular fuel refilling station
Linzhou City ECO Clean Energy Co., Ltd.	US$3.3 million	100	PRC	Vehicular fuel refilling station
MeiXian ECO Clean Energy Co., Ltd.	RMB14.2 million	100	PRC	Vehicular fuel refilling station
Nanyang ECO Clean Energy Co., Ltd.	RMB10.1 million	100	PRC	Vehicular fuel refilling station
† Shaan Xi ECO Clean Energy Co., Ltd.	RMB27.0 million	100	PRC	Vehicular fuel refilling station
Shanxi ECO Nova Clean Energy Co., Ltd.	RMB20.0 million	75	PRC	Vehicular fuel refilling station
Shanxian ECO Clean Energy Co., Ltd.	US$2.3 million	100	PRC	Vehicular fuel refilling station
Shanxian ECO RLM Clean Energy Co., Ltd.	RMB13.0 million	90	PRC	Vehicular fuel refilling station
Urad Middle Banner Xinran Natural Gas Co., Ltd.	RMB8.3 million	100	PRC	Vehicular fuel refilling station
Weishan ECO Energy Co., Ltd.	US$4.7 million	100	PRC	Vehicular fuel refilling station
Xiwuzhumuqin Country ECO Clean Energy Co., Ltd.	RMB14.9 million	100	PRC	Vehicular fuel refilling station
Xuzhou ECO Energy Co., Ltd.	RMB20.0 million	100	PRC	Vehicular fuel refilling station
Zhongwei ECO Clean Energy Co., Ltd.	RMB12.4 million	100	PRC	Vehicular fuel refilling station
巴彥淖爾市耀進燃氣有限公司	RMB10.0 million	90	PRC	Vehicular fuel refilling station
察哈爾右翼前旗易高清潔能源有限公司	RMB14.9 million	100	PRC	Vehicular fuel refilling station
韓城市易高美源清潔能源有限公司	RMB41.0 million	90	PRC	Vehicular fuel refilling station
杭錦後旗耀進燃氣有限公司	RMB10.0 million	90	PRC	Vehicular fuel refilling station
化德易高清潔能源有限公司	RMB14.4 million	100	PRC	Vehicular fuel refilling station
江西易高凌峰清潔能源有限公司	RMB30.0 million	70	PRC	Vehicular fuel refilling station
漯河易高清潔能源有限公司	RMB14.5 million	85	PRC	Vehicular fuel refilling station
內蒙古易高清潔能源有限公司	RMB14.0 million	90	PRC	Vehicular fuel refilling station
山西忻州易高清潔能源有限公司	RMB14.9 million	100	PRC	Vehicular fuel refilling station
陝西易高億達清潔能源有限公司	RMB12.0 million	100	PRC	Vehicular fuel refilling station
神木易高耀清能源有限公司	RMB38.2 million	100	PRC	Vehicular fuel refilling station
烏拉特前旗新德寶商貿有限責任公司	RMB6.8 million	100	PRC	Vehicular fuel refilling station
烏蘭察布市豐華商貿有限公司	RMB10.7 million	100	PRC	Vehicular fuel refilling station
錫林郭勒盟易高清潔能源有限公司	RMB14.9 million	100	PRC	Vehicular fuel refilling station
邢台市易高港興清潔能源有限公司	RMB17.1 million	80	PRC	Vehicular fuel refilling station
邢台市易高興化清潔能源有限公司	RMB23.3 million	80	PRC	Vehicular fuel refilling station
中衛海興易高清潔能源有限公司	RMB14.8 million	100	PRC	Vehicular fuel refilling station

† Wholly foreign-owned enterprises

Subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31st December 2020: (Continued)

Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of incorporation/ operation	Principal activity
Other businesses				
# P-Tech Engineering Company Limited	HK$2	100	Hong Kong	Engineering and related businesses
U-Tech Engineering Company Limited	HK$20.0 million	100	Hong Kong	Engineering and related businesses
M-Tech Instrument (Hong Kong) Limited	HK$100	100	Hong Kong	Gas meter and related businesses
† 卓度計量技術（深圳）有限公司	RMB60.0 million	100	PRC	Gas meter and related businesses
† 卓通管道系統（中山）有限公司	RMB41.0 million	100	PRC	PE piping system business
Starmax Assets Limited	HK$90.0 million	100	British Virgin Islands/ Hong Kong	Property development
卓銳智高（武漢）科技有限公司	RMB51.2 million	100	PRC	System development & consulting services
† 珠海卓銳高科信息技術有限公司	RMB7.0 million	100	PRC	System development & consulting services
HDC Data Centre Limited	HK$100	100	Hong Kong	Telecommunications business
TGT China Cloud Data Services (Harbin) Co., Ltd.	RMB63.0 million	80	PRC	Telecommunications business
TGT Union Financial Data Services (Dongguan) Co., Ltd.	RMB80.0 million	60	PRC	Telecommunications business
Towngas Chibo Data Service (Jinan) Co., Ltd.	RMB168.0 million	87.4	PRC	Telecommunications business
† Towngas Telecom (Fengxian) Company Limited	RMB7.5 million	100	PRC	Telecommunications business
† Towngas Telecommunications (Shenzhen) Company Limited	RMB6.0 million	100	PRC	Telecommunications business
Towngas Telecommunications Fixed Network Limited	HK$35.0 million	100	Hong Kong	Telecommunications business
† Towngas Telecom (Peixian) Co., Ltd.	RMB9.0 million	100	PRC	Telecommunications business
Towngas Telecom (Shandong) Company Limited	RMB40.0 million	90.1	PRC	Telecommunications business
北京馳波名氣通數據服務有限公司	RMB10.0 million	98.7	PRC	Telecommunications business
大連億達名氣通數據服務有限公司	RMB76.0 million	90	PRC	Telecommunications business
萊陽名氣通電訊有限公司	US$1.6 million	90	PRC	Telecommunications business
名氣通網絡（深圳）有限公司	RMB179.5 million	100	PRC	Telecommunications business

Direct subsidiaries of the Company
† Wholly foreign-owned enterprises

Subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31st December 2020: (Continued)

	Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of incorporation/ operation	Principal activity
	Financing & securities investments				
1	C-Tech (Finance) Limited	HK$100	100	Hong Kong	Financing
#	Eagle Legend International Limited	HK$100	100	Hong Kong	Financing
#	HKCG (Finance) Limited	HK$100	100	Hong Kong	Financing
1	Hong Kong and China Energy (Finance) Limited	HK$100	100	Hong Kong	Financing
1	Hong Kong and China Power (Finance) Limited	HK$100	100	Hong Kong	Financing
	TCCL (Finance) Limited	HK$1	68.2	Hong Kong	Financing
1	TCCL (Project Finance) Limited	HK$100	68.2	Hong Kong	Financing
#	Towngas (Finance) Limited	HK$100	100	British Virgin Islands	Financing
	Barnaby Assets Limited	US$1	100	British Virgin Islands/ Hong Kong	Securities investment
	Danetop Services Limited	US$1	100	British Virgin Islands/ Hong Kong	Securities investment
	Investstar Limited	HK$100	100	Hong Kong	Securities investment
	Superfun Enterprises Limited	US$1	100	British Virgin Islands/ Hong Kong	Securities investment
	Upwind International Limited	US$1	100	British Virgin Islands/ Hong Kong	Securities investment
	Investment holding				
	Apex Time Holdings Limited	HK$100	100	Hong Kong	Investment holding
1	C-Tech Laundry (0003) Investment Company Limited	HK$100	100	Hong Kong	Investment holding
	ECO Advanced Carbon Materials Company Limited	HK$100	100	Hong Kong	Investment holding
	ECO Biofuel Technology Company Limited	HK$100	100	Hong Kong	Investment holding
	ECO Biotechnology Company Limited	HK$100	100	Hong Kong	Investment holding
	ECO Coal Chemical Technology (Inner Mongolia) Limited	HK$100	100	Hong Kong	Investment holding
	ECO Environmental Energy (China) Limited	HK$100	100	Hong Kong	Investment holding
	ECO Environmental Investments (China) Limited	HK$100	100	Hong Kong	Investment holding
	ECO Environmental Investments (China) Limited	US$1	100	British Virgin Islands	Investment holding
	ECO Environmental Investments Limited	HK$2	100	Hong Kong	Investment holding
	ECO Natural Gas (China) Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
	ECO Natural Gas (Xian) Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
	ECO Orient Energy (Thailand) Ltd.	US$12,000	100	Bermuda	Investment holding
	Fanico Investments Limited	HK$1	100	Hong Kong	Investment holding
	G-Tech Piping Technologies Limited	HK$100	100	Hong Kong	Investment holding
	Hong Kong & China Gas (Anhui) Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
	Hong Kong & China Gas (Changzhou) Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
	Hong Kong & China Gas (Chaozhou) Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding

