ENN 新奥

ENN Energy Holdings Limited

(Stock code: 2688)

# IN PURSUIT OF A LOW-CARBON FUTURE

ANNUAL REPORT 2020

ENN = ENERGY + INNOVATION

# CONTENTS

# CORPORATE INFORMATION

## Board of Directors

### Executive director

Wang Yusuo (Chairman)
Zheng Hongtao (Vice Chairman)
Zhang Yuying (President)
Wang Dongzhi

### Non-executive director

Wang Zizheng
Jin Yongsheng

### Independent non-executive director

Ma Zhixiang
Yuen Po Kwong
Law Yee Kwan, Quinn *CPA*
Yien Yu Yu, Catherine *CFA*

## Company Secretary

Liang Hongyu

## Authorised Representatives

Wang Dongzhi
Liang Hongyu

## Members of the Audit Committee

Law Yee Kwan, Quinn* *CPA*
Ma Zhixiang
Yuen Po Kwong
Yien Yu Yu, Catherine *CFA*

## Members of the Remuneration Committee

Yuen Po Kwong*
Ma Zhixiang
Law Yee Kwan, Quinn *CPA*
Yien Yu Yu, Catherine *CFA*

## Members of the Nomination Committee

Wang Yusuo*
Jin Yongsheng
Ma Zhixiang
Yuen Po Kwong
Law Yee Kwan, Quinn *CPA*
Yien Yu Yu, Catherine *CFA*

## Members of the Risk Management Committee

Zheng Hongtao*
Zhang Yuying
Wang Dongzhi
Ma Zhixiang
Yuen Po Kwong
Law Yee Kwan, Quinn *CPA*
Yien Yu Yu, Catherine *CFA*

## Registered Office

P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

## Principal Place of Business in Hong Kong

Rooms 3101–04, 31st Floor
Tower 1, Lippo Centre
No. 89 Queensway
Hong Kong

## Head Office in The PRC

Building A, ENN Industrial Park
Xinyuan DongDao
Economic and Technological
Development Zone
Langfang City
Hebei Province
The PRC

## Principal Share Registrar and Transfer Office in the Cayman Islands

Suntera (Cayman) Limited
Suite 3204, Unit 2A
Block 3, Building D
P.O. Box 1586
Gardenia Court, Camana Bay
Grand Cayman
KY1-1100
Cayman Islands

## Hong Kong Branch Share Registrar and Transfer Office

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

## Stock Exchange Listing

The Stock Exchange of Hong Kong Limited

## Stock Code

2688

## Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor One Pacific Place
No. 88 Queensway
Hong Kong

## Legal Adviser

Woo, Kwan, Lee & Lo
26th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

## Principal Bankers

China Construction Bank
Bank of Communications
Industrial and Commercial Bank of China
Bank of China (Hong Kong)
The Hongkong and Shanghai Banking Corporation

## Website

www.ennenergy.com

## E-mail address

enn@enn.cn

* Chairman of the relevant Board committees

# OUR VISION

## ENDEAVOR TO BECOME A RESPECTED, INNOVATIVE AND SMART ENTERPRISE

# ENN AT A GLANCE

## Our Purpose

ENN Energy is a leading clean energy distributor and solutions provider in China, focusing on satisfying the needs of our customers through technological innovation and digitalisation. Our goal is to help our customers transit to a safe, convenient, and low-carbon future, and create sustainable return for our shareholders.

## Key Performance Highlights

### Growing business

**235**
No. of City Gas Project
2019: 217

**29,569**
million m³
Natural Gas Sales Volume
2019: 26,963 million m³

**119**
No. of IE Project
2019: 98

**12,042**
million kWh
Integrated Energy Sold
2019: 6,847 million kWh

### Decarbonisation performance

**42.11**
million tons
Helped Society & Clients Reduce Carbon Emissions
2019: 35.11 million tons

**7,092**
tce./bil m³
Carbon Intensity
2019: 9,751 tce./bil m³

**30%**
Proportion of Integrated Energy Projects Utilising Renewable Energy
2019: 28%

**17**
No. of Project Companies Obtained ISO 14001 & ISO 45001
2019: 6

### Leverage digitisation & technology to grow

**RMB 181**
million
Investment in Smart Operations

**94%**
Proportion of Construction Projects with Digitalised Management

**50%**
Proportion of Gas Purchased Online

### Enhance operational performance

Safety Performance
**1.27**
Occupational Injury Case/Mil Hrs
2019: 1.04

**1 case**
Fatalities
2019: 1 case

**94.1%**
Customer Satisfaction Rate
2019: 93.0%

**0**
Environmental Regulatory Non-compliance Cases

## Our Key Customers

### Large Industrial

- Stable natural gas supply
- Low-carbon services & solutions
- Energy system optimisation

### Small-mid Industrial and Commercial

- Stable natural gas supply
- Facilities operation and maintenance
- Convenient customer services

### Residential

- Stable natural gas supply
- Clean heating
- Smart home solutions and in-home services

## Key indices

Hang Seng ESG50 Index
Hang Seng Corporate Sustainability Benchmark Index

Hang Seng China Enterprises Index
Hang Seng Composite Large Cap Index
MSCI China Large Cap Index

## Key ratings

### Sustainability

| | |
|---|---|
| A | Hang Seng Corporate Sustainability Index |
| BBB | MSCI ESG Rating |

### Financial

| | |
|---|---|
| BBB | Standard & Poor's |
| Baa2 | Moody's |
| BBB | Fitch |

## Awards & Rankings

S&P GLOBAL PLATTS GLOBAL ENERGY AWARDS 2020 WINNER

IR Award winner Greater China 2020 magazine

**S&P Global Platts 2020 Global Energy Awards**
Award of Excellence: Downstream

**Forbes Global 2000 World's Largest Public Companies 2020**
Ranked 996

**Institutional Investor 2020 All-Asia Executive Team Ranking**
Most Honored Company
Best IR Program (Power Sector)

**Fortune Magazine 2020 Fortune China 500**
Ranked 148

**IR Magazine Greater China Awards 2020**
Best Investor Event

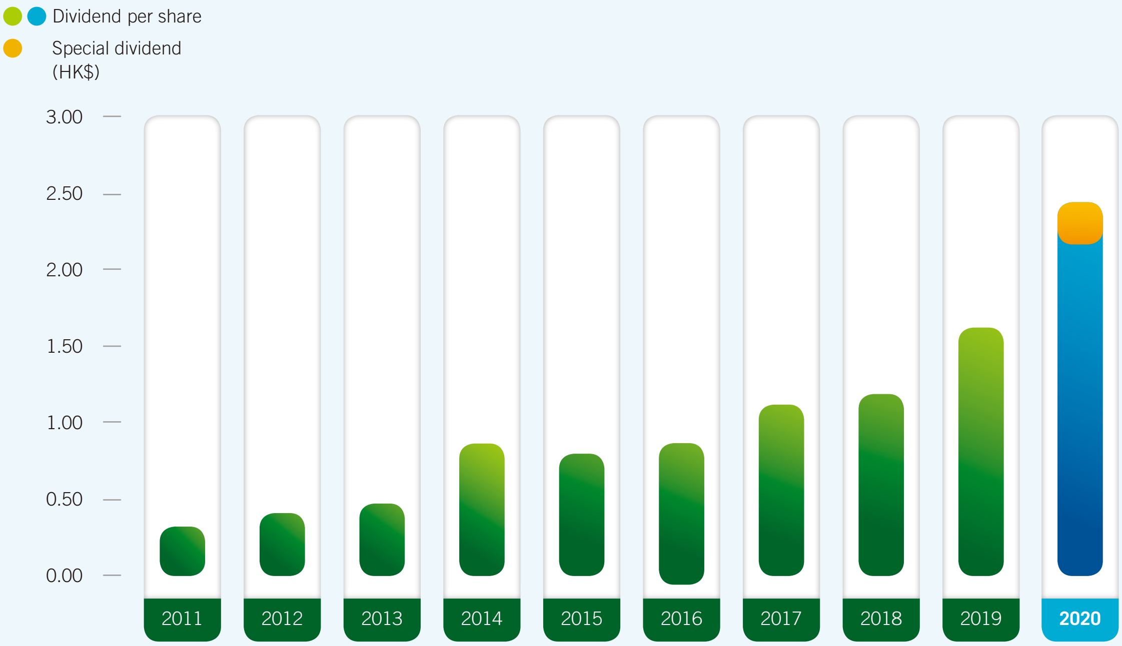
**Brand Finance 2020 World's 50 Most Valuable Public Utilities**
Ranked 24

**The Asset Triple A Sustainable Capital Markets Regional Awards 2020**
Best Green Bond (Renewable Energy/Transition Energy)

# SHAREHOLDER VALUE

## Delivering Value to Shareholders

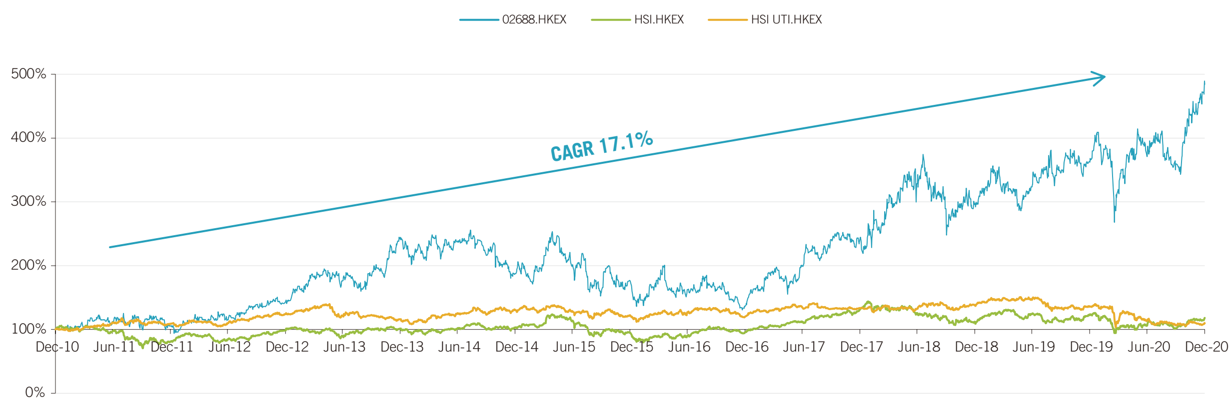
### Dividend
(2011–2020)




### Dividend Payments

The Company distributes dividends to our shareholders annually, with the aim of sharing the Company's profit and ensuring a sound financial position of the Company which is sufficient to support our business growth. The Board takes into consideration various factors, including but not limited to the Group's business condition, industry development trend, investment opportunity, as well as providing stable and reliable dividend return to shareholders. The Company started to distribute dividends since 2004, our dividend amounts have been steadily increased over the years most of the time.

## 10-year Share Price Performance (1 Jan 2011 – 31 Dec 2020)




## Share price performance in 2020

**Highest closing price**
30 December 2020

**HK$115.00**

**Average closing price**

**HK$90.42**

**Total returns***

**36.5%**

**Movement for 2020**

**33.6%**

HK$85.15 (31 December 2019)
HK$113.80 (31 December 2020)

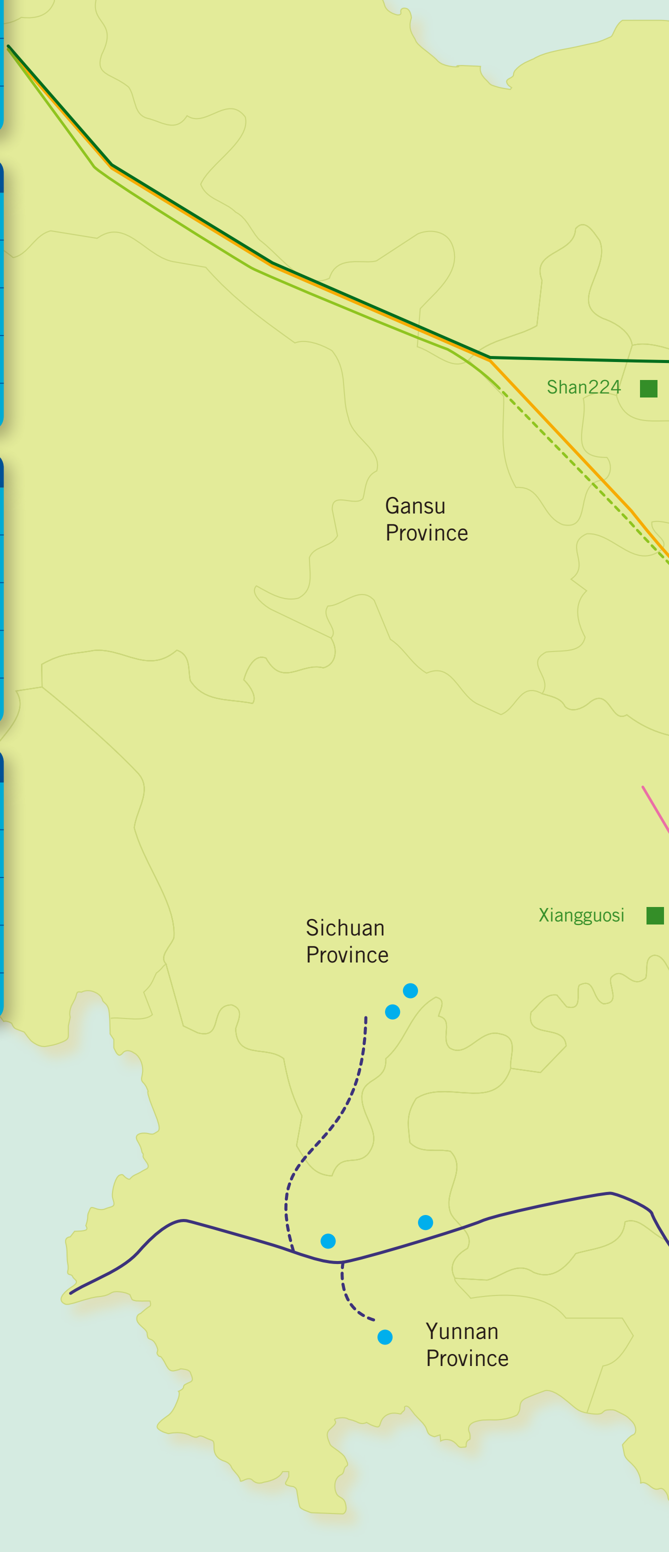
*Total return = (share price change + annual dividend payments)/base price (31 December 2019)

# OUR BUSINESS PROFILE

Xinjiang Autonomous Region

Hutubi

| Region | City Gas Projects | Installed Designed Daily Capacity for Connected C/I Customers ('000 m³) | Connected Residential Customers ('000 household) | IE Projects | Retail Gas Sales Volume ('000 m³) |
|---|---|---|---|---|---|
| Anhui | 26 | 10,295 | 2,172 | 15 | 1,567,524 |
| Hebei | 33 | 19,675 | 3,561 | 14 | 2,866,205 |
| Beijing Municipality | 1 | 535 | 82 | | 45,135 |
| Guangdong | 27 | 18,031 | 2,097 | 21 | 3,333,085 |
| Henan | 16 | 11,414 | 2,424 | 14 | 1,503,508 |
| Fujian | 17 | 12,129 | 807 | 5 | 2,351,706 |
| Guangxi | 7 | 1,364 | 438 | 4 | 349,990 |
| Jiangxi | 4 | 1,240 | 27 | | 92,811 |
| Hunan | 16 | 12,595 | 3,315 | 11 | 1,671,510 |
| Sichuan | 2 | 3 | | | 73,934 |
| Yunnan | 3 | 268 | 76 | | 84,081 |
| Inner Mongolia | 2 | 303 | 202 | 2 | 90,702 |
| Heilongjiang | 3 | 431 | 27 | 1 | 30,689 |
| Jiangsu | 20 | 17,941 | 2,691 | 5 | 2,055,405 |




City Gas Projects

Installed Designed Daily Capacity for Connected C/I Customers ('000 m³)

Connected Residential Customers ('000 household)

IE Projects

Retail Gas Sales Volume ('000 m³)

ENN Project

LNG Terminal

National Gas Storage


| Shandong |
|---|
| 26 |
| 19,191 |
| 3,213 |
| 11 |
| 3,005,716 |

| Zhejiang |
|---|
| 21 |
| 14,535 |
| 1,669 |
| 11 |
| 2,283,864 |

| Shanghai |
|---|
| 2 |
| 9 |
| 3 |
| 3 |
| 172,390 |

| Tianjin |
|---|
| 2 |
| 1 |
| 25,567 |

| Shaanxi |
|---|
| 1 |
| 4 |
| 1,903 |

| Liaoning |
|---|
| 6 |
| 1,794 |
| 396 |
| 320,594 |

| Shanxi |
|---|
| 30 |
| 13 |
| 24,467 |

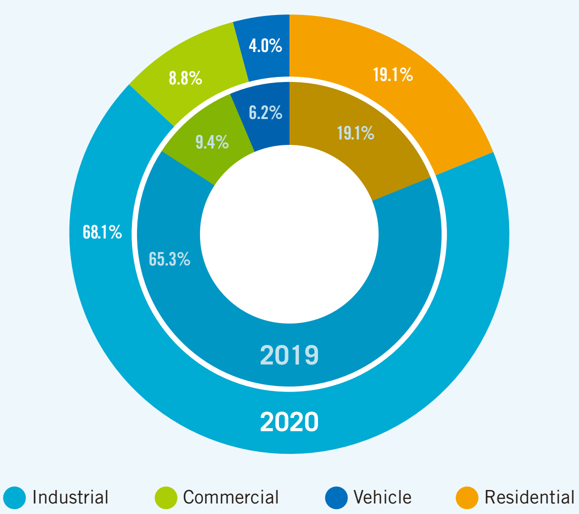
| Hainan |
|---|
| 1 |

| Hubei |
|---|
| 1,659 |

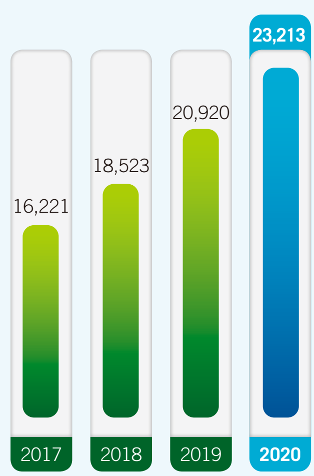
# OPERATIONAL & FINANCIAL HIGHLIGHTS

| | As at December 31 | | |
|---|---|---|---|
| | **2020** | **2019** | **Increase/(Decrease)** |
| **Key operational data*** | | | |
| Number of city-gas projects in China | **235** | 217 | 18 |
| Connectable urban population coverage (thousand) | **112,331** | 103,880 | 8.1% |
| New natural gas customers developed during the year: | | | |
| – residential households (thousand) | **2,293** | 2,397 | (4.3%) |
| – C/I customers (sites) | **28,367** | 27,656 | 2.6% |
| – installed designed daily capacity for C/I customers (thousand m³) | **17,078** | 18,156 | (5.9%) |
| Accumulated number of customers: | | | |
| – residential households (thousand) | **23,213** | 20,920 | 11.0% |
| – C/I customers (sites) | **177,128** | 148,761 | 19.1% |
| – installed designed daily capacity for C/I customers (thousand m³) | **141,787** | 124,709 | 13.7% |
| Piped gas penetration rate | **62.0%** | 60.4% | 1.6 ppt |
| Retail gas sales volume (million m³) | **21,953** | 19,924 | 10.2% |
| Wholesale of gas volume (million m³) | **7,616** | 7,039 | 8.2% |
| Combined daily capacity of natural gas processing stations (thousand m³) | **155,264** | 147,802 | 5.0% |
| Total length of existing intermediate and main pipelines (km) | **63,096** | 54,344 | 16.1% |
| Accumulated number of integrated energy projects in operation | **119** | 98 | 21 |
| Integrated energy projects under construction | **24** | 22 | 2 |
| Sales volume of integrated energy (million kWh) | **12,042** | 6,847 | 75.9% |

