

Independent Auditor's Report



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”), which are set out on pages 87 to 195, comprise:

- the consolidated statement of financial position as at 31st December 2023;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

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 2023, 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters (Continued)

Key audit matters identified in our audit are summarised as follows:

- Impairment assessment of property, plant and equipment of a chemical production project
- Gain on partial disposal of a subsidiary – EcoCeres, Inc.

Key audit matter	How our audit addressed the key audit matter
<p>Impairment assessment of property, plant and equipment of a chemical production project</p> <p>Refer to notes 4(a) and 16 to the consolidated financial statements</p> <p>In relation to the New Energy business segment, the Group operated a chemical production project in Chinese mainland which is engaged in production of coal related chemical products. The carrying value of the property, plant and equipment of the chemical production project was HK\$1.7 billion as at 31st December 2023. In consideration of the financial results of the chemical production project and the prices of the primary inputs/outputs (where applicable) of the project, namely coal related chemical products were volatile during the year, management considered there were impairment indicators and performed impairment assessment on these assets. Based on the results of the impairment assessment, HK\$719.9 million of provision for impairment of property, plant and equipment for the chemical production project were recognised in the consolidated income statement for the year ended 31st December 2023.</p>	<p>Our procedures in relation to management's impairment assessment include:</p> <ul style="list-style-type: none"> • Understanding of the management's impairment assessment process and assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors; • 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
<p>For the impairment assessment, management calculated the recoverable amounts under value-in-use method. As the calculations require the use of significant management judgement and estimates, including the future business growth, future products selling prices and production costs, discount rate and terminal value etc., we consider it was one of the key audit matters.</p>	<ul style="list-style-type: none"> • Assessing the appropriateness of cash flows projections in calculation of the recoverable amount of the chemical production project, challenging the reasonableness of management's assumptions such as the future business growth, future products selling prices and production costs, discount rate and terminal value, where applicable, 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's forecast, where applicable. Internal valuation expert was engaged to assist the review on discount rate; and • Performing sensitivity analysis in consideration of potential impact of reasonably possible downside changes in the key assumptions. <p>Based on the audit procedures performed, we found that the assumptions made by management were supported by available evidence.</p>

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<p>Gain on partial disposal of a subsidiary – EcoCeres, Inc.</p> <p>Refer to notes 4(h), 7 and 43 to the consolidated financial statements</p> <p>During the year, the Group partially disposed its shares in EcoCeres, Inc. (“EcoCeres”), a subsidiary of the Group, to an independent investor at a cash consideration of US\$319 million (equivalent to approximately HK\$2,505.0 million). This resulted in a decrease in HKCG’s effective interest and voting right in EcoCeres from 65.5% to 44.2%, and hence lost control over EcoCeres after the completion date of the transfer of those ordinary shares of EcoCeres to an investor (the “Disposal”). As a result, the respective investment has been reclassified from a subsidiary to an associate.</p> <p>To account for the Disposal, the Group de-recognised all the assets and liabilities of EcoCeres at the disposal date and recognised the retained interest in EcoCeres as an associate of HKCG at its fair value. It resulted in a gain amounting to HK\$4,677.2 million for the year ended 31st December 2023.</p> <p>In consideration of the magnitude of the gain of the Disposal and the significant management judgement applied in assessing the fair value of the retained interest in EcoCeres, we consider it was one of the key audit matters.</p>	<p>Our procedures in relation to management’s valuation of EcoCeres:</p> <ul style="list-style-type: none"> • Understanding the management assessment process of the Disposal and assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors; • Assessing the accounting treatment of the Disposal made by management to ensure compliance with the relevant accounting standards; • Obtaining and reviewing the disposal gain calculation and relevant supporting documents from management to ensure the accuracy of the disposal gain of EcoCeres; • Evaluating the independent professional valuer’s competence, capabilities and objectivity; • Obtaining the valuation reports in relation to the fair value of the retained interest in EcoCeres, and assessing the appropriateness of the valuation models and methodologies adopted by management and the reasonableness of discount rates used by management with the involvement of our in-house valuation experts; • Assessing and challenging the reasonableness of key assumptions used in the cash flows projection for the fair value of the retained interest in EcoCeres, such as business growth, products selling prices and relevant costs, discount rates by comparing them to historical results and published market and industry data, where applicable; • Communicating with the management of EcoCeres to understand the business and assessing if there was any inconsistency in the assumptions used in the cash flows projection; and • Checking the mathematical accuracy of the calculations of disposal gain of EcoCeres. <p>Based on the audit procedures performed, we found that the disposal gain and the assumptions made by management were supported by available evidence.</p>

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 HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional 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 Pong Fei Ho.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 20th March 2024