Direct subsidiaries of the Company
1 Newly formed during the year

Subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31st December 2020: (Continued)

Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of incorporation/ operation	Principal activity
Investment holding (Continued)				
Hong Kong & China Gas (China) Limited	HK$10,000	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Danyang) Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Fengcheng) Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Guangzhou) Limited	HK$1,000	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Hebei) Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Jilin Province) Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Jinan) Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Jintan) Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Nanjing) Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Panyu) Limited	HK$1,000	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Suzhou) Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Taizhou) Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Wuhan) Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Wujiang) Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Xuzhou) Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Yixing) Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Zhangjiagang) Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas (Zhongshan) Limited	HK$1,000	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Gas LNG International Trading Limited	US$1	100	British Virgin Islands	Investment holding
Hong Kong & China Water (Suzhou) Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Water (Wujiang) Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
Hong Kong & China Water Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
[1] Hong Kong and China Energy Holdings Company Limited	HK$100	100	Hong Kong	Investment holding
[1] Hong Kong and China Energy Investment Holdings Company Limited	US$1	100	British Virgin Islands	Investment holding

[1] Newly formed during the year

Subsidiaries (Continued)

The following is a list of the principal subsidiaries as at 31st December 2020: (Continued)

	Name	Issued share capital/ registered capital	Percentage of issued/ registered capital held	Place of incorporation/ operation	Principal activity
	Investment holding (Continued)				
1	Hong Kong and China Environmental Holdings Company Limited	HK$100	100	Hong Kong	Investment holding
	Hong Kong and China Gas (Hainan) Limited	HK$100	100	Hong Kong	Investment holding
	Hong Kong and China Gas (Jiangsu) Agricultural Limited	HK$100	100	Hong Kong	Investment holding
	Hong Kong and China Gas (Jiangxi) Limited	HK$100	100	Hong Kong	Investment holding
	Hong Kong and China Gas (Jingxian) Limited	HK$100	100	Hong Kong	Investment holding
	Hong Kong and China Gas (Qianhai) Limited	HK$100	100	Hong Kong	Investment holding
1	Hong Kong and China Gas (Suxiang) Limited	HK$100	100	Hong Kong	Investment holding
1	Hong Kong and China Gas (Tangshan) Limited	HK$100	100	Hong Kong	Investment holding
	Hong Kong and China Gas (Xinmi) Limited	HK$100	100	Hong Kong	Investment holding
	Hong Kong and China Gas (Zhangshu) Limited	HK$100	100	Hong Kong	Investment holding
	Hong Kong and China Gas (Zhengzhou) Limited	HK$100	100	Hong Kong	Investment holding
1	Hong Kong and China Power Holdings Company Limited	HK$100	100	Hong Kong	Investment holding
1	Hong Kong and China Power Investment Holdings Company Limited	US$1	100	British Virgin Islands	Investment holding
	Hong Kong and China Water (Anhui Jiangbei) Limited	HK$100	100	Hong Kong	Investment holding
	Hong Kong and China Water (Maanshan) Limited	HK$100	100	Hong Kong	Investment holding
	Meter Technologies Limited	HK$100	100	Hong Kong	Investment holding
	M-Tech Instrument Corporation (Holding) Limited	HK$119	100	Hong Kong	Investment holding
	Sky Global Limited	US$100	100	British Virgin Islands/ Hong Kong	Investment holding
	TGT BROADBANDgo Company Limited	US$1	100	British Virgin Islands	Investment holding
	TGT Destic Company Limited	HK$100	100	Hong Kong	Investment holding
	TGT Harbin Company Limited	HK$100	100	Hong Kong	Investment holding
	TGT Shanghai Data Services Company Limited	HK$100	100	Hong Kong	Investment holding
	TGT TGgo Company Limited	US$1	100	British Virgin Islands	Investment holding
1	Towngas – China Power (HK) Integrated Energy Company Limited	HK$100	100	Hong Kong	Investment holding
#	Towngas International Company Limited	US$1	100	British Virgin Islands/ Hong Kong	Investment holding
#	Towngas Investment Company Limited	HK$2	100	Hong Kong	Investment holding
1	Towngas Renewable Energy (HK) Company Limited	HK$100	100	Hong Kong	Investment holding
1	Towngas Renewable Energy Company Limited	US$1	100	British Virgin Islands	Investment holding
#1	Towngas Smart Energy Company Limited	US$1	100	British Virgin Islands	Investment holding
	Towngas Telecommunications (China) Limited	US$1	100	British Virgin Islands	Investment holding