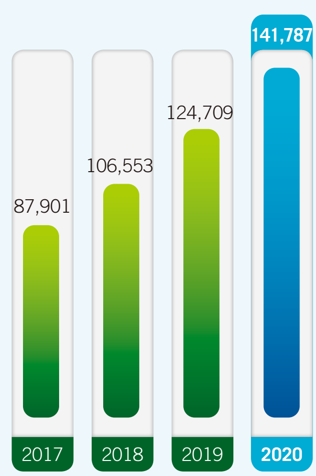
**Retail Gas Sales Volume Breakdown**




**Accumulated Number of Connected Residential Households**
(thousand)




**Accumulated Installed Designed Daily Capacity for Commercial/ Industrial Customers**
(thousand m³)




* The Group's operational data included the data of its subsidiaries, joint ventures and associates.

| | 2020 | 2019 | Increase/ (Decrease) |
|---|---|---|---|
| **For the year *(in RMB million)*** | | | |
| Revenue | | | |
| Retail gas sales business | **40,510** | 40,049 | 1.2% |
| Integrated energy business | **5,042** | 2,749 | 83.4% |
| Wholesale of gas | **17,936** | 18,465 | (2.9%) |
| Construction & installation | **6,444** | 6,932 | (7.0%) |
| Value added business | **1,685** | 1,988 | (15.2%) |
| Total | **71,617** | 70,183 | 2.0% |
| Gross profit | | | |
| Retail gas sales business | **6,491** | 5,671 | 14.5% |
| Integrated energy business | **903** | 473 | 90.9% |
| Wholesale of gas | **362** | 166 | 118.1% |
| Construction & installation | **3,264** | 3,719 | (12.2%) |
| Value added business | **1,312** | 1,236 | 6.1% |
| Total gross profit | **12,332** | 11,265 | 9.5% |
| Core profit [1] | **6,237** | 5,278 | 18.2% |
| Free cash flow [2] | **3,016** | 2,694 | 12.0% |
| **At 31 December *(in RMB million)*** | | | |
| Total assets | **90,043** | 81,245 | 10.8% |
| Total borrowings | **19,684** | 19,145 | 2.8% |
| **Per share *(in HK$)*** | | | |
| Earnings per share | **5.59** | 5.05 | 10.7% |
| Dividend per share [3] | **2.42** | 1.67 | 44.9% |
| **Ratios** | | | |
| Return on equity [4] | **20.5%** | 21.9% | (1.4 ppt) |
| Net gearing ratio [5] | **30.6%** | 37.9% | (7.3 ppt) |

Notes:

1 Core profit = Profit attributable to owners of the Company – Other gains and losses (excluding net settlement amount realised from commodity derivative contracts) and amortisation of share option expenses

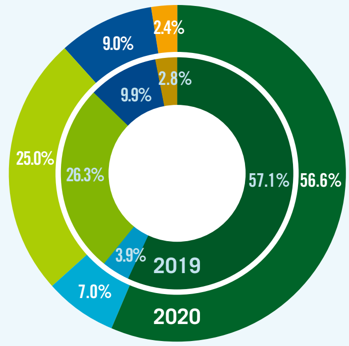
2 Free cash flow = Cash flow from operating activities – Capital expenditure – Financing cost + Dividend income

3 Dividend declared in 2020 included final dividend of HK$2.10 per share and special dividend of HK$0.32 per share

4 Return on equity = Profit for the year attributable to owners of the Company/Equity attributable to owners of the Company

5 Net gearing ratio = Net debts/Total equity x 100%

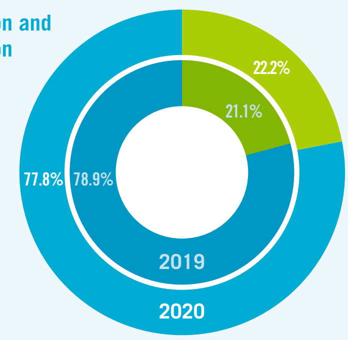
**Revenue Breakdown by Segment**




Retail gas sales business
Integrated energy business
Wholesale of gas
Construction & installation
Value added business

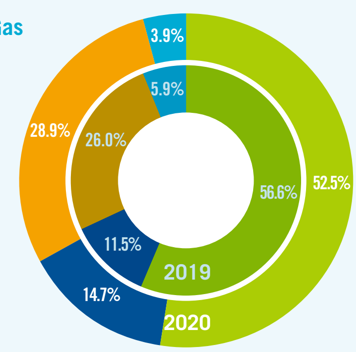
**Revenue Breakdown by Customer**
(including subsidiaries, joint ventures and associates)

**Connection and Installation**




Residential households
Commercial/Industrial customers

**Sales of Gas**




Commercial/Industrial customers
Residential households
Wholesale of gas
Vehicles gas refuelling stations

# COMPARISON OF TEN-YEAR RESULTS

| | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| **Highlights (Group)*** | | | | |
| Number of connected households (thousand) | **23,213** | 20,920 | 18,523 | 16,221 |
| Installed designed daily capacity for commercial/industrial customers (thousand $m^3$) | **141,787** | 124,709 | 106,553 | 87,901 |
| Units of piped gas sold | | | | |
| Residential households# (thousand $m^3$) | **4,197,249** | 3,806,381 | 2,889,578 | 2,153,314 |
| Commercial/industrial customers (thousand $m^3$) | **16,882,284** | 14,879,404 | 13,228,550 | 10,934,583 |
| Gas sold to vehicles gas refuelling stations (thousand $m^3$) | **909,712** | 1,276,484 | 1,293,930 | 1,447,063 |
| Wholesale of gas sales volume (thousand $m^3$) | **7,616,141** | 7,038,805 | 5,958,069 | 5,140,957 |
| Length of existing pipelines(1) (km) | **63,096** | 54,344 | 46,397 | 39,146 |
| Daily capacity of existing natural gas processing stations (thousand $m^3$) | **155,264** | 147,802 | 123,640 | 104,370 |
| **Revenue & Profit (RMB million)** | | | | |
| Revenue | **71,617** | 70,183 | 60,698 | 48,269 |
| Profit before tax | **9,558** | 8,841 | 5,601 | 5,190 |
| Income tax expense | **(2,227)** | (1,980) | (1,783) | (1,517) |
| Profit for the year | **7,331** | 6,861 | 3,818 | 3,673 |
| Profit for the year attributable to non-controlling interests | **(1,053)** | (1,191) | (1,000) | (871) |
| Profit for the year attributable to owners of the Company | **6,278** | 5,670 | 2,818 | 2,802 |
| Dividends | **2,302** | 1,719 | 1,176 | 952 |
| **Assets & Liabilities (RMB million)** | | | | |
| Non-current assets (excluding interests in associates and joint ventures) | **58,715** | 54,581 | 45,706 | 36,155 |
| Interests in associates | **3,619** | 3,308 | 3,049 | 1,505 |
| Interests in joint ventures | **4,141** | 3,841 | 3,620 | 3,929 |
| Current assets | **23,568** | 19,515 | 21,539 | 17,626 |
| Current liabilities | **(33,233)** | (31,288) | (33,017) | (25,605) |
| Non-current liabilities | **(20,638)** | (18,937) | (15,343) | (13,393) |
| Net assets | **36,172** | 31,020 | 25,554 | 20,217 |
| **Capital & Reserves (RMB million)** | | | | |
| Share capital | **117** | 116 | 116 | 112 |
| Reserves | **30,444** | 25,752 | 21,269 | 16,840 |
| Equity attributable to owners of the Company | **30,561** | 25,868 | 21,385 | 16,952 |
| Non-controlling interests | **5,611** | 5,152 | 4,169 | 3,265 |
| | **36,172** | 31,020 | 25,554 | 20,217 |
| Earnings per share – basic (RMB) | **5.59** | 5.05 | 2.56 | 2.59 |

(1) Length of existing pipelines consists of intermediate pipelines and main pipelines.

* The Group's operational data included the data of its subsidiaries, joint ventures and associates.

\# Residential gas sales volume includes household users and social welfare institutions since 2019.

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|
| | | | | | | |
| | 14,147 | 12,326 | 10,605 | 9,275 | 7,785 | 6,815 |
| | 71,182 | 58,608 | 50,243 | 41,864 | 33,423 | 25,767 |
| | | | | | | |
| | 1,821,136 | 1,490,416 | 1,225,825 | 1,030,054 | 930,290 | 824,276 |
| | 7,966,280 | 7,001,499 | 6,676,785 | 5,538,164 | 4,345,314 | 3,591,898 |
| | 1,561,737 | 1,588,928 | 1,441,323 | 1,186,697 | 935,926 | 696,442 |
| | 3,036,778 | 1,231,521 | 804,160 | 370,019 | 248,536 | 260,928 |
| | 32,921 | 29,936 | 27,065 | 23,907 | 21,312 | 18,854 |
| | 84,910 | 80,198 | 73,617 | 58,088 | 46,176 | 32,003 |
| | | | | | | |
| | 34,103 | 32,063 | 29,087 | 22,966 | 18,027 | 15,068 |
| | 4,195 | 4,027 | 4,747 | 2,760 | 2,852 | 2,327 |
| | (1,307) | (1,306) | (1,127) | (960) | (859) | (660) |
| | 2,888 | 2,721 | 3,620 | 1,800 | 1,993 | 1,667 |
| | (737) | (685) | (652) | (548) | (511) | (414) |
| | 2,151 | 2,036 | 2,968 | 1,252 | 1,482 | 1,253 |
| | 775 | 705 | 709 | 414 | 362 | 315 |
| | | | | | | |
| | 32,487 | 30,328 | 23,715 | 21,006 | 18,137 | 15,517 |
| | 1,350 | 1,024 | 882 | 804 | 798 | 694 |
| | 3,704 | 3,810 | 3,436 | 2,998 | 2,271 | 1,733 |
| | 13,840 | 11,857 | 15,002 | 11,097 | 9,687 | 8,944 |
| | (18,341) | (19,408) | (13,540) | (10,869) | (11,614) | (9,520) |
| | (15,186) | (11,516) | (14,954) | (13,144) | (8,609) | (8,528) |
| | 17,854 | 16,095 | 14,541 | 11,892 | 10,670 | 8,840 |
| | | | | | | |
| | 112 | 113 | 113 | 113 | 113 | 110 |
| | 14,854 | 13,355 | 11,985 | 9,430 | 8,540 | 6,936 |
| | 14,966 | 13,468 | 12,098 | 9,543 | 8,653 | 7,046 |
| | 2,888 | 2,627 | 2,443 | 2,349 | 2,017 | 1,794 |
| | 17,854 | 16,095 | 14,541 | 11,892 | 10,670 | 8,840 |
| | 1.99 | 1.88 | 2.74 | 1.16 | 1.39 | 1.19 |

# CHAIRMAN'S STATEMENT

"China will strive to achieve carbon peak in 2030 and carbon neutrality in 2060. We will proactively plan ahead with an aim to providing customers with more diversified low-carbon energy solutions, and assist our customers and the country along their decarbonisation journey, and strive to achieve net zero carbon emissions by the Group by 2050."

**Wang Yusuo**
*Chairman*

## Dear Shareholders,

The global outbreak of COVID-19 in 2020 disrupted economic activities and caused recessions in various countries. Nevertheless, China's economic activities, especially industrial production, have been resumed in an orderly manner since the second quarter of the year with its effective pandemic prevention and control measures. Together with a series of economic stimulus and tax preference policies introduced by the Chinese government, China recorded a 2.3% growth in annual GDP and became the only major economy in the world with positive growth. Meanwhile, Chinese government's commitment to minimise environmental pollution persisted. China's President stated at the General Assembly of the United Nations that China would strive to achieve carbon neutrality by 2060. Local governments promoted policies on energy structure optimisation, energy conservation and emission reduction, as well as increasing the use of clean energy. All of the above policies will drive the sustainable growth of the Group's natural gas sales and integrated energy business.

During the year, the Group made considerable efforts in pandemic prevention and control to ensure the safety of gas supply and services. At the same time, the Group continued to seize opportunities arising from China's determination to promote environmental protection and

**Integrated Energy Sold**

↑75.9%

12,042 million kWh

**Integrated Energy Solutions Reduced Emissions for Customers**

$CO_2$

4,444,264 ton

the acceleration of national energy reform progress, leveraged on its customer-oriented strategy to develop business. As such, the Group accomplished all operational and financial guidance, and achieved remarkable results in 2020. For the year ended 31 December 2020, the Group's revenue increased 2.0% to RMB71,617 million. During the year, profit attributable to the owners of the Company recorded RMB6,278 million, increased by 10.7% year-on-year. Stripping out the impact of non-operating activities arising from acquisitions and disposals, changes in fair value, provisions and exchanges, and amortisation of share option expenses of RMB41 million, core profit driven by operating activities increased by 18.2% to RMB6,237 million. Basic earnings per share was RMB5.59, increased by 10.7% year-on-year. During the year, the Group recorded operating cash flow of RMB9,696 million, and positive free cash flow of RMB3,016 million.

The outstanding performance reflected the Group's strategy which commits to providing customers with reliable, safe and clean energy-related solutions, and creates value for shareholders by driving growth through prudent investment was effective. 2021 marks the 20th anniversary of the Group's IPO. In appreciation of the long-term support of our shareholders, the Board recommended a special dividend of HK$0.32 per ordinary share (equivalent to approximately RMB0.27 per ordinary share) and a final dividend of HK$2.10 per ordinary share (equivalent to approximately RMB1.77 per ordinary share) to the shareholders on the register of members on 18 May 2021. The total dividend recommended was HK$2.42 per ordinary share, representing a large increase of 44.9% year-on-year.

## Business Highlights

The overall demand for natural gas in China maintained a steady growth. According to the data of the National Development and Reform Commission, China's natural gas consumption in 2020 reached 324 billion cubic meters, a year-on-year increase of 5.6%. The Group took advantage of its own long-term LNG import contracts and the right of accessing to controlling shareholder's Zhoushan terminal, and The National Oil & Gas Pipeline Network Group Co. (PipeChina) gradually liberated the use of upstream natural gas infrastructure, the Group increased the import of low-cost LNG from global sources and domestic unconventional natural gas resources during the year, which greatly reduced the Group's gas procurement costs and increased the competitiveness of natural gas. In addition, the Group has superior geographical coverage in economically well-developed coastal areas, and a quality customer structure dominated by industrial customers, thus, the impact brought about by the pandemic was lessened. The Group's retail gas sales volume increased by 10.2% to 21,953 million cubic meters throughout the year and continued to outperform the national level.

China vigorously promoted energy system transformation, energy conservation and emission reduction, and accelerated energy reform progress, creating tremendous opportunities for the integrated energy business of the Group. With a total of 21 integrated energy projects being put into operation during the year and the utilisation rate of existing projects gradually improved, sales of integrated energy including cooling, heating, electricity and steam increased significantly by 75.9% to 12,042 million kWh. As quality projects gradually ramp up, they will provide new momentum for the Group's future growth. Meanwhile, we also engaged in the operation and maintenance of energy facilities, demand-side energy conservation and other services to help customers reduce costs and improve efficiency. The integrated energy solutions we provided optimise the use of energy along the value chain, and were adaptive to local conditions. Currently, 30% of the integrated energy projects operated by the Group utilised renewable energy, which not only brought sustainable profits to the Group, but also successfully reduced customers' energy consumption by more than 1,476,085 tons of standard coal and 4,444,264 tons of carbon dioxide emissions, making great contributions to regional energy conservation and emission reduction.

A number of small and medium-sized gas companies with single business model have been under mounting pressure in recent years due to the regulation on gas distribution returns, direct gas supply as well as the rising procurement prices and financing costs. The Group seized the opportunity arising from industry consolidation, continued to acquire new operating rights through strategic M&A and participation in local government tenders to further expand the distribution network and customer base of city-gas business. During the year, the Group acquired exclusive operating rights of 20 city-gas projects, mainly located in prosperous regions with huge gas demand and diversified gas sources, such as Zhejiang Province, Jiangsu Province and Shandong Province, and are expected to drive additional gas sales volume of more than 2,800 million cubic meters in the next three years. By the end of 2020, we operated 235 city-gas projects in 20 provinces, cities and autonomous regions in China.

Our customer base has expanded rapidly with the increasing penetration rate. As present, we have served more than 177,128 C/I customers and 23.21 million residential customers, representing a huge business potential to provide value added services. Therefore, we also strived to improve the overall profitability and customer loyalty by enriching value added services based on customer demand, strengthening staff training to improve marketing performance, building an ecosystem around employees, business partners and customers, as well as rapidly developing a wide range of value added services through digital means. In 2020, our employees were committed to provide residential and C/I customers with various value added services, including 360° kitchen products, heating products, security products and other derivative products and services, with a view to providing customers with tailored services for different scenarios and becoming their one-stop living services steward. During the first half of the year, despite a reduction in face-to-face communications with customers due to COVID-19, the Group managed to expand online user base leveraging mobile APPs, online service platforms and various social media, successfully paving the way for the rapid development of value added business in future. Affected by the COVID-19 epidemic, the Group's value added business revenue recorded RMB1,685 million, down by 15.2%. The penetration rate of value added services among the Group's existing customer base was only 7%, and among its new customer base was only 20%, reflecting its huge growth potential.


*Digitalised product launch ceremony of Smart Energy Consumption Management System and Serlink 1.0*

## Improving Intelligent Operation

ENN Energy is committed to integrating digitalisation and Internet technology to provide safe, stable and clean energy solutions to customers. The Group invested a total of RMB181 million during the year to improve its digital and intelligent management, and created digitalised tools to enhance customer service and experience. In terms of operation safety, the Group has completed intelligent distribution planning with "Internet of Things ("IoT") technology, online simulation technology and automation technology" and gradually established an integrated distribution and control platform featuring "all-round detection, comprehensive prediction, integrated control and self-adaptive optimisation" to provide customers with gas transmission and storage services. During the year, the Group also set up a digital monitoring system to ensure healthy operation of metering equipment at field stations and formulate maintenance, repair and calibration plans in a targeted manner, which greatly improved metering accuracy and reduced maintenance costs for metering equipment. For construction, the Group launched engineering digital products incorporating IoT technology and artificial intelligence ("AI") algorithms to improve its quality and safety. During the year, the Group completed the development of 13 digital products, including IoT equipment, smart helmets, construction safety, completion data and personnel tags, and applied them online in 86 member companies. During the year, 94% of the 33,000 construction projects adopted visualisation management tools, construction quality improved significantly.

The Group focused on customer needs and extended digital products from supply side to consumption side. During the year, the Group completed product launches for customers in the areas of billing, bill optimisation, micro-gas turbine application and thermal facility operation, which improved the development capability of frontline staff. The Group also integrated AI, automated robots and graphic number recognition technologies into customer service and call centres to improve work efficiency and reduce operating costs. During the pandemic, the Group promoted the online self-service meter reading function, which enabled users to perform self-service meter reading, online payment, bill enquiry and electronic invoicing online. The Group also broadened its online payment channels to realise online payment by NFC card APP, with the overall percentage of online gas purchase exceeding 50% in 2020. Customers can also open accounts online via the Internet platform without having to go to service hall, thus enhancing user experience. The increase in the Group's online customers not only saved labour and phone costs, but also promoted the development of its extended business.

## Promoting Technological Innovation

Technology is the core competitiveness of an enterprise, and innovation is the power of sustainable development. In 2020, we improved our technological innovation mechanism, inspired our employees to be innovative through various measures. From incubating innovative ideas, launching new technological protects, to promoting and adopting their successful technological innovations, employees were able to provide customers with innovative products and services, and create value for the Group.

During the year, ENN Energy's member companies carried out technological innovations in various scenarios including safety, operation, engineering and customer service based on their own business pain points and needs, and reported 236 innovation projects, covering intelligent monitoring and predictive maintenance of equipment, cathodic protection of stations and pipeline networks, non-stop transmission of pipeline networks, real-time online monitoring and anti-intrusion system at construction sites, gas energy metering, as well as process optimisation and energy efficiency improvement of integrated energy business. By aggregating resources in the internal and external ecosystems, the Group integrated industrial technology and digital technology to foster an environment and culture of technological innovation, and completed 80 technological innovation projects and initiated 84 patent applications during the year.

We focused on energy use of industrial processes such as glass kilns, automotive painting, furniture drying, thermal heating and pharmaceutical manufacturing, and extended our technological innovation to our customers. During the year, we started the constructions of 8 demonstration projects for the optimisation of energy use in industrial processes. The projects aimed at improving efficiency of customers' energy supply systems and equipment, and reducing energy consumption while saving costs for customers through solutions such as cascade utilisation of energy, recycling of waste energy, improving quality and efficiency of steam. As the projects become operational and results being proved, respective technological innovations will be applied to more customers to achieve energy conservation and emission reduction as well as create values for customers.

## Operational Excellence to Improve Efficiency

After years of implementing operational excellence, ENN Energy has accumulated more than 3,800 active participants, of whom more than 80% are frontline employees, received more than 1,500 effective suggestions, formulated 193 effective and promotable cases, and, most importantly, created a corporate culture of group-wide participation, active contribution and encouragement of innovation and value creation. In 2020, the Group issued four measures, namely Safeguarding Measures for Excellent Operation Fund, Value Creation Sharing Measures, Expert Empowerment Measures and Resource Trading Measures on the basis of the original systems, and shifted our focus from an encouragement-and-guidance model to a reward-and-punishment model. During the year, a total of 434 projects were carried out in the areas of customer service efficiency, pipeline network operation, reduction in energy consumption and technological innovation, which contributed an annualised revenue of RMB150 million, refined and improved the Group's management and greatly reduced costs. In the face of the pandemic during the year, the Group encouraged its employees to work online and reduce non-essential travelling, creating a corporate culture of frugality at all levels. During the year, each employee of the Group has generated an average gross profit of RMB344,662, representing an increase of 9.3% year-on-year while administrative and selling expenses only accounted for 5.8% of revenue. We will continue to reduce costs, improve efficiency and promote technological innovation to improve our operations and create more value for the Group.

## Sustainable Development

### Enhancing ESG management

The Group attaches great importance to environmental, social and governance (ESG) management and has completed incorporating ESG metrics including safety operations, corporate governance, environmental protection and social responsibility as the KPIs of management's remuneration. In order to comply with TCFD's standards on climate change disclosure, the Group has set up dedicated working groups focusing on climate change strategy, emission reduction metrics identification and development, biodiversity policy formulation. The working groups also conducted climate change scenarios analysis and plan to quantify related risks so as to accelerate the setting of the Group's energy conservation and emission reduction targets. Meanwhile, the Group organised ESG online training for employees, and incorporated ESG training attendance and examination as part of the criteria in employees' value assessment to cultivate and strengthen the awareness of sustainable development among employees. Thanks to the concerted effort of our employees and effective management, total greenhouse gas emissions of the Group reduced by 20.2% year-on-year.

During the year, the Group and its 11 member companies obtained ISO14001 and ISO45001 international certifications, indicating that we have reached international standards in occupational health and safety and environmental management. We will encourage more member companies to obtain such international certifications, ensuring ENN's culture of excellent occupational health and safety, as well as environmental protection can be inherited. We also continued to engage a consulting company to provide professional advice on ESG management system, policy, data disclosure, performance, best practice and other aspects, in order to further improve our ESG performance. We believe these measures will facilitate the sustainable development of the Group and contribute to a better ecosystem.

As for governance, in order to promote a culture of connectivity, build a clean eco-organisation and enhance environmental compliance management, the Company organised anti-corruption and environmental protection training for Board members and management. In addition, we also strived to promote the concept of sustainable development to our stakeholders, including requiring suppliers to obtain ISO international certification, incorporating ESG indicators in the supplier bidding process, encouraging shareholders to adopt electronic communications, and engaging all employees and stakeholders to participate in environmental activities including the "Earth Hour" campaign. Thanks to the team's efforts, the Group was included in the Hang Seng ESG 50 Index and the Hang Seng Corporate Sustainability Benchmark Index for the first time in the annual review results of the Hang Seng Index ended 30 June 2020, with an ESG rating of A. MSCI also upgraded the company's ESG rating to BBB in its September 2020 ratings report. We will strive to operate our business aligning with China's ambition to achieve carbon emissions peak in 2030 and carbon neutrality in 2060.

**17 Member Companies in Total Obtained**

ISO

ISO14001
ISO45001

**Safety Education & Trainings**

412,183
participants

**Successfully Issued Our First Offshore Green Bond**

USD 750
million

### Employee Health and Safety

We attach much weight to occupational health and safety of our employees in the course of business operation. Both in the scope of direct and indirect control, we endeavoured to building an excellent safety management system, reducing and containing relevant risks, performing daily monitoring and reporting any potential dangers through digital and visual management platforms, and formulating comprehensive safety guidelines and measures to ensure that the safety performance of the Group meets the highest standard.

In order to raise the awareness of safety operation of all employees, we developed a list of safety responsibilities for key positions during the year, which clarified their safety responsibilities, standards of responsibility performance, evaluation of responsibilities and reward and punishment systems, to promote the implementation of accountability mechanism for safety operations. The Group also issued a Notice on Upholding the Safety Bottom Line to Achieve Safe Development, which stipulates that in the event of a safety incident resulting in the death of an employee, the person in charge of the enterprise will be removed from his or her position, and the person in charge of the provincial company concerned will also be demoted. The Group's Risk Committee will also review major safety operation incidents and make recommendations for improvement, and will establish a database of cases for all member companies to learn from in order to prevent any recurrence.

During the year, we took a number of measures to strengthen the safety leadership and execution capabilities of our staff at all levels, with more than 412,183 participants joining the Group's online or offline trainings on safety education and approximately 11,002 emergency drills organised. We have also built an IoT based digital safety system, and created a series of "Safety" digital products, including "Safety Snap", which allows employees to upload safety issues to the back office through snapshots and assign tasks to rectify potential hazards; and "Safety Map", which informs employees at all levels of the daily safety priorities and risk points, as well as the locations of dangerous operations to be displayed on the map, so that the management can manage operational risks in a more targeted manner.

Encountering the outbreak of COVID-19 last year, the Group has implemented various policies to keep its employees healthy and safe, including regular disinfection at office areas, daily monitoring of the physical health of its employees, utilising iCome platform for daily epidemic report mechanism to ensure the orderly implementation of epidemic prevention, etc. As COVID-19 raged at the critical time of gas supply in winter last year, we took efforts to prevent and control the imported cases by sea, and completed the unloading of LNG which was "zero-contact" as well as "cloud-based" for the first time in China, ensuring the proper operation of LNG terminal. The operation allowed our downstream gas demand being met and ensured the highest level of epidemic prevention and control from berthing to departure of the international LNG vessel. As a leading enterprise in the public utilities sector, ENN Energy was determined to ensure the safety of people's livelihood and gas usage during the outbreak, strengthened the promotion of epidemic prevention knowledge both internally and externally, and ensured all departments were working closely together to protect frontline employees, through providing masks, protective suits, goggles and other supplies, ensuring employees provide services to customers safely.

### Green Finance

In September 2020, the Group successfully issued its first offshore green bond of USD750 million due 2030, with a coupon rate of 2.625%, which was certified by Vigeo Eiris and Hong Kong Quality Assurance Agency as a green financial instrument. The green bond issuance was well received by investors and the bond has now been added to the HKEX Sustainable & Green Exchange (STAGE), providing investors with a convenient way to understand the Group's green development. According to the Group's green finance framework, the Group intends to use the net proceeds to fund and/or refinance green projects including renewable energy, energy efficiency, pollution prevention and control, which will facilitate the Group's transition to a low-carbon business portfolio and contribute to the carbon reduction of our customers and our country. The green bond was also recognized as the "Best Green Bond" in the Renewable/Transitional Energy category of the Asset Magazine's 2020 Triple A Sustainable Capital Markets Regional Awards.

## Capital Market Awards

With years of steady growth in operating results and business models that keep up with market changes, the Group was named "Award of Excellence: Downstream" at S&P Global Platts Global Energy Awards, hosted by S&P Global Platts, and "Best Investor Event" from IR Magazine. The Group was also included in numerous influential rankings in capital market. ENN Energy has been awarded "Most Honored Company" in Institutional Investors' "All-Asia Executive Team" for four consecutive years and ranked No.3 in "Best IR Program" (Sell-Side) in 2020. The Group also ranked No. 996 in Forbes' annual Global 2000 list, up 438 places from 2019; No.24 in The World's 50 Most Valuable Public Utility Brands (No.3 among Chinese shortlisted companies), reported by Brand Finance, a UK brand valuation consultancy; No. 148 in "China's Top 500 List" by Fortune Magazine, an international financial magazine highly recognised by investment professionals. The above awards firmly demonstrated ENN Energy's outstanding achievements in providing clean natural gas and integrated energy services with a focus on customer needs have been highly recognised by the capital market.

**Awarded by S&P Global Platts**

S&P GLOBAL PLATTS
GLOBAL ENERGY AWARDS
2020 WINNER

Award of Excellence: Downstream

## Outlook

The Chinese government is committed to establishing the "dual circulation" development model which primarily aims at strengthening its domestic market through "internal circulation". The improvement of domestic consumption shall drive the steady recovery of the economy, and fully demonstrate the resilience and vitality of China's economic development. China's economic growth rebounded rapidly to 6.5% in the fourth quarter of last year, returning to the pre-pandemic level. Looking forward to 2021, with rapid growth in domestic industrial and commercial activities and effective pandemic prevention and control, China will remain as the major global industrial producer, stimulating the growth of energy consumption in the region. Moreover, President Xi Jinping announced at the General Assembly of the United Nations last year that China aims to hit peak carbon emissions in 2030 and to achieve carbon neutrality in 2060, which is a welcome boost to the boom of natural gas and renewable energy. The year 2021 marks the beginning of our 14th Five-Year Plan, the Chinese government will continue to push forward environmental governance and to promote the optimisation and adjustment of the nation's energy structure. The governance of highly polluted and high-energy-consuming industrial enterprises and the replacement of coal by clean energy shall remain in top priority, therefore, natural gas and integrated energy business which can incorporate renewable energy sources as primary energy will play an important role in the plan.

In the past year, China's continuous progress and further implementation of natural gas market reform brought both opportunities and challenges to the gas industry. PipeChina was officially put into operation, the first batch of shippers completed registration, and major pipelines including West-East Natural Gas Pipeline, China-Myanmar Pipeline, China-Russia Eastern Pipeline, Yulin-Jinan Pipeline and Taian-Qingdao-Weihai Pipeline and six LNG terminals in Beihai, Tianjin, Shenzhen, Fangchenggang, Guangdong and Hainan released remaining capacities to the public, all of which signified the separation of pipeline transmission and sales, and the open-up of third-party access has preliminarily achieved. This promoted the diversification of natural gas supply, bringing opportunities for city-gas distributors to procure domestic and overseas natural gas sources independently and reduce the cost for end-users. In addition, Guangdong and Zhejiang provinces have issued direct supply policies for high-volume industrial users, pursuant to which customers can select gas suppliers independently. The direct supply policy brings challenges to city-gas operators, but also brings more opportunities for us to expand direct supply to large-usage customers outside our city-gas concessions. In the future, city-gas operators with strong gas sourcing capabilities can explore new growth potential capitalising on this policy.

The national power market reform made progress with increasing participating entities and transaction scale, as well as improving rules for medium- and long-term transactions and spot trading pilot. We are developing an open power trading system with wider coverage and a wider variety of trading products, which will provide favourable conditions for the Group to develop power trading services on a large scale and expand to the supply and consumption market. Meanwhile, the first pilot project of market-oriented transactions of distributed power generation in China has been completed and put into operation in

Changzhou, Jiangsu Province at the end of 2020, achieving a substantial breakthrough in "cross-boundary electricity trading" of distributed energy across electrical grids. The demonstration of Jiangsu Province will drive the market-oriented transactions of distributed power generation, laying a solid foundation for the expansion and quality improvement of distributed energy and the development of integrated energy business.

In 2021, the Group will continue to strengthen operational digitalisation and technological innovation to develop business with higher quality. We will seize the opportunity of environmental governance to develop new C/I customers and residential customers, and improve the penetration rate of natural gas in existing projects. At the same time, the Group will also expand its market footholds outside its concession areas to seize opportunities from industry consolidation during economic downturn, actively explore quality projects which are close to our existing projects, especially those with huge industrial gas and integrated energy demand through M&A to boost sales volume. In terms of expanding integrated energy business that supports future development, the Group will accelerate the market development of various types of industrial parks, utilise locally abundant renewable energy sources, to promote the integrated energy model of multi-supply of heating, electricity and gas, multi-energy sources utilisation, and multi-technology adoption, so as to provide customers with low-carbon energy solutions. In terms of value added business, the Group strives to understand the needs of customers, and provide safe and diversified value added products and services, including security systems, heating systems and smart kitchens solutions to our customers, so as to enhance customer's stickiness and drive the Group's profit growth.

ENN Energy achieved remarkable achievements in 2020, reflecting the market recognition for its long-term and sustainable development. What we have achieved is attributed to the hard work of all the staff and the strong support of all our customers, business partners and shareholders. On behalf of the board of directors, I would like to express our sincere gratitude to them and we will continue our efforts to create more long-term benefits for our stakeholders!

*Chairman*
**WANG Yusuo**
22 March 2021

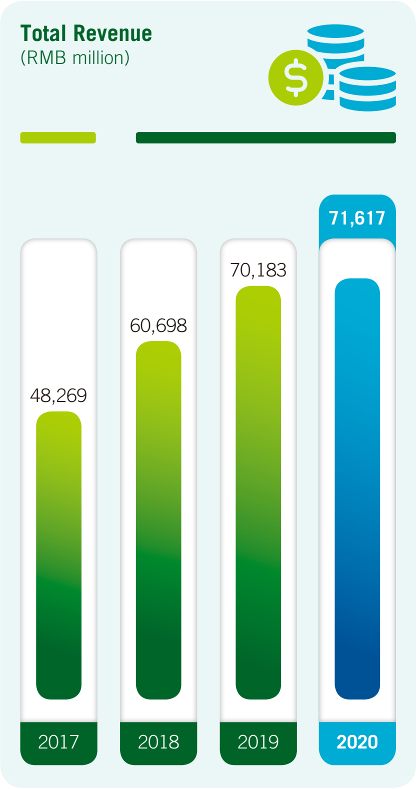
# MANAGEMENT DISCUSSION AND ANALYSIS

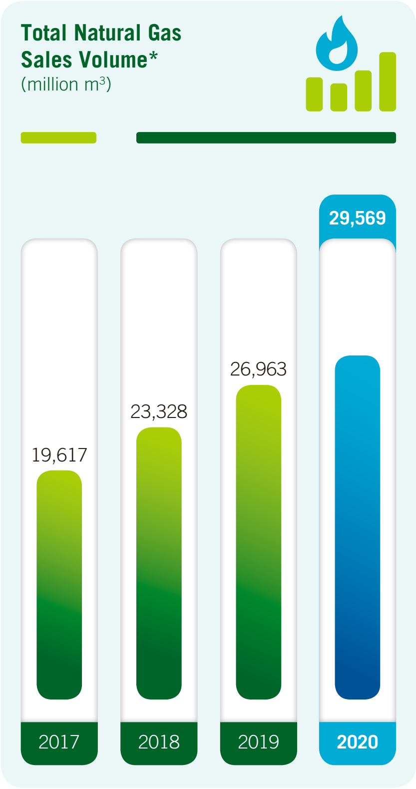
## Retail Natural Gas Sales Business

In the face of the challenges brought by COVID-19 during the year, the Group adhered to government's guidelines in pandemic prevention and control, at the same time ensured the safety of gas supply. Customer-orientation is the bedrock of the Group's business activities, we further explored gas demand of existing customers and developed new customers, utilising our digitalised tools which collected and analysed customers' energy consumption data, to give us more insights into their energy consumption characteristics and predict future demands. As such, the Group was able to customise sales package for users and drove the growth of their energy consumption.

During the year, natural gas supply was adequate, upstream natural gas city gate price was reduced. At the same time, the Group increased low-cost LNG import through our own long-term contracts and from spot market utilising controlling shareholder's Zhoushan terminal, which effectively optimised the gas supply structure and reduced overall gas procurement cost during the year. We shared part of the cost saving with customers who were price-sensitive, effectively stimulated their gas consumption volume.

As of the end of 31 December 2020, retail gas sales volume increased by 10.2% to RMB21,953 million cubic meters, however, due to the downward adjustment of gas price, revenue of retail gas sales business had a modest growth of 1.2% to RMB40,510 million. Total volume of natural gas sold to C/I customers reached 16,878 million cubic meters, representing an increase of 13.5% year-on-year, and accounted for 76.9% of the retail gas sales volume. Benefiting from the stay-home policy and generally lower temperatures in winter than the previous year, residential gas sales volume increased by 10.1% to 4,185 million cubic meters, representing 19.1% of the retail gas sales volume.

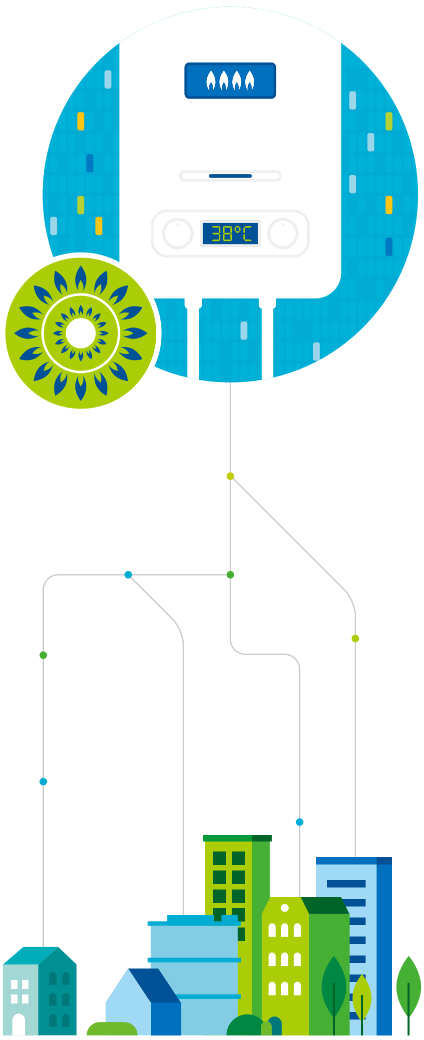


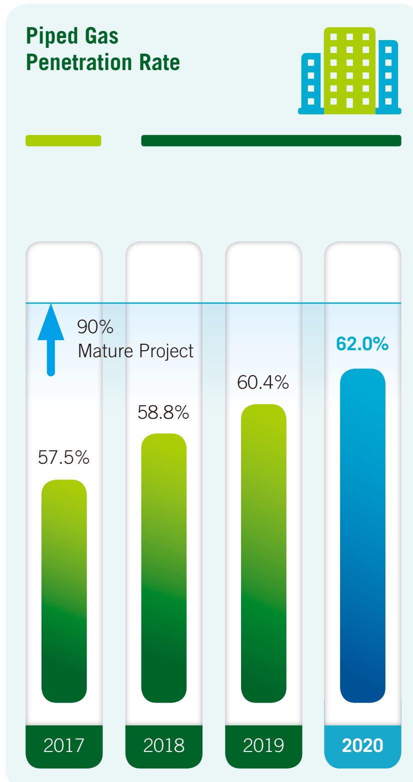

* The Group's operational data included the data of its subsidiaries, joint ventures and associates.

**New Customers Development**

Most of the Group's projects are located in key areas of air pollution prevention and control, including Beijing, Tianjin, Hebei, Henan, Shandong, Jiangsu, Zhejiang, Guangdong and other provinces, where local governments strictly implement environmental protection policies. Leveraging on the opportunity of air pollution control battle, the Group has further explored business opportunity in the C/I market and actively promoted coal-fired boilers replacement and LPG-to-gas etc. for C/I users. At the same time, with the increasing number of manufacturing companies relocating to industrial parks, and our advantage of possessing many industrial parks concessions, the Group has developed a large number of new C/I customers. During the year, a total of 28,367 new customers (gas appliances installed with daily designed capacity of 17,077,763 cubic meters) were developed. Among them, the installed daily designed capacity from "coal-to-gas conversion" was approximately 4,780,000 cubic meters, accounting for 28% of the newly developed C/I customers. The Group implements market-based pricing for C/I customers' installation fees, which was steady compared with the previous year. By the end of 2020, the Group has served a total of 177,128 C/I customers (gas appliances installed with daily designed capacity of 141,786,545 cubic meters).



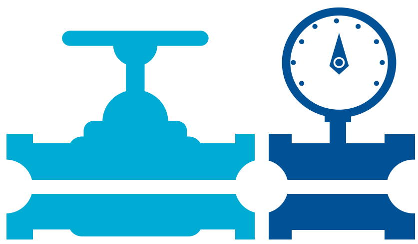

China is sprinting toward a "moderately well-off society", urbanisation rate has exceeded 60% in 2020. Government's urbanisation rate target is to reach 65% within the "14th Five-Year Plan" period, in this context, the utilisation of clean energy is essential to improve the environment as well as to meet the demand arising from people's pursuit of quality life, which will also provide the Group with enormous opportunities of developing urban residential customers. The Group will continue to focus on new customers development in urban areas, and enhance gas pipeline infrastructure establishment, so as to further raise the penetration rate of our projects. As a good corporate citizen, the Group will also assist local governments in achieving the replacement of scattered coals for the prevention and control of air pollution, focusing on areas in proximity to our existing concessions, to carry out "rural coal-to-gas project" prudently. During the year, the Group developed a total of 2,293,000 residential households, in which new buildings, existing buildings and "rural coal-to-gas" conversion accounted for 74%, 5% and 21% respectively. The average construction and installation fee was RMB2,492 per household, maintaining at a stable level over the past few years. As of the 31 December 2020, the Group has developed 23.21 million residential customers cumulatively, raising the average piped gas penetration rate from 60.4% in 2019 to 62.0%.

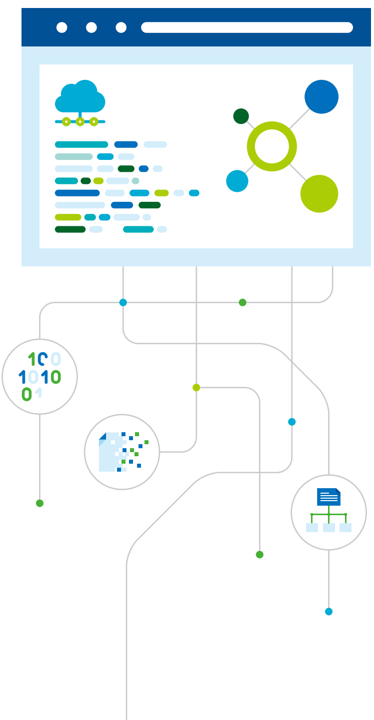


## Optimising Gas Sources Structure

In 2020, the supply of natural gas resources was adequate. The Group, on one hand, broadly expanded its supplier networks, and actively strived for new city gate connection to the main upstream pipeline network, so as to improve its gas receiving capacity, on the other hand, focused on unconventional gas resources in Shanxi, Shaanxi, Sichuan and Chongqing as well as the LNG resources at coastal LNG terminals, to strengthen the capability of acquiring competitive gas sources, and further reduce its overall procurement costs. The Group strived to enhance gas supply with a view to providing strong support for its market expansion.

During the year, The Group actively participated in the natural gas reform for provincial pipelines, to purchase gas sources from upstream suppliers directly, in order to realise upstream-downstream direct transaction. The Group continued to explore the procurement and distribution of unconventional natural gas resources to increase resources control capability. The Group also signed a natural gas purchase and sale agreement with BP to provide piped gas resources with an annual volume of 300,000 tons for 2 years, to provide abundant supply of clean energy and support the coal-to-gas project in the Guangdong region. The Group's overall gas purchase costs declined in 2020, with its customer-oriented principle, the Group shared part of the cost-saving with customers to stimulate their gas demand while maintaining a healthy margin.





## Integrated Energy Business

In 2020, seizing opportunities arising from carbon neutrality, industrial transformation, clean heating and energy system reform, the Group kept "getting quality projects" and "executing well" in mind, to optimise and upgrade both existing projects and projects under construction, at the same time, to develop new projects tailored to local conditions The Group also actively developed demand-side energy services, thus, managed to promote both qualitative and quantitative development of its integrated energy business. During the year, a total of 21 integrated energy projects were put into operation, the number of operational projects increased to 119, generating a total of 12,042 million kWh of integrated energy sales to the Group, up 75.9% year-on-year. In addition, 24 integrated projects are under construction. Total demand of integrated energy will reach 31,861 million kWh when all projects fully ramp up. In addition, we also proactively developed integrated energy projects utilising low-carbon energy sources, such as biomass, photovoltaic and geothermal heat energy etc.. The Group also tapped into distributed clean heating projects in the northern part of China and mid to lower reaches of the Yangtze River, where our total heating areas exceeded 5 million square meters. Above projects laid a good foundation for promoting the Group's transformation and upgrading to become an integrated energy service provider.

**Accumulated Integrated Energy Projects in Operation**

↑21

119

The Group designs the optimal energy supply technology route according to the resource conditions of the project location, the customer's energy demand, and the load forecast. The integrated energy projects that were put into operation during the year, incorporated the use of various clean energy sources, including biomass, photovoltaic and natural gas.

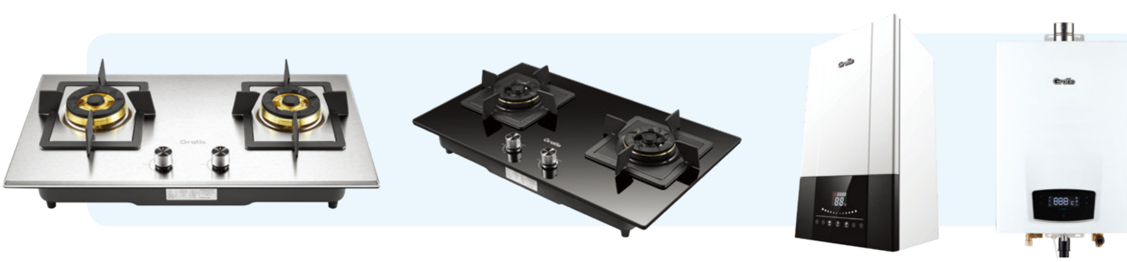
One of the projects was Yangpu Economic Development Zone located in Hainan Province. It is a national level development zone approved by the State Council and is positioned as a national offshore trade centre, an advanced manufacturing base and a commodity distribution and trading base. Currently, there are industrial users operating in the development zone, with huge demand for energy such as electricity and steam. Leveraging digital technology and adhering to the principle of integrated energy development, the Group reinvented the energy structure of the zone to improve its energy efficiency, so as to achieve energy conservation and emission reduction for customers in the zone. Upon full operation, the energy consumption scale of the first phase of this project will reach 500 million kWh per year, and the Group's integrated energy solutions can save 107,000 tons of standard coal and reduce 280,000 tons of carbon dioxide emission annually for Yangpu Economic Development Zone. Another project was Yuanbaoshan Industrial Park located in Chifeng City of Inner Mongolia. It is one of the 20 key industrial parks in Inner Mongolia Autonomous Region, and is also the most important chemical industrial park in the east of the province. With comprehensive supporting facilities and adequate infrastructure, the park has already attracted many industrial enterprises of considerable scale to settle there, including five leading industries such as phosphorous coal chemical, bio-chemical, fine chemical (including medicine), equipment manufacturing and new materials. The annual energy consumption scale of this project will reach 428 million kWh, saving 170,000 tons of standard coal and reducing 426,000 tons of carbon dioxide emission for the park every year.

In addition, the Group commenced construction of a hydrogen supply project in Huludao, Liaoning Province during the year. The project will meet customers' 24-hour demand for hydrogen by extracting hydrogen through pressure swing adsorption after desulfurization and conversion of natural gas, thereby increasing revenue streams and expanding natural gas sales. This is our first hydrogen production project and will serve as a demonstrative project for the future promotion of hydrogen energy supply. The Group has also commenced technological research in hydrogen blending in natural gas pipelines, as well as hydrogen refuelling for vehicles, and has invested in the construction of a hydrogen refuelling station in Shanghai. We believe we can leverage our existing natural gas pipelines, vehicle refuelling stations and gas storage facilities to provide low-carbon energy supply to our customers and help our country achieve the goal of carbon neutrality in the future.

## Value Added Business

Our customer base has been expanding in tandem with increasing penetration rate. At present, we have served more than 177,128 C/I customers and 23.21 million residential customers. The potential added value of the customer network is huge. Therefore, we actively developed value-added services driven by customers' demand, enhanced the marketing skills of frontline staff through training, built an ecosystem of employees, business partners and customers, utilising digital tools to rapidly develop diversified value-added services, so as to enhance the overall profitability of our service network and customers' loyalty. In 2020, the Group actively provided customers with a variety of value added services, including 360° kitchen solutions, heating systems, security systems and other derivative products and services. We strive to deliver caring services to customers in various scenarios and become their one-stop living services steward.

Affected by the COVID-19 epidemic, the Group's value added business revenue recorded RMB1,685 million, down by 15.2%. During the severe epidemic in the



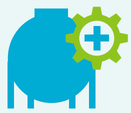
first half of the year, although we reduced the direct face-to-face communications with customers, we expanded the online user base through the development of mobile applications, the online service platform and various social media channels, laying a solid foundation for the rapid growth of sales in the future. Benefiting from the Group's diversified value added services provided to customers and continuous efforts to promote high-end and smart products, gross profit margin increased by 15.7 percentage points year-on-year to 77.9%. Currently, penetration rate of value added business among the Group's existing customers is only 7%, while among the newly developed customers during the year, penetration rate was 20%, reflecting the rapid development of this business and its huge growth potential.

## Expansion of Operating Regions

The Group seized the opportunity arising from industry consolidation. Leveraging on its market insight, excellent safety and operation management, flexible project development strategies, and leading integrated energy service philosophy, the Group acquired exclusive operating rights of 20 city-gas projects, which are expected to drive additional gas sales volume of 2.8 billion cubic meters in the next few years, and push forward the rapid growth of integrated energy business and value added business.

During the year, the Group acquired 100% equity interest in the gas project in Shuangcheng District, Harbin City, which is a food industrial base of Heilongjiang Province and is home to 170 enterprises with a market capacity of 125 million cubic meters of industrial gas consumption. The project is located in the centre of the Harbin-Changchun Economic Belt and the industrial corridor to revitalise north-eastern china's economy, with major railroads, highways and river routes passing through and the region known as the "southern gate" of Heilongjiang Province. In addition to natural gas sales, the project in Shuangcheng will play a key role in driving our expansion to surrounding markets. Capitalising on our integrated energy services, we are able to reach more potential energy users nearby.

**Number of city-gas projects**



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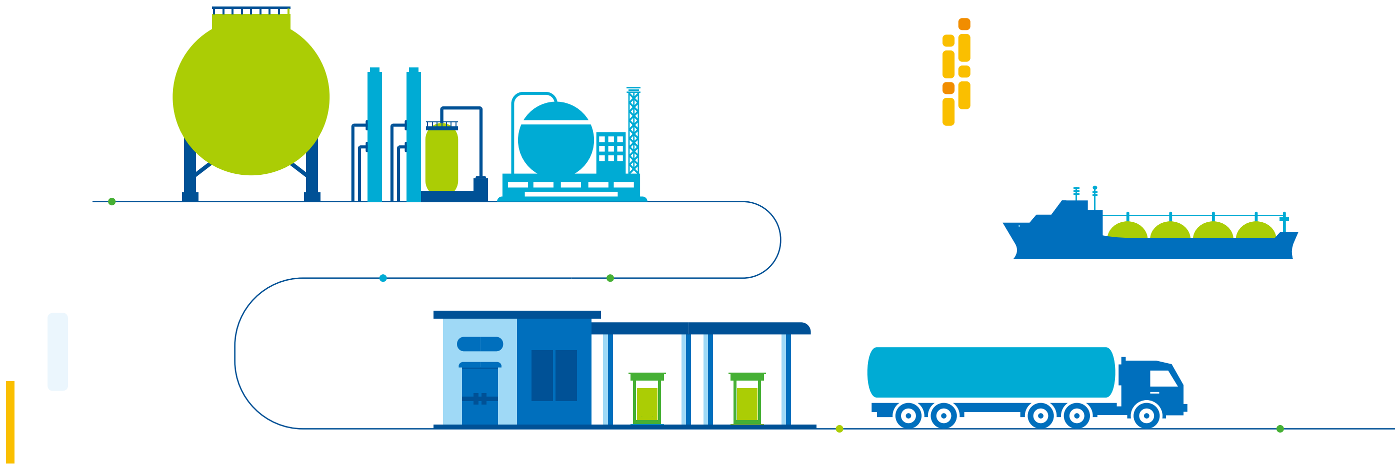
The Group also obtained the 30-year concession for Sino-German Tianjin Daqiuzhuang Eco-City Park by tender. The region has a total production value of approximately RMB20 billion, accommodating some of the Top 500 private enterprises in China, Baoneng

Assembly Industrial Park, PWT New Zealand, etc. Daqiuzhuang, one of the major industrial towns in Jinghai District, has a profound industrial base and the energy-intensive steel processing being its pillar industry. It tops the district with 165 large-scale industrial enterprises and a total production output of RMB37.2 billion. The Group will drive its integrated energy services and provide emission reduction solutions to end-users through natural gas sales and digitalisation, with a view to expanding our foothold in Tianjin's clean energy market.

As of the end of 2020, the Group had a total of 235 exclusively operated city-gas projects in China, spanning over 20 provinces and autonomous regions including Anhui, Beijing, Fujian, Guangdong, Guangxi, Hebei, Henan, Hunan, Inner Mongolia, Heilongjiang, Jiangsu, Jiangxi, Liaoning, Sichuan, Shandong, Yunnan, Zhejiang Shanghai, Tianjin and Shaanxi.



**Wholesale of Gas Volume**

**7,616** million m³

## Energy Trading Business

Leveraging on its well-established upstream resources network, smart dispatching system, and large-capacity LNG transportation fleets, the Group distributed LNG to downstream customers such as small-scale gas distributors, C/I customers outside its city-gas concessions, LNG refuelling stations and power plants. During the year, the sales volume recorded 7,616 million cubic meters, representing a growth of 8.2% year-on-year. Revenue of energy trading decreased by 2.9% to RMB17,936 million, mainly due to the decrease in LNG prices. Gross profit of energy trading business increased by 118.1% year-on-year to RMB362 million.

Looking ahead, the Group will continue to foster alliance and collaboration with upstream suppliers to lock in competitive gas resources, strengthen the advantages of LNG resources integration, distribution, storage and logistics. The Group will seize opportunities arising from the operation of PipeChina, Shanghai and Chongqing Petroleum and Natural Gas Exchange and the strategic positioning of Zhoushan terminal to expand its wholesale of gas business.

# FINANCIAL REVIEW

## Financial Performance

The total gas sales volume of the Company, its affiliated companies, joint ventures and associated companies has grown by 9.7% year-on-year to 29,569 million cubic meters. During the year, upstream natural gas prices fell, and the Group adjusted prices for end users accordingly, thus, revenue of the Group grew slightly by 2.0% to RMB71,617 million. The Group's strategy of diversified gas sources purchase resulted in significant cost reductions. The gross profit margin of retail gas sales and wholesale of gas businesses increased by 1.8 percentage points to 16.0%, and 1.1 percentage points to 2.0% respectively, resulting in an increase of the Group's overall gross profit margin by 1.1 percentage points year on year to 17.2%.

The Group's operating expenses are generally divided into distribution and selling expenses, as well as administrative expenses, which mainly include salaries and employee benefits, marketing and advertising expenses, office expenses, depreciation and amortisation, and etc. The Group's operating expenses amounted to RMB4,181 million (2019: RMB4,075 million), operating expenses to revenue ratio was similar for both years. The decrease in distribution and selling expenses was mainly due to the Group's work from home policy and reduction of non-essential business trips of employees during COVID-19 outbreak in the year. The increase in administrative expenses was mainly due to the Group's various prevention measures to minimise the risk of COVID-19 infection, and the procurement of sanitary supplies and protective equipment to protect the safety of our customers and employees.

Finance cost decreased by RMB118 million to RMB609 million (2019: RMB727 million), down by 16.2% year on year, thanks to the low interest rate environment globally, and the concessional loans obtained by some of the Group's project companies to fight against the epidemic during the year. As a result, effective interest rate also decreased from 3.9% in 2019 to 3.6% in 2020.

Other gains and losses amounted to RMB282 million (2019: RMB644 million), down by 56.2% year on year, mainly due to the impact of exchange differences, changes in the fair value of derivative financial instruments and asset impairments. During the year, the exchange rate of RMB against US dollar moved higher by year end. As a result, the Group recorded a net foreign exchange gain of RMB608 million (2019: loss of RMB198 million). In terms of derivative financial instruments, due to changes in accounting policies, oil prices, exchange rate and other valuation factors, the gain from derivative contracts decreased by approximately RMB813 million to RMB102 million (in 2019: RMB915 million). The business of vehicle gas refuelling stations continued to be affected by external factors, including online car hailing service and supportive policy of electric automobiles by local governments, coupled with the impact from COVID-19 which reduced people's frequency of commuting, the Group has decided to further optimise its vehicle gas refuelling network by eliminating inefficient sites. During the year, the Group recorded an impairment and sale losses in property, plant and equipment of RMB198 million (2019: RMB77 million).

During the year, profit attributable to the owners of the Company recorded RMB6,278 million, increased by 10.7% year-on-year. Stripping out the impact of other gains and losses (excluding net settlement amount realised from commodity derivative contracts) and amortisation of share option expenses of RMB41 million, core profit driven by operating activities increased by 18.2% to RMB6,237 million. Basic earnings per share was RMB5.59, increased by 10.7% year-on-year. During the year, the Group's operating cash flow was RMB9,696 million, and recorded positive free cash flow of RMB3,016 million.

## Financial Resources Review

### Financial Resources and Liquidity

The Group's capital mainly derived from cash inflow of its business operations, financing, investment income and equity. The main factors influencing the Group's future cash balance are cash flow from operation, capital expenditures and repayment of debts.

An analysis of the Group's cash, current and non-current debts is as follows:

| | 2020 RMB million | 2019 RMB million | Increased/ (Decreased) by RMB million |
|---|---|---|---|
| **Bank balances and cash (excluding restricted bank deposits)** | **8,630** | 7,373 | 1,257 |
| Long-term debts (including bonds) | **12,714** | 11,650 | 1,064 |
| Short-term debts (including bonds) | **6,970** | 7,495 | (525) |
| **Total debts** | **19,684** | 19,145 | 539 |
| **Net debts**[1] | **11,054** | 11,772 | (718) |
| **Total equity** | **36,172** | 31,020 | 5,152 |
| **Net gearing ratio**[2] | **30.6%** | 37.9% | (7.3ppt) |
| **Net current liabilities** | **9,665** | 11,773 | (2,108) |
| **Unutilised credit facilities** | **12,001** | 13,448 | (1,447) |

### Working Capital Management

The Group's bank balances and cash (excluding restricted bank deposits) amounted to RMB8,630 million, an increase of RMB1,257 million from the beginning of the year, mainly reflecting the increase in debt and operating income.

If further liquidity is required, the Group can withdraw the standby committed credit provided by the correspondent bank. As at 31 December 2020, these credit facilities reached RMB12,001 million (2019: RMB13,448 million), allowing the Group to obtain additional liquidity when necessary.

In addition, the Company also prudently manages receivables, payables and inventory turnover days. As at 31 December 2020, the Group's receivable turnover days are 11 days (2019: 12 days), payable turnover days are 38 days (2019: 35 days), and inventory turnover days are 8 days (2019: 7 days), the turnover days for two years are similar.

As at 31 December 2020, the Group's operating cash inflow was RMB9,696 million, which was sufficient to meet the Group's capital expenditures, external dividends and financial costs. Free cash flow[3] rose 12.0% to approximately RMB3,016 million.

Therefore, we do not over-reliance on borrowing, but only to maintain an appropriate scale of bank loans, other loans and corporate bonds to finance our operations.

### Borrowings Structure

The Group has been adopting a prudent management policy on financial resources to ensure the stability and flexibility of the Group's capital and debts structure. As at 31 December 2020, the Group's total debts amounted to RMB19,684 million, representing an increase of RMB539 million compared to the total debts as of 31 December 2019, mainly due to the issuance of USD750 million green bonds during the year. As a result, the Group's net gearing ratio reduced to 30.6% as at 31 December 2020 (2019: 37.9%).

[1] Net debts = Total debts – Bank balances and cash (excluding restricted bank deposits)

[2] Net gearing ratio = Net debts/Total equity x 100%

[3] Free cash flow = Cash flow from operating activities – capital expenditure – financing cost + dividend income

# FINANCIAL REVIEW

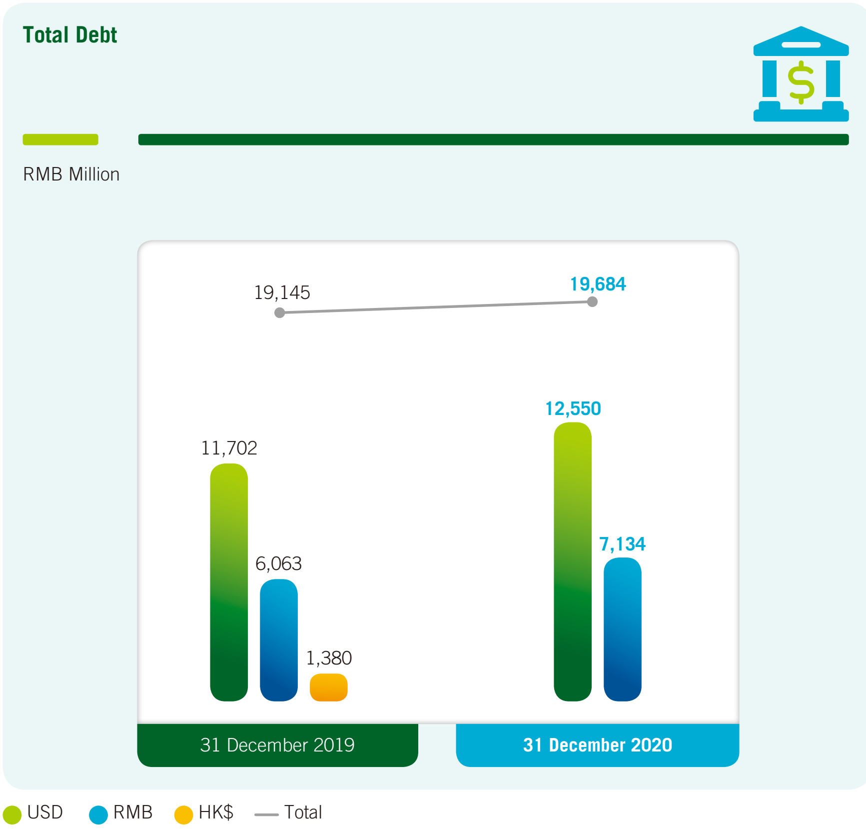
*Foreign exchange risk management*

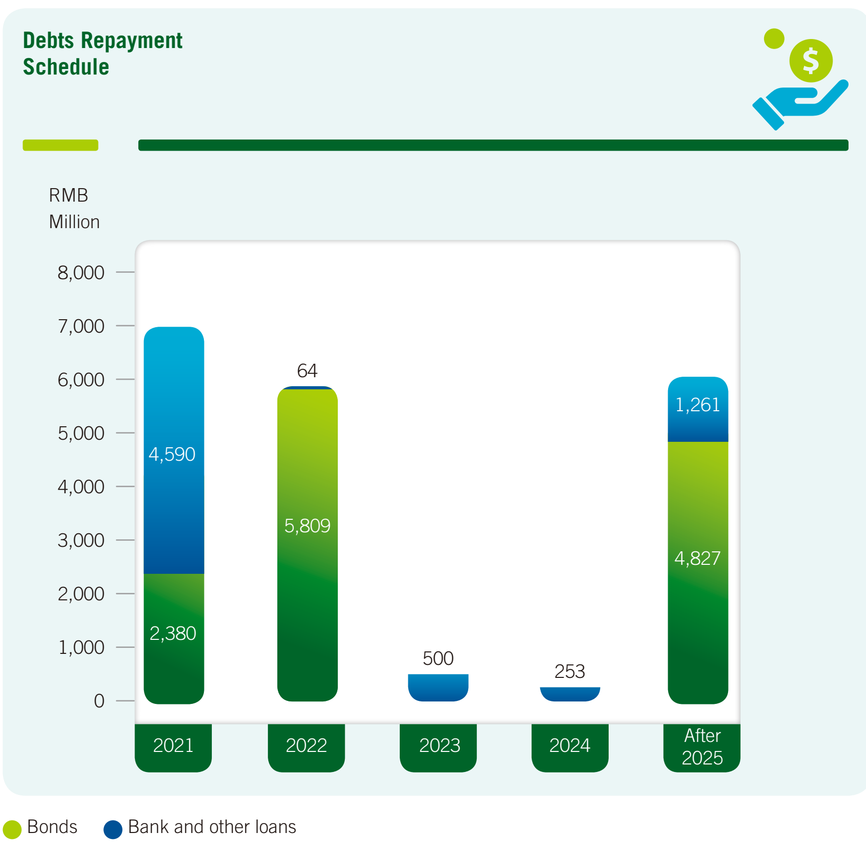
As at 31 December 2020, the principal amount of the Group's borrowings denominated in foreign currencies amounted to USD1,936 million (2019: USD1,681 million and HK$1,540 million), equivalent to approximately RMB12,550 million (2019: RMB13,082 million), and among which 68.0% (2019: 67.3%) is long-term debt. In managing foreign exchange risk arising from bonds and loans denominated in foreign currencies, the Company entered into foreign currency derivative contracts, mainly cross currency swaps, with various financial institutions. The terms of which are in line with that of the Group's foreign debts. Such foreign currency derivative contracts can mitigate the foreign exchange risk arising from the interest and principal payments of such foreign debts. As of 31 December 2020, the Group has hedged debt principal of USD750 million (2019: USD785 million) and the hedge ratio of long-term USD debts reached 40.9% (2019: 62.0%). In view of the existence of fluctuation in RMB/USD rate, the Group will continue to closely monitor the foreign exchange market and strive to use foreign currency derivative contracts to mitigate the impact on its results when deemed appropriate.

*The impact of debt repayment on cash flow*

The Group seeks to maintain strict control over the debt level and strike a balance between duration of debt and cost of financing. In managing borrowings, the Group will seek to spread the maturity dates evenly over different years as possible in order to reduce the time pressure and cost of refinancing.

The senior notes will mature in May 2021, and the Group plans to repay it with its own funds and bank borrowings. The Company can also use the wholly-owned subsidiary's RMB5,000 million green bond quota as approved by the National Development and Reform Commission on 19 January 2020. Therefore, the Group has sufficient resources to repay the borrowings.



## Net Current Liabilities

The Group's current liabilities mainly include a large amount of receipts in advance of gas fee, and construction and installation contracts. These funds are stable and will normally not be returned, therefore the Group will invest the funds in development of new projects and maintain a reasonable cash level, resulting in net current liabilities.

During the year, in response to market changes, the Group replaced certain short-term loans with long-term loans. As such, at 31 December 2020, the Group's short-term debt to total debt ratio decreased to 35.4% as compared to 39.1% at the end of last year. Net current liabilities maintain at similar level to last year at RMB9,665 million (2019: RMB11,773 million).

As the Group has stable operating cash flow, high quality current assets and good credit ratings, plus sufficient cash on hand, unutilised banking facilities and debt issuance quota, the Directors are satisfied that the Group is able to meet its working capital requirements and future capital expenditure.

## Credit Rating

During the year, the Group's credit ratings given by three international rating agencies (Standard & Poor's, Moody's and Fitch Ratings) remained favorable. United Credit Ratings Co., Ltd., the largest domestic credit rating agency, also maintains the highest AAA credit rating and "stable" outlook for Xinao (China) Gas Investment Company Limited, a wholly-owned subsidiary of the Company responsible for onshore business investment. These ratings reflect the Group's sound financial position which can generate highly visible and stable operating cash flow. The management of the Company believes that the good credit rating will continue to provide the Group with sufficient financial resources for its long-term development.

Although the Group has strong financial strength and very stable operating cash flow, limited by Standard & Poor's group credit methodology, the long-term credit rating of the Company was lowered from BBB+ (Watch Negative) to BBB (Stable) after the completion of the re-organisation at the level of the Company's controlling shareholder. However, there is a two notch isolation between the Company and its controlling shareholder to reflect the Company's independence from the controlling shareholder and good corporate governance, which is a rare case in the Asia Pacific region.

As of the date of this report, the credit ratings of the Company are summarised below:

| | Standard & Poor's | Moody's | Fitch Ratings |
|---|---|---|---|
| Long-term credit rating | BBB | Baa2 | BBB |
| Outlook | Stable | Stable | Stable |

The Group's strong financial profile, with further improved operating cash flow during the year and well-managed debt maturities, will support the Company to maintain its current or even achieve higher credit ratings.

## Contingent Liabilities

As at 31 December 2020, the Group has no significant contingent liabilities.

## Financial Guarantee Liability

As at 31 December 2020, the Group had issued guarantees to banks to secure loan facilities granted to an associate and joint ventures. The guaranteed facilities amount utilised was approximately RMB775 million (2019: RMB726 million).

## Capital Expenditures and Commitments

### (a) Capital expenditures

The Group's capital expenditure in 2020 amounted to RMB6,741 million (2019: RMB8,922 million), mainly used for piped gas projects, integrated energy projects and acquisition of new projects.

### (b) Capital commitments

As at 31 December 2020 and 2019, the Group's capital commitments are as follows:

| | **2020**<br>**RMB million** | 2019<br>RMB million |
|---|---|---|
| Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | **899** | 1,021 |
| Capital commitments in respect of | | |
| – investments in joint ventures | **518** | 495 |
| – investments in associates | **469** | 518 |
| – other equity investments | **2** | 259 |

### (c) Other commitments

Since the year ended 31 December 2016, the Group has commitments to acquire LNG from certain suppliers. The delivery of LNG under such arrangements commenced in 2018 and lasts for 5 to 10 years. The Group is obliged to make "take-or-pay" payment to suppliers for the quantity contracted but not delivered.

In the opinion of the Directors, these LNG will be utilised to satisfy the demand of domestic natural gas consumption from both the Group's piped gas customers and wholesale customers. The Directors determined that such LNG purchase arrangements are entered into and continued to be held for the purpose of the receipt of a non-financial item in accordance with the Group's expected purchase, sale and usage. Accordingly, the LNG purchase arrangements are not considered as derivative financial instruments within the scope of HKFRS 9 since the initial recognition.

The relevant purchase prices of these arrangements will be determined by reference to certain variables, such as petroleum price indexes prevailing at the market, and are denominated in USD. The Directors assessed the economic characteristics and risks of the embedded derivatives and concluded that they are closely related to the economic risks and characteristics of the relevant host contracts. Accordingly, the embedded derivatives are not separated from the LNG purchase arrangements as derivative financial instruments recognised in the consolidated financial statements.

## Commodity Price Risk Management

As the major operations of the Group are in China, revenues and expenses are mainly denominated in RMB, therefore, the Group is not exposed to significant foreign exchange risk in its operation. Except for the abovementioned foreign currency-denominated debts, the foreign exchange risk faced by the Group mainly comes from LNG international procurement business denominated in USD and linked to the international crude oil price.

### International LNG Procurement Contracts

At present, the Group has three international long-term LNG procurement contracts, all of which have achieved normalised operation. The pricing of the international procurement is mainly indexed to the price of crude oil on the international energy market. In order to deal with the price exposure generated by international procurement, the Group has established a series of risk management policies and commodity hedging mechanism by hedging a reasonable proportion of planned annual LNG purchase and sale, to minimise the adverse impact of international energy price fluctuations on the Group's business, and also stabilise the Company's international LNG procurement costs and reduce commodity price risks.

The Group adopted hedge accounting policy since 1 January 2020 in order to better associate the hedging instruments entered into to manage the physical trading exposure, as well as minimises the volatility to the profit or loss statement arising from the fair value change in hedging instruments. The Group has recognised realised gains on changes in fair value arising from commodity derivative contracts of RMB171 million (2019: RMB178 million) and unrealised gain of RMB32 million (2019: RMB633 million). The Group will continue to maintain its stringent risk management strategy, proving its determination to establish good corporate governance practice.

The Group has implemented a world leading Energy Trading Risk Management System (ETRM) and developed a corresponding Mobile APP Management System, both of which can combine derivatives' trading with physical trading to achieve a comprehensive and accurate digital risk management with high-frequency and multi-dimension. In addition, the Group will optimise existing hedging strategy, trading authorisation and risk management policies continuously, to better manage the risks associated with the Group's international LNG procurement.

## Significant Investment

The Company through its wholly-owned subsidiary subscribed in 2014 for an approximately 1.13% unlisted equity interest in Sinopec Marketing Co., Ltd ("Sinopec Marketing"), being a subsidiary of China Petroleum & Chemical Corporation ("Sinopec") with its shares listed on the Main Board of the Hong Kong Stock Exchange (stock code: 386. HK) and the Shanghai Stock Exchange (stock code: SH600028) and with its American depository receipts listed on the New York Stock Exchange and the London Stock Exchange (stock code: SNP), at approximately RMB4 billion. Sinopec Marketing is engaged in storage and logistics, sales and distribution of petroleum products and operation of non-fuel businesses (such as convenience stores and car services). The investment in Sinopec Marketing was made and has been held by the Group for strategic reasons. The Group did not acquire further or dispose of any equity interest in Sinopec Marketing during the year ended 31 December 2020.

The equity interest in Sinopec Marketing is unlisted and Sinopec has announced a plan for the spin-off and separate listing of Sinopec Marketing. The Group's investment in Sinopec Marketing was accounted for in its financial statements as financial asset at FVTPL. For the year ended 31 December 2020, no fair value change for such investment and the Group received dividend income of approximately RMB66 million (2019: RMB128 million) from Sinopec Marketing.

# DIRECTORS AND SENIOR MANAGEMENT

## Executive Directors

Mr. WANG Yusuo, aged 57, is a founder of the Group, the Chairman and the Executive Director of the Company, and is the Chairman of the Nomination Committee. He is responsible for overseeing the Group's overall strategic planning and providing leadership for and overseeing the functioning of the Board. He has over 30 years of experience in investment and the management of the energy business in the PRC, he has deep and professional insights on the trend, digitalisation and strategies development of energy industry. He holds a Doctor of Philosophy in Management from Tianjin University of Finance and Economics. He is the father of Mr. Wang Zizheng, a Non-executive Director of the Company. He is a director and a controlling shareholder of Langfang City Natural Gas Company Limited (the "LCNG"), a controlling shareholder of the Company. He is the chairman of ENN Natural Gas Co., Ltd. (formerly known as ENN Ecological Holdings Co., Ltd., stock code: 600803) and a director of ENC Data Technology Co., Ltd (formerly known as Beibu Gulf Tourism Corporation Limited, stock code: 603869), all listed on Shanghai Stock Exchange. He is also a Non-executive Director of Legend Holdings Corporation (a company listed on Hong Kong Stock Exchange, stock code: 3396.HK).

Mr. ZHENG Hongtao, aged 46, is the Executive Director and the Vice Chairman of the Company, he is also the Chairman of the Risk Management Committee and the Environmental, Social and Governance Committee of the Company. He assists the Chairman in overseeing the Group's overall strategic planning and overseeing the functioning of the Board. He obtained a doctorate degree in engineering from Tsinghua University in 2004, majoring in power engineering and engineering thermophysics. He is the pioneer for China's international spot LNG trading and has extensive experience in energy planning, international LNG resources procurement and trading, LNG shipping, domestic natural gas sales and related asset mergers and acquisitions. He is currently a director and the president of ENN Natural Gas Co., Ltd (formerly known as ENN Ecological Holdings Co., Ltd, stock code: 600803), whose shares are listed on Shanghai Stock Exchange.

Mr. ZHANG Yuying, aged 48, is the Executive Director and the President of the Company, and a member of the Risk Management Committee. He assists the Vice Chairman of the Company to ensure the execution and achievement of strategies and smart operation of the Group, especially on the strategic execution of integrated energy business. He graduated from Renmin University of China in 2003 with a Master's Degree in Business Administration. Prior to joining the Group, he worked in Kaifeng Electromechanical Group and Henan Tongli Electrical Appliances Group. After joining the Group, he held various important positions in business planning and strategic performance management of the Group. He has extensive experience in corporate market insight, strategic research and planning and operational excellence.

Mr. WANG Dongzhi, aged 52, is the Executive Director of the Company, and a member of the Risk Management Committee and Environmental, Social and Governance Committee. He is responsible for the corporate governance, design and the monitoring of implementation of internal control strategies of the Group. He graduated in 1991 with a Bachelor Degree in Engineering Management from the Beijing Chemical University. He obtained a Bachelor's Degree in Economics in 1996, the qualifications of Certified Accountant in the PRC in 2000, a Master's Degree in Business Management from the Tianjin University in 2003 and received the Executive Master of Business Administration from China Europe International Business School (CEIBS) in 2016. Prior to joining the Group in 2000, he was in charge of the finance department in a Sino-foreign joint venture company. He has extensive experience in financial management. He is currently a director and/or holds position as senior management in LCNG and its subsidiaries, including the chief financial officer of ENN Natural Gas Co., Ltd. (formerly known as ENN Ecological Holdings Co., Ltd., stock code: 600803), which it is listed on the Shanghai Stock Exchange. He is also an Independent Director of Abterra Ltd. (a company listed on Singapore Stock Exchange, stock code: ABTR.SI).

# DIRECTORS AND SENIOR MANAGEMENT

## Non-executive Directors

Mr. WANG Zizheng, aged 32, is the Non-executive Director of the Company, and a member of the Environmental, Social and Governance Committee of the Company. He has joined the Group in 2014 and served as the Executive Chairman of the Company during 11 May 2018 to 16 March 2020, responsible for assisting the Chairman and Vice Chairman of the Board in overseeing the Group's overall strategic planning and functioning of the Board. He graduated from Tongji University with a Bachelor's Degree in Urban Planning. He has extensive experience in investment, merger and acquisition and operation management of overseas LNG refuelling stations. He is a director of LCNG, a controlling shareholder of the Company, and a director of ENN Natural Gas Co., Ltd (formerly known as ENN Ecological Holdings Co., Ltd., stock code: 600803), which it is listed on Shanghai Stock Exchange. He is the son of Mr. Wang Yusuo.

Mr. JIN Yongsheng, aged 57, is the Non-executive Director of the Company and a member of the Nomination Committee. He graduated from the Tianjin University of Finance and Economics in 1986, majoring in finance, and has obtained an Executive Master's Degree in business administration from the Peking University in 2005. He is qualified to practise law in China. He was an Executive Director of the Company from 2000 to 2006, responsible for the management of the Group's administration, legal affairs and investor relations. He was then re-designated to be a Non-executive Director due to work re-arrangement from 2006 to 2017. He was the Executive Director and Chief Executive Officer of CIMC Enric Holdings Limited (a company listed on the main board of Hong Kong Stock Exchange, stock code: 3899.HK) from 2006 to 2009, and then was re-designated to be a Non-executive Director from 2009 to 2018. He is currently a director of LCNG, the controlling shareholder of the Company and the non-executive director of Shanghai Dazhong Public Utilities (Group) Co., Ltd. (stock code: 01635.HK), whose shares are listed on the main board of Hong Kong Stock Exchange.

## Independent Non-executive Directors

Mr. MA Zhixiang, aged 68, was appointed as an Independent Non-executive Director of the Company on 24 March 2014. He is currently a member of Audit Committee, Nomination Committee, Remuneration Committee, Risk Management Committee and Environmental, Social and Governance Committee. He has held senior management positions in China Petroleum Pipeline Bureau and PetroChina Company Limited and has resigned from these positions in March 2012. He graduated from School of Mechanics of University of Petroleum (East China) with a Doctor's Degree in Engineering in Storage and Transportation. He has over 40 years of extensive experience in corporate management practices and experience in the petroleum and natural gas industry, he has unique point of views on the historical evolution, development pain points and prospects of China's energy industry.

Mr. YUEN Po Kwong, aged 51, was appointed as an Independent Non-executive Director of the Company on 24 March 2014. He is currently the Chairman of the Remuneration Committee and a member of the Audit Committee, Nomination Committee and Risk Management Committee. He is currently a Partner of Fangda Partners specialising in dispute resolution and contentious regulatory compliance. He graduated from Oxford University in England with a Master's Degree in Chemistry and from Cornell University with a Master's Degree in Synthetic Organic Chemistry. He then attended College of Law in Guildford, England and obtained his Diploma in Law (with Distinction) and Diploma in Legal Studies. Before studying law in England, He was a teaching fellow at Cornell University. Prior to joining Fangda Partners to establish its Hong Kong office in 2012. He was a partner of the "Magic Circle Firms", specialising in resolving China related disputes. He has extensive experience in regulatory and corporate compliance.

Mr. LAW Yee Kwan, Quinn, *JP*, aged 68, was appointed as an Independent Non-executive Director of the Company on 30 May 2014. He is currently the Chairman of Audit Committee, and a member of Nomination Committee, Remuneration Committee and Risk Management Committee of the Company. He is an honorary fellow of Hong Kong University of Science and Technology (the "HKUST"), and he presently serves as a court member at the HKUST and a governing board member of HKUST (Guangzhou). He began his professional career at an international accounting firm and thereafter had held senior management positions with diverse corporate and operational responsibilities both in the private and public sector. The Directors believe that Mr. Law has accumulated extensive experience in corporate governance and matters involving internal control and risk management. He is a fellow member of The Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He held directorship in several listed companies both in Hong Kong and overseas in the past. During the period from March 2008 to February 2013, he was the Deputy Chairman and Managing Director of the Urban Renewal Authority, a statutory organisation in Hong Kong. He is currently also the independent Non-executive Director of HKBN Limited (stock code: 1310.HK), Bank of Tianjin Co Ltd (stock code: 1578.HK) and BOC Hong Kong (Holdings) Limited (stock code: 2388.HK), all listed on the main board of Hong Kong Stock Exchange.

Ms. YIEN Yu Yu, Catherine, aged 50, was appointed as an Independent Non-executive Director of the Company on 30 November 2018. She is currently a member of Audit Committee, Nomination Committee, Remuneration Committee and Risk Management Committee of the Company. She has over 20 years of experience in the areas of corporate finance, capital markets and mergers and acquisitions, she also accumulated over 15 year of experiences in energy industry as a result of her works. She is currently a Managing Director of Rothschild & Co Hong Kong Limited, the Deputy Chairman of the Listing Committee of the Stock Exchange and a member to the Advisory Committee of the Securities and Futures Commission. She is also an Independent Non-executive Director of CIMC Enric Holdings Limited (a company listed on the main board of Hong Kong Stock Exchange, stock code: 3899.HK). Ms. Yien was an Independent Non-executive Director of the Company from September 2004 to May 2016. Ms. Yien is a holder of the Chartered Financial Analyst designation and an ordinary member of the Hong Kong Securities and Investment Institute. She graduated from the Imperial College of Science, Technology and Medicine of University of London in England with a Joint Honours Degree in Mathematics with Management (BSc Hons).

## Senior Management

Ms. ZHANG Jin, aged 47, is the Chief Human Resources Officer of the Company. She is responsible for the human resources management and general administration work, etc. She graduated from Renmin University of China with a Bachelor's Degree in Economics and a Master's Degree in Management. Prior to joining the Group in 2016, she served as the Chief Administrative Officer of Shanda Games, the Senior Vice President of Shanda Network Group, the Vice President of Human Resources of Shanda Group and the Vice President of Human Resources of Lenovo Group. She has extensive experience in corporate management. She is currently a director of ENN Natural Gas Co., Ltd. (formerly known as ENN Ecological Holdings Co., Ltd., stock code: 600803) and a director of ENC Data Technology Co., Ltd (formerly known as Beibu Gulf Tourism Corporation Limited, stock code: 603869), whose shares are listed on Shanghai Stock Exchange.

Mr. LIU Jianfeng, aged 44, is currently the Chief Financial Officer of the Company. He is responsible for finance, legal affairs, financial management and mergers and acquisitions of the Company. He received a Bachelor's Degree in Economics from the Central University of Finance and Economics and a Master's Degree in Law from China University of Political Science and Law from 1995 to 2003. He then received an MBA and a Master's Degree in Law from Boston College from 2012 to 2014. He is a member of the CPA Australia. He held key financial management positions in several companies in the oil and gas industry in the past 10 years prior to joining the Group. He served as the Executive President and Financial Controller of Geo-Jade Petroleum Corporation (a company listed on the Shanghai Stock Exchange, stock code: 600759). From 2014 to 2016, he held various positions in Fosun International Limited (stock code: 656.HK), including Chief Financial Officer of its energy group, General Manager of its oil and gas business unit, and Executive Director and Chief Financial Officer of Roc Oil Company Limited. He also served as the International M&A Manager of CNOOC, Commercial Controller and Financial Representatives of several upstream projects from 2008 to 2012. He has extensive experience in financial management, asset restructuring, mergers and acquisitions in the oil and gas industry, and participated in a number of large-scale multinational M&A transactions. Mr. Liu also served in leading law firms in the PRC, and is a qualified PRC lawyer and corporate legal consultant. He has over 20 years' experience in financial management, asset management, onshore and offshore mergers and acquisitions and investment.

Mr. XIONG Liang, aged 49, is the Executive Vice President of the Company. He is responsible for quality, occupational safety and environmental protection of the Group. He obtained a Bachelor's Degree in Oil Engineering and a Master's Degree in Petroleum and Natural Gas Engineering from Southwest Petroleum University in 1994 and 2009 respectively, and then obtained a doctorate degree in Safety Science and Engineering from China University of Geosciences (Wuhan) in 2020. Prior to joining the Group in 2018, he served in CNOOC Tianjin Branch, Chevron Joint Venture, Iran North Pars LNG Project and CNOOC Safety and Environmental Protection Company, and he was employed as the safety emergency expert of Ministry of Emergency Management of the People's Republic of China and State-owned Assets Supervision and Administration Commission of the State Council. Mr. Xiong has over 25 years of experience in the management of energy quality, occupational safety and environmental protection.

Mr. HUANG Zhenping, aged 41, is the Chief Digital Officer of the Company, and he is responsible for setting the strategic direction for digital transformation of the Group. He obtained a Master's Degree in Engineering from Wuhan University in 2011. Prior joining the Group in 2020, he served as the Controller in Suning.com, the President of Internet in Zhengbang Group, the Vice President in Xianyi Holding Co., Limited and President in xebest.com, etc. Mr. Huang has accumulated about 20 years of extensive experience in innovative internet business, architecture and operations of platforms, modern supply chain management, Internet of Things and enterprise digital transformation.

Ms. WU Xiaojing, aged 52, is the Senior Vice President of the Company. She is responsible for the marketing and sales of Guangdong, Fujian and Hunan provincial companies and the cultural building of the Company. She graduated from the China People's Police University (formerly known as The Chinese People's Armed Police Force Academy) in 1990 with a Bachelor of Laws in Immigration Inspection and obtained an executive Master's Degree in business administration from Beijing University in 2011. Prior to joining the Group in 2004, she served in the Southern China branch of Beckman Coulter, Inc. and was responsible for the business development in the region. Ms. Wu has extensive experience in the business operation and market development for energy companies.

Mr. JIANG Chaoxing, aged 50, is the Senior Vice President of the Company. He is responsible for the integrated energy business, and the marketing and sales of Inner Mongolia, Heilongjiang and Liaoning provincial companies. He graduated from The Northeast Electric Power University in 2010 with a major in Project Management and obtained a Master's Degree subsequently. Prior to joining the Group in 2017, he served in Shenwu Technology Group Corp Co., Ltd. and Heilongjiang Chenergy Investment Group Company Limited as the Deputy General Manager, and in Datang Qitaihe Power Generation Co., Ltd as the General Manager. He has extensive experience in market development and integrated management.

Ms. SU Li, aged 48, is the Senior Vice President of the Company. She is responsible for the marketing and sales of Zhejiang and Shanghai provincial companies. She graduated from Shanghai Jiao Tong University in 2015 and obtained an Executive Master's Degree in Business Administration. After joining the Group in 2002, she held deputy general manager and general manager positions of various subsidiaries. Based on her outstanding business development performance, she was promoted as the regional general manager and was responsible for the sales and marketing in Zhejiang Province, as well as the business expansion of industrial parks projects. She has extensive experience in business operation and market development for energy companies.

Ms. MU Nini, aged 43, is the Joint Financial Controller of the Company, assisting the Chief Financial Officer in the Group's daily financial management, corporate internal control, taxation and treasury management. Ms. Mu graduated from Qingdao Technological University in 2001 and received the Executive Master of Business Administration from China Europe International Business School (CEIBS) in 2017. She holds the qualifications of Senior Accountant and China Certified Management Accountant in the PRC. Before joining the Group in 2011, she served as the accounting and financial manager of Qingdao Haier Group and the financial manager of Jiangsu Shenma Electric Co., Ltd. Ms. Mu has extensive experience in finance, corporate internal control, taxation and treasury management.

Ms. LIANG Hongyu, aged 41, is the Joint Financial Controller and Company Secretary of the Company. She is responsible for investor relations management and the implementation of good corporate governance. She joined the Group in 2011 and prior to being appointed as the Company Secretary, she was the Deputy General Manager and General Counsel of ENN Finance Company Limited (a subsidiary of the Company). She has over 15 years of experience in relation to capital market transactions and legal work. She holds a Master's Degree in International Business and Corporate Law from the University of Lancaster in England and she is a PRC qualified lawyer.

# CORPORATE GOVERNANCE REPORT

Corporate governance is the collective responsibility of the board of directors of the Company (the “Board”) and the Board strongly believes that good corporate governance is fundamental in ensuring the proper management of the Company in the interests and expectation of all of its stakeholders. The Board is conscious about continuous improvement in the arena of corporate governance, including but not limited to an effective board of directors, prudent internal and risk controls, transparency as well as clear and comprehensive disclosure and, most importantly, take prompt actions in responding to identified improved opportunities.

# CORPORATE GOVERNANCE REPORT

## Leadership

### BOARD GOVERNANCE
- Code of Corporate Governance
- Model Code
- Onboarding Guideline for directors
- Board mandate
- Articles of association

### BOARD COMPOSITION
- 4 EDs, 2 NEDs and 4 INEDs
- All directors are appointed with a specific term of 3 years and are subject to rotation
- Diverse skills, knowledge and experience

### CORPORATE STRATEGY
- Set strategy
- Oversee financial performance and ESG development of the Group

## Effectiveness

### EVALUATION
- Board evaluation process via questionnaire covering the Board's effectiveness, and develop measures for improvement

### INFORMATION & SUPPORT
- Good information flow between the Board and the management
- Access to independent professional advice and support from Company Secretary
- Management are invited to attend Board/Committee meetings to present and answer questions to facilitate the decision-making process

### DIVERSITY
- Board Diversity Policy
- Diversity of skills and expertise (See page 51)

### COMMITMENT
- All directors are committed to devoting sufficient time and attention to the Company's affairs

### INDEPENDENCE
- Meeting of non-executive directors without the executive directors presence

### CONTINUOUS PROFESSIONAL DEVELOPMENT
- Directors receive various trainings and development programmes to refresh their skills and knowledge and to keep up to date with current development
- Participate in the Company's key projects, and understand the Company's development

### THE ROLE OF THE COMPANY SECRETARY
- Review and implement corporate governance practices
- Provide advice and support to directors
- Keep directors updated on legislative, regulatory and governance matters

## Accountability

### COMMITTEES
- 4 Board committees and 4 responsibility committees have been established
- Board committees and responsibility committees report to the Board

### MANAGEMENT PROCESS
- Day-to-day management by the management (executive directors and senior management) and report to the Board

### RISK MANAGEMENT AND INTERNAL CONTROL
- Regular review and monitor risk management process
- Robust assessment of principal risks and effectiveness of internal controls
- "Risk management and Internal Controls" (see page 53 to page 54)

### FINANCIAL REPORT AND AUDITORS
- "Independent Auditor's Report" (see page 74 to 76)
- External Auditor's independence and appointment
- Internal Audit function

### ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE (ESG)
- Green Finance Framework published
- ESG Committee and ESG Working Group as a robust support
- Separate ESG report publication since 2018

## Engagement

### CONSTRUCTIVE USE OF GENERAL MEETINGS
- Accessible AGM
- Committee chairmen available at AGM to answer questions (in person or via dial-in)
- Notice is sent out more than 21 business days before each meeting (this exceed the requirement of Code of Corporate Governance)

### DIALOGUE WITH SHAREHOLDERS
- Enhance shareholder communications by electronic channels
- Organise shareholders' visits to enhance their understanding on the Group's development and other businesses
- Updates on shareholders visits provided to the Board

### COMMUNICATION CHANNELS WITH STAKEHOLDERS
- Teleconferences and webcasts for analysts and media briefings
- Investment community communications including roadshows
- Publication of financial reports, announcements, circulars and press releases
- Company's website

## Board Activities during 2020

The key areas of Board activities during the year are as follows.

### Directions

- Reviewed the Group's position and all the challenges the Group will be facing, the impacts arising from changes in policies and digitalisation, as well as the resources and skills the business may require in future
- Discussed business plans and opportunities, as well as long-term directional strategy for the growth of the Group
- Considered and approved connected transactions with the controlling shareholder due to business needs

### Risk Management and Internal Controls

- Reviewed the Group's risk appetite and assessed changes in external and internal risk level, imminent risks and mitigating actions
- Reviewed the effectiveness of the Group's risk management and internal control systems

### Accountability

- Discussed the outcome of the Board evaluation and effectiveness review, and agreed improvement opportunities
- The Chairmen of Audit Committee, Remuneration Committee, Nomination Committee, Risk Management Committee and Responsibility Committees updated the Board on the proceedings of their meetings, including the key discussion points and any areas of concern
- Reviewed major corporate governance related reports

### People and Leadership

- Reviewed the Board structure, size, composition and diversity, as well as the independence of independent non-executive directors
- Reviewed and evaluated the fee of directors
- Reviewed the development of people and compensation of the directors and the senior management
- Considered the changes of directors and composition of the Board to support the strategic directions of the Company

### Financial, Operational and Business Performance

- Reviewed the interim and annual results, approved the interim and annual reports
- Reviewed and approved the material funding plan
- Declared dividends
- Reviewed the operating results of the Group's core business and regular updates for financial and investment

# CORPORATE GOVERNANCE REPORT

## Corporate Governance Practices

The Company is committed to high-quality corporate governance practices, so the Board and the management of the Company have been continually reviewing and enhancing the corporate governance practices with reference to local and international standards. Since its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has adopted the Code of Corporate Governance as contained in the Appendix 14 to the Listing Rules (the "CG Code") as the main guideline for corporate governance. The Company also continues to monitor developments in the arena of corporate governance externally to ensure the suitability and robustness of its corporate governance framework in light of the rapidly changing business environment and to meet the expectations of stakeholders.

## Corporate Governance Code Compliance

For the year ended 31 December 2020, the Company was in compliance with all provisions of the CG Code. The Board believes that its continuous efforts in enhancing the Company's corporate governance practices have, directly and indirectly, contributed to the strong business growth of the Company and its subsidiaries (the "Group") in the past years. The Company is honoured to have continuously received numerous awards from independent bodies over the previous years in recognition of the Group's achievements in its business and management. The latest awards garnered during the year are set out in the section headed "Awards & Rankings" under the "ENN at a Glance" on page 5 of this annual report.

The Company reviews the compliance of the Corporate Governance Code and the Corporate Governance Report on an annual basis in order to ensure that the Company has complied with the code provisions, and make reference and execute applicable best recommended practices to achieve continuous improvement of corporate governance.

## Securities Transactions by Directors

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by the directors of the Company. After having made specific enquiry, the Company confirms that the Board have complied with the Model Code throughout the year.

Senior managers and staff, who because of their office in the Company are, likely to be in possession of Inside Information (which term shall bear the same meaning as in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) of the Company, have also been requested to comply with the provisions of the Model Code.

## The Board

According to the articles of association of the Company, the Board is a standing decision-making body of the Company. It assumes the responsibility of leadership and management of the Group, and focuses on overall strategies and policies, with a special emphasis on the Group's growth and financial performance. The Board is also responsible for performing the corporate governance functions of the Company, including developing, reviewing and monitoring of the Company's corporate governance policies and practices, compliance with legal and regulatory requirements and codes applicable to employees and directors of the Company, reviewing the Company's compliance with the CG Code and disclosures in its Corporate Governance Report.

The Board has established board committees and other responsibility committees, they performed their duties and report to the Board in accordance with their respective terms of references. Details have been set out in below under the section headed "Board Committees" and "Other Responsibility Committees". The Board has delegated insignificant and more cumbersome board matters, however required board approvals, to Management Committee (details have been set out in below under the section headed "Management Committee"). The Management Committee has to report its decisions made to the Board bi-yearly. The Board has delegated the daily operations of the Group to executive directors and senior management of the Company (collectively the "Management"). Whenever the Board delegates its powers in management and administrative functions to the Management, they have simultaneously provided clear guidance, especially as to under what circumstances the Management should report to and obtain approval from the Board before making any decisions or entering into any undertakings on behalf of the Company.

The Chairman of the Board and the Management will ensure all directors (including the Independent Non-executive Directors) of the Company have access to adequate, complete and timely information so that they can make informed decisions and discharge their duties and responsibilities as directors. Directors may request further briefing or explanation on any aspect of the Group's operations or business and seek advice from the Company Secretary on the Company's compliance management matters, including Board procedures and corporate governance practices. Where appropriate, they can also seek independent professional advice at the Company's expenses.

The Company has insured director's liability insurances for the directors, which provided protection to the directors for liabilities that might arise in the course of their performance of duties according to law and facilitate directors to fully perform their duties.

In order to ensure the all directors of the Company devote sufficient time to the affairs of the Company, they have to disclose to the Company, upon their appointment, of their offices held in other public companies or organisations and other significant commitments, if any. They need to disclose to the Company from time to time for any changes and the time involved annually. No independent non-executive directors served seven listed companies or more. The directors of the Company have confirmed that they have given sufficient time and attention to the affairs of the Company for the year ended 31 December 2020.

### Appointment, Re-election and Retirement of Directors

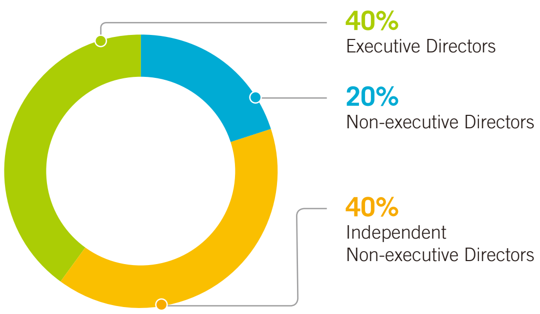
The Nomination Committee of the Board is responsible for evaluating the appointment of new directors or filling the vacancies of directors, advising to the Board and submitting for approval at the shareholders' general meeting upon approval by the Board. All directors of the Company have entered into service agreements/formal letters of appointment with the Company, each for a term of three years, subject to retirement by rotation in accordance with the articles of association of the Company. Article 116 of the articles of association of the Company provides that at each annual general meeting, one-third of the directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation, provided that every director shall be subject to retirement by rotation at least once every three years. Also, pursuant to Article 99 of the articles of association of the Company, any director appointed to fill a casual vacancy or as an addition to the Board is subject to re-election at the next following general meeting or next following annual general meeting of the Company.

### Board Operational Efficiency

The Board has completed an assessment about the performance of the Board on 14 December 2020. The results of the questionnaire showed that 90% of the directors were satisfied or very satisfied with the performance of the Board. Some directors put forward suggestions to the Chairman and the Company Secretary to further enhance the effectiveness of the Board. The Company responded immediately and formulated improvement measures. The Board believes that regular reviews of its own performance are essential for good corporate governance and board effectiveness, and will continue to be reviewed at least once a year.

### Board Composition

As at the date of this report, the Board had 10 directors, made up of 4 executive directors, 2 non-executive directors and 4 independent non-executive directors. Details are as follows:




**Gender**


**Executive directors:**
Mr. Wang Yusuo *(Chairman)*
Mr. Zheng Hongtao *(Vice Chairman)*
Mr. Zhang Yuying *(President)*
Mr. Wang Dongzhi

**Non-executive directors:**
Mr. Wang Zizheng
Mr. Jin Yongsheng

**Independent non-executive directors:**
Mr. Ma Zhixiang
Mr. Yuen Po Kwong
Mr. Law Yee Kwan, Quinn
Ms. Yien Yu Yu, Catherine

The directors of the Company have different expertise and relevant industrial experience and background, such as legal, accounting and finance, economics, corporate governance and industry expertise, etc. providing valuable contributions and advices to the Group in relation to its business development. Independent non-executive directors are committed to ensuring that the Board safeguards the interests of all the shareholders of the Company, and takes into account the concerns of stakeholders ensuring the fairness and reasonableness of the Board resolutions to promote the sustainable development of the Company. A list of the directors of the Company and their role and function is available on the websites of the Company and the Stock Exchange, and the biographical details of each of the directors of the Company are set out on pages 34 to 36 of this annual report.

As at the date of this report, except that Mr. Wang Zizheng (Non-executive director of the Company) is the son of the Chairman, no relationship (neither financial, business nor family) exists among members of the Board, and in particular, there is no relationship (neither financial, business nor family) between the Chairman and chief executives.

### Chairman and Chief Executive

The posts of the Chairman and the Chief Executive of the Company are responsible by different persons to ensure a balance of power and authority and their roles are segregated with a clear division of responsibilities set out in writing.

Mr. Wang Yusuo is the Chairman of the Board (the "Chairman") who is responsible for the management of the Board. Throughout the year, Chairman is responsible for ensuring the effective functioning of the Board, monitoring the performance of the Chief Executive Officer/Joint Vice Chairman/Vice Chairman and the Management, and establishing good corporate governance practice. During the year, the Chairman held a meeting with the independent non-executive directors without the presence of other executive directors.

The daily management of the Group's operation, including the Group's strategic planning, execution and business expansion etc., is borne by Chief Executive Officer/Joint Vice Chairman/Vice Chairman, and they report to the Board. During the year, Mr. Han Jishen, being the Chief Executive Officer/Joint Vice Chairman of the Company, was responsible for the daily management of the Group's operation until 2 November 2020 when he resigned as a director of the Company due to job redesignation. Mr. Zheng Hongtao has been appointed as the executive director and Joint Vice Chairman of the Company on 14 September 2020, he then took up the full responsibility of daily operation of the Group upon the resignation of Mr. Han Jishen. Mr. Zhang Yuying, being the President, is responsible for assisting the Chief Executive Officer/Joint Vice Chairman/Vice Chairman to lead the senior management to execute the strategies and plans set out by the Board, and focusing on the daily management of the Group's operation, strategy execution review and deviation correction, and achievement of business goals.

### Non-executive Directors

Same as executive directors, the non-executive directors (including the independent non-executive directors) of the Company have a term of appointment of three years. They have the same duties of care and skill and fiduciary duties as the executive directors.

### Independent Non-executive Directors

The independent non-executive directors are specifically responsible for providing independent judgement to the Board. They will take the lead where potential conflicts of interests arise in the decision making of the Board and monitor the Company's performance in achieving agreed corporate goals and objectives and the relevant reporting.

During the year, the Board has at all times complied with the requirements of the Listing Rules about the qualification and number of the independent non-executive directors, including the appointment of at least three independent non-executive directors, of which at least one has appropriate professional qualification, or accounting or related financial management expertise pursuant to Rule 3.10 of the Listing Rules, and pursuant to the requirement of Rule 3.10A of the Listing Rules, the Company's independent non-executive directors representing at least one-third of the Board.

Although Ms. Yien Yu Yu, Catherine has served the Company for more than nine years, her works in investment banking and listing committee are close to capital market operation and corporate compliance development. She resigned as a director of the Company in May 2016, and was re-appointed as a director of the Company in November 2018. Hence, the Board believes that she is still capable of bringing a fresh perspective and independent judgment to bear on issues of strategy, performance, accountability, key appointments and standards of conduct. The Company has received from each independent non-executive director a written confirmation of his/her independence pursuant to the requirement of the Listing Rules. With reference to such confirmations, the Company, to its best knowledge, considers all the independent non-executive directors fulfilled the guidelines on independence as set out in Rule 3.13 of the Listing Rules and all to be independent. The respective capacity of independent non-executive director is expressly identified in all corporate communications that disclose the names of the directors of the Company.

### Meetings of the Board

The Board meet regularly to keep abreast of the Group's conduct, business activities, operational performance and latest development. Notice of a regular Board meeting is given to all directors of the Company at least 14 days in advance. Directors are invited to include items which they wish to be included in the agenda for the same to be finalised and the agenda will, together with the relevant meeting papers, be given to the directors at least three days prior to a Board or Board committee meeting.

The Company has adopted below practices to facilitate the working of an effective and accountable Board:

- Send the Group's market and media updates to the directors of the Company on a bi-weekly basis.
- Send the report about the operational, investment and financial performance of the Group to the directors of the Company on a monthly basis.
- As most of the directors of the Company are on occasional, and sometimes unexpected, business trips and/or are stationed in different regions of China, apart from encouraging them to attend in person, the directors could attend the meeting through electronic means of communication. For simple and straight forward Board resolutions, or a resolution that has been fully communicated through different communication channels and obtained the consent of all directors before the meeting, the Company Secretary will suggest the resolutions to be passed in the form of a written resolution with the relevant materials circulated together to the full Board.
- Where a director is unable to attend a meeting, he/she is informed about the matters to be discussed and encouraged to express his/her views to the Chairman of the Board or the Company Secretary prior to the meeting.
- Agree and execute an annual plan for Board meetings and Board committee meetings as well as corporate events with directors by the Company secretary at the end of the previous year to reserve their times for attendance.
- In relation to notifiable transactions/issues about the Company, external independent professional advices will be sought upon request by the directors of the Company, the expenses will be borne by the Company.
- The Company has set up an independent board committee comprising independent non-executive directors to review all discloseable connected transactions of the Company or other transactions which the committee considered to have conflicts of interests, and an independent financial advisor will be engaged to give independent opinion on such transactions to the Board.

The Company Secretary is responsible for taking minutes of Board and Board committee meetings with details of the matters considered by the Board and decisions reached, including any concerns raised by the members of the Board or dissenting views expressed, as well as the recommendations to improve the Company's corporate governance and internal control systems. Minutes of the Board meetings and Board committees meetings have been recorded in sufficient details, and maintained by the Company Secretary for inspection by any directors of the Company within a reasonable time upon a reasonable notice given.

### Directors' attendance

The Board held six meetings (including four regular meetings, but excluding Board approvals obtained by circulating written resolutions) during 2020 and other additional meetings when Board approvals are needed for other issues. Details of the directors' attendance record of Board meetings and general meetings during the year are as follows:

| | Attendance/number of meetings held | |
|---|---|---|
| | **Regular meetings** | **Annual general meeting** |
| **Executive directors:** | | |
| Wang Yusuo | 4/4 | 1/1 |
| Cheung Yip Sang (Note 1) | 1/1 | 0/0 |
| Han Jishen (Note 2) | 3/3 | 1/1 |
| Zheng Hongtao (Note 3) | 1/1 | 1/1 |
| Zhang Yuying | 4/4 | 1/1 |
| Wang Dongzhi | 4/4 | 1/1 |
| **Non-executive directors:** | | |
| Wang Zizheng (Note 4) | 4/4 | 0/1 |
| Jin Yongsheng (Note 4) | 3/3 | 1/1 |
| **Independent non-executive directors:** | | |
| Ma Zhixiang | 4/4 | 1/1 |
| Yuen Po Kwong | 3/4 | 1/1 |
| Law Yee Kwan, Quinn | 4/4 | 1/1 |
| Yien Yu Yu, Catherine | 4/4 | 1/1 |

Notes:

1. On 13 May 2020, Mr. Cheung Yip Sang retired but not elected himself as a director of the Company in the 2020 annual general meeting.
2. On 2 November 2020, Mr. Han Jishen resigned as an executive director of the Company.
3. On 14 September 2020, Mr. Zheng Hongtao was appointed as an executive director of the Company.
4. On 16 March 2020, Mr. Wang Zizheng was re-designated as a non-executive director of the Company. On the same date, Mr. Jin Yongsheng was appointed as a non-executive director of the Company.

### Directors' Training and Professional Development

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant.

During the year, newly appointed directors of the Company had been offered an induction training and briefed on director's responsibilities under the relevant legal and regulatory requirements (including but not limited to the Companies Ordinances, the Listing Rules and the SFO). They were provided with an information memorandum on directors' duties and obligations which assists them in understanding their responsibilities as a director of the Company. During the year, the Company has arranged two training programmes about environmental, social and corporate governance for the directors and senior management, including the anti-corruption and environmental compliance to strengthen their awareness of the relevant issues. In addition, the Company also arranged two exchange meetings for the directors and senior management, including the implementation of the hedge accounting, and research and references of energy market in the United Kingdoms. The directors and senior management have received training materials about the amendments on the Listing Rules for references as well from the Company Secretary.

President/Vice Chairman of the Company updated the business and prospects of the Group in detail to the Board twice during the year, providing the directors of the Company an update on the operation and business of the Group, as well as the development of the energy industry. During the year, the Company reported to the directors (especially the independent non-executive directors) of the Company the progress of the Group's key projects through video conferencing.

For the year ended 31 December 2020, all the directors of the Company had provided their training records to the Company.

## Board Committees

To streamline its duties and uphold good corporate governance, the Board allocates certain of its executive and monitoring functions to four Board committees, namely the Audit Committee, the Remuneration Committee, the Nomination Committee and the Risk Management Committee, which are comprised of directors only.

### Audit Committee

The Audit Committee is made up of all independent non-executive directors and is mainly responsible for reviewing the interim and annual financial statements of the Group and the effectiveness of the financial reporting, risk management and internal control systems, as well as making recommendation to the Board on the appointment, reappointment and removal of external auditor, and related matters. A written term of reference explaining its role and the authority delegated to it by the Board is published on the websites of the Company and the Stock Exchange.

All members have sufficient experience in reviewing the effectiveness of the risk management and internal control systems, the internal audit functions, as well as reviewing the audited financial statements as aided by auditors and senior management of the Group whenever required. Mr. Law Yee Kwan, Quinn and Ms. Yien Yu Yu, Catherine, being the members of the Audit Committee, have appropriate professional qualifications, or accounting and/or related financial management expertise and experience.

Four Audit Committee meetings were held during the year. The Chief Financial Officer, head of internal audit function and the representatives of the external auditor also attended the relevant meetings. Attendance of the members is set out below:

| Members | Attendance/number of meetings held |
|---|---|
| Law Yee Kwan, Quinn *(Chairman of the Audit Committee)* | 4/4 |
| Ma Zhixiang | 4/4 |
| Yuen Po Kwong | 4/4 |
| Yien Yu Yu, Catherine | 4/4 |

**Number of meetings**


100% Attendance

100% Independence

The Audit Committee held meetings during the year principally for the following issues:

- reviewed the consolidated financial statements of the Group for the year ended 31 December 2019 and the six months ended 30 June 2020, and significant financial reporting judgements contained in them;
- reviewed the continuing connected transactions of the Group for the year ended 31 December 2019 under the Listing Rules;
- discussed with the external auditor the impact of any changes in accounting policies as well as the nature and scope of annual audit and interim review before the commencement of the audit work, and their reporting responsibilities;
- reviewed the external auditor's independence, objectivity and the effectiveness of the audit process in accordance with applicable standards;
- made recommendations to the Board on the appointment and reappointment of external auditor, and approved the remuneration and terms of engagement of the external auditor;
- listened to the work report of the head of internal audit department, and reviewed the effectiveness of the Group's risk management and internal control systems bi-yearly, and made recommendations to the Board; and
- assessed whether there were adequate resources, staff qualifications and experience, training programmes and budget of the Company's accounting, financial reporting and internal audit functions provided by the Management.

**Auditors' remuneration**

For the year ended 31 December 2020, audit services were provided to the Group by Deloitte Touche Tohmatsu ("Deloitte"), the auditors of the Company, and the amounts of remuneration paid and payable in connection therewith are as follows:

| | **Approximate Amount** (RMB) |
|---|---|
| Annual audit services | 6,700,000 |
| Non-audit services – interim results review service | 2,533,000 |
| – issuance of bonds related service | 747,000 |
| Total | 9,980,000 |

Save as disclosed above, the Group did not engage Deloitte to provide other services during the year and up to the date of this report.

As stated by the Audit Committee to the Board, the Audit Committee is of the view that service fees paid/payable by the Company to external auditor for the services provided for the year were reasonable. External auditor had no material disagreement with the management of the Company during the year.

**Remuneration Committee**

The Remuneration Committee is made up of all independent non-executive directors of the Company and is responsible for establishing a formal and transparent procedures for developing the overall remuneration policy and structure for all directors and senior management of the Company and making recommendations about the remuneration of individual directors and senior management to the Board, and ensuring no director or any of his/her associates is involved in deciding his/her own remuneration. A written term of reference explaining its role and the authority delegated to it by the Board is published on the websites of the Company and the Stock Exchange.

The objective of the remuneration policy of the Company is to maintain at a reasonable and competitive remuneration package so as to attract and retain the best employees to serve the needs for the development of the Company. The remuneration package consists of fixed and variable remuneration, cash and benefits in kind, including but not limited to: basic salary which is fixed to commensurate with market rate and each individual's experience and ability; year-end bonus and/or share options granted with reference to an individual employee's position, performance and ability to contribute to the overall corporate success (the granting of share options is subject to shareholders' mandates as required and the applicable laws and regulations of relevant jurisdictions) and/or award shares; and other customary and/or mandatory benefits to employees, such as retirement fund scheme, insurance and paid holiday, with reference to prevailing practices in relevant jurisdictions. In evaluating the remuneration packages for directors and senior management of the Company, the Remuneration Committee takes into consideration various factors such as salaries paid by comparable companies, time commitment, responsibilities and employment terms elsewhere in the Group. Most of the remuneration of the directors and senior management of the Company are linked with the Company and personal performance, such as environmental, social and corporate governance performance indicators. If employees violate applicable rules and regulations, depends on circumstances, his/her monthly performance sharing, year-end value sharing and/or medium to long term incentives payments, will be deducted as punishment.

One Remuneration Committee meeting was held during the year. Attendance of the members is set out below:

| **Members** | **Attendance/number of meetings held** | **Number of meetings** |
|---|---|---|
| Yuen Po Kwong *(Chairman of the Remuneration Committee)* | 1/1 |   |
| Ma Zhixiang | 1/1 | |
| Law Yee Kwan, Quinn | 1/1 | |
| Yien Yu Yu, Catherine | 1/1 | |

100% Attendance

100% Independence

In addition to the meetings held by the Remuneration Committee, resolutions were passed by way of written resolutions after all members received sufficient detailed information for consideration. The works of Remuneration Committee during the year are as follows:

- reviewed the policy and structure of remuneration for all directors and senior management of the Company, and made recommendations to the Board on the establishment of a formal and transparent procedure for developing remuneration policy;
- made recommendations to the Board on the remuneration of the executive directors and senior management of the Company for year 2020;
- reviewed the fees of the non-executive directors (including independent non-executive directors) of the Company; and
- approved the terms of services contract and remuneration packages of directors appointed during the year, and made recommendations to the Board.

The remuneration payable to the directors and senior management of the Company for the year ended 31 December 2020 fell within the following bands:

| Remuneration Bands (HK$) | Number of individuals |
|---|---|
| 0 to 1,000,000 | 5 |
| 1,000,001 to 1,500,000 | 2 |
| 2,000,001 to 2,500,000 | 2 |
| 2,500,001 to 3,000,000 | 2 |
| 3,000,001 to 3,500,000 | 1 |
| 4,500,001 to 5,000,000 | 1 |
| 5,000,001 to 5,500,000 | 3 |
| 6,000,001 to 6,500,000 | 1 |
| 7,000,001 to 7,500,000 | 1 |
| 7,500,001 to 8,000,000 | 1 |
| 8,000,001 to 8,500,000 | 1 |
| 8,500,001 to 9,000,000 | 1 |
| Total | 21 |

Details of Directors' remuneration and equity interest in the Company held by the Directors for the two years ended 31 December 2020 and 2019 respectively are listed out in Note 12 and Note 45 to the consolidated financial statements.

### Nomination Committee

The Company has established Nomination Committee which the chairman is the Chairman of the Board, and the majority of the members are independent non-executive directors. The Nomination Committee is responsible for reviewing the structure, composition and diversity of the Board, identifying and making recommendations to the Board of suitable candidates as directors, making recommendations to the Board on matters relating to the appointment and re-appointment of directors, succession planning for directors, and evaluating the independence of independent non-executive directors. A written term of reference explaining its role and the authority delegated to it by the Board is published on the websites of the Company and the Stock Exchange.

The Board adopted its "Nomination Policy" and "Board Diversity Policy", details had been uploaded onto the Company's website. The "Nomination Policy" aims to provide guidance to the Nomination Committee of the Company to identify and evaluate an appropriate candidate. It offers assistance to the Board and makes recommendations to the Board on, among others, the appointment or re-appointment of directors and succession planning for directors. Candidate is required by the Nomination Committee to provide personal information in prescribed form, and the Nomination Committee may take such measures that it considers appropriate in connection with its identification and evaluation of a candidate. Suitable candidate will be nominated by Nomination Committee to the Board with reasons of recommendation and voting intention of the Nomination Committee for the Board's consideration. The objective of the "Board Diversity Policy" is that the appointments of director should be based on merit with due regard for the benefits of diversity to the Board. In determining the composition of the Board, the Company seeks to achieve board diversity through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

CORPORATE GOVERNANCE
REPORT

In accordance with the Nomination Policy and the Board Diversity Policy, the Nomination Committee had reviewed the structure and composition of the Board in the first quarter of 2020, the Board adopted its recommendations and made major adjustments to the Board and the Board committees, including (i) streamlined structure, no longer having the position of executive chairman, as well as a chief executive officer and vice chairman/joint vice chairman at the same time; (ii) reduced the number of executive directors and increased the number of non-executive directors, so as to bring more objective and independent views to the Board; and (iii) after the smooth succession of directors, adjusted the Board composition according to business needs, so as to ensure that the Board could maintain an appropriate balance between the continuity of experience and Board refreshment. In the third quarter of 2020, due to the completion of the reorganisation at the controlling shareholders' level, the Chairman of the Board introduced Mr. Zheng Hongtao to the Board in consideration of the development and needs of the Company. After receiving the list of candidates for new director and the proposal to change the composition of the Board, the Nomination Committee had a dialogue with the Chairman of the Board to understand the reasons for the recommendation and change, and assessed the merits of the candidate to the Company and the Board. In the selection process, the Nomination Committee evaluated the personal characteristics, field expertise, professional knowledge, industry qualifications and management experience of the candidate. After synthesising the evaluation opinions of all members on the candidates, the Nomination Committee made recommendations to the Board. In the fourth quarter of 2020, after receiving Mr. Han Jishen's resignation, the Nomination Committee made recommendation to the Board to accept his resignation and made adjustment to the composition of the Board.

One Nomination Committee meeting was held during the year (resolutions passed by way of written resolutions were not included). Attendance of the members is set out below:

| **Members** | **Attendance/number of meetings held** | **Number of meetings** |
|---|---|---|
| Wang Yusuo *(Chairman of the Nomination Committee)* | 1/1 | |
| Cheung Yip Sang (Note 1) | 1/1 | |
| Jin Yongsheng (Note 1) | 0/0 | |
| Ma Zhixiang | 1/1 | |
| Yuen Po Kwong | 1/1 | |
| Law Yee Kwan, Quinn | 1/1 | |
| Yien Yu Yu, Catherine | 1/1 | |


100% Attendance

66.7% Independence

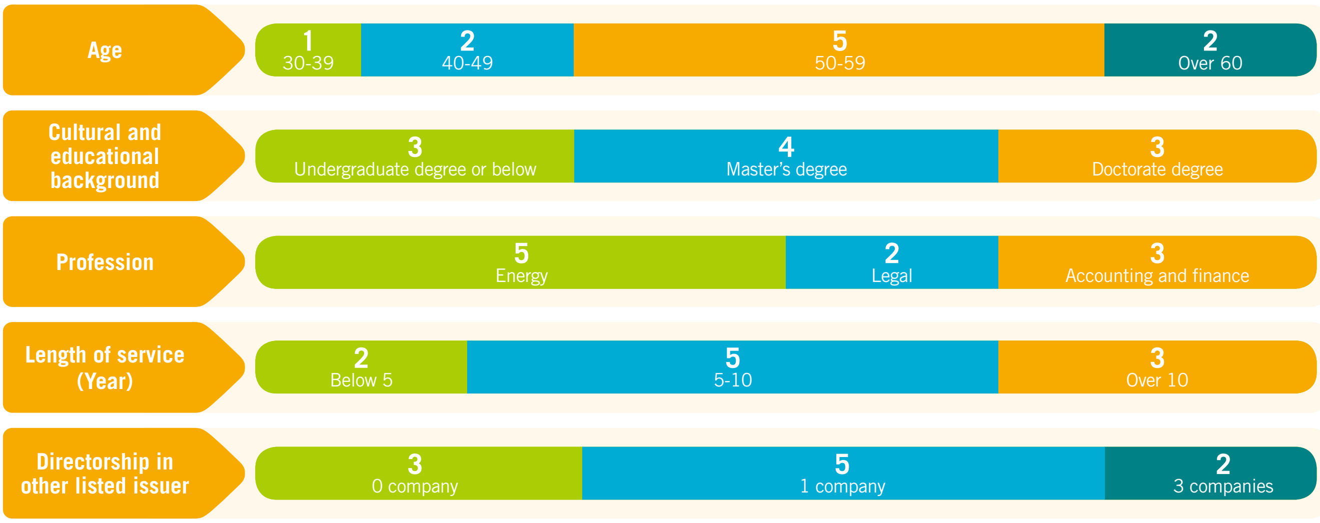
Note:

1. On 16 March 2020, Mr. Cheung Yip Sang ceased to be a member of Nomination Committee. On the same date, Mr. Jin Yongsheng had been appointed as a member of the Nomination Committee of the Company.

In addition to the meetings held by the Nomination Committee, resolutions were passed by way of written resolutions after all members received sufficient detailed information for consideration. The works of Nomination Committee during the year are as follows:

- reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and made recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- considered the candidates nominated by the member of the Board and made recommendations to the Board after evaluation;
- assessed the impact on the operation upon resignation of director and made recommendations to the Board;
- assessed the independence of independent non-executive directors; and
- made recommendation to the Board on retirement plan of the Directors in annual general meeting according to the requirements of the articles of associations of the Company.

Currently, the Board reflects various genders, cultural and educational backgrounds, and professional. The directors' average years of service is 9, therefore they have deep knowledge of the Group. They have a broad range of individual attributes, interests and values, experiences and skills are balanced, therefore the Nomination Committee and the Board are of the view that the Board is diversified.




**Risk Management Committee**

The Risk Management Committee is responsible for assisting the Board to evaluate and determine the class and extent of the risks the Group is willing to take in achieving its strategic objectives, and to ensure the Group has established and maintained suitable and effective risk management and internal monitoring systems. Its written terms of reference is published on the websites of the Company and the Stock Exchange.

Further information relating to the key features and measures of risk management and internal monitoring systems is set out in the section "Risk Management and Internal Control". One Risk Management Committee meeting was held during the year. Attendance of the members is set out below:

| Members | Attendance/number of meetings held | Number of meetings |
|---|---|---|
| Zheng Hongtao *(Chairman of the Risk Management Committee)* (Notes 2,3) | 1/1 | |
| Wang Zizheng (Note 1) | 0/0 | |
| Han Jishen (Notes 1,3) | 0/0 | |
| Zhang Yuying | 1/1 | |
| Wang Dongzhi (Note 1) | 1/1 | |
| Ma Zhixiang | 1/1 | |
| Yuen Po Kwong | 1/1 | |
| Law Yee Kwan, Quinn | 1/1 | |
| Yien Yu Yu, Catherine | 1/1 | |


100% Attendance

57% Independence

Notes:

1. Mr. Wang Zizheng was redesignated to be a non-executive director of the Company on 16 March 2020, therefore he ceased to be the chairman and member of the Risk Management Committee. On the same date, Mr. Han Jishen was appointed as the chairman