\# Direct subsidiaries of the Company
1 Newly formed during the year

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

CORPORATE INFORMATION

Directors
Lee Ka-kit (Chairman)
Lee Ka-shing (Chairman)
Colin Lam Ko-yin
David Li Kwok-po*
Alfred Chan Wing-kin
Poon Chung-kwong*
Peter Wong Wai-yee
Moses Cheng Mo-chi*
John Ho Hon-ming**

* Independent Non-executive Director
** Appointed as Executive Director with effect from 1st October 2020

Managing Director
Alfred Chan Wing-kin

Deputy Managing Director
Peter Wong Wai-yee***

*** Appointed as Deputy Managing Director with effect from 1st April 2021

Executive Director, Chief Financial Officer and Company Secretary
John Ho Hon-ming

Board Audit and Risk Committee
David Li Kwok-po (Chairman)
Poon Chung-kwong
Moses Cheng Mo-chi

Remuneration Committee
David Li Kwok-po (Chairman)
Lee Ka-kit
Lee Ka-shing
Poon Chung-kwong
Moses Cheng Mo-chi

Nomination Committee
Lee Ka-kit (Chairman)
Lee Ka-shing (Chairman)
David Li Kwok-po
Poon Chung-kwong
Moses Cheng Mo-chi

Environmental, Social and Governance Committee
Alfred Chan Wing-kin (Chairman)
Peter Wong Wai-yee
John Ho Hon-ming

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

Company's Website
www.towngas.com

Share Registrar
Computershare Hong Kong
Investor Services Limited
Shops 1712-1716, 17th Floor,
Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong
Tel: 2862 8555
Fax: 2865 0990

Auditor
PricewaterhouseCoopers
Certified Public Accountants and
Registered Public Interest Entity Auditor
22nd Floor, Prince's Building,
Central, Hong Kong

Investor Relations
Corporate Treasury and Investor Relations Department
Tel: 2963 3189
Fax: 2911 9005
e-mail: invrelation@towngas.com

Corporate Affairs Department
Tel: 2963 3493
Fax: 2516 7368
e-mail: cad@towngas.com

Company Secretarial Department
Tel: 2963 3292
Fax: 2562 6682
e-mail: compsec@towngas.com

FINANCIAL CALENDAR

Half-Year Results	Announced on Monday, 17th August 2020
Full-Year Results	Announced on Friday, 19th March 2021
Annual Report	Posted to Shareholders on Thursday, 22nd April 2021
Register of Members	(i) To be closed from Friday, 28th May 2021 to Wednesday, 2nd June 2021, for the purpose of determining entitlement of Shareholders to the right to attend and vote at the Annual General Meeting
	(ii) To be closed from Tuesday, 8th June 2021 to Thursday, 10th June 2021, for the purpose of determining Shareholders who qualify for the proposed issue of bonus shares and final dividend
Annual General Meeting	To be held on Wednesday, 2nd June 2021
Dividends – Interim	HK12 cents – Paid on Monday, 14th September 2020
– Final (Proposed)	HK23 cents – Payable on Monday, 21st June 2021
Bonus Issue of Shares (Proposed)	Share certificates to be posted to Shareholders on Monday, 21st June 2021

Both printed English and Chinese versions of this Annual Report are available upon request from the Company and the Company's share registrar free of charge. The website version of this Annual Report is also available on the Company's website.

The Hong Kong and China Gas Company Limited
香港中華煤氣有限公司

23rd Floor, 363 Java Road, North Point, Hong Kong
www.towngas.com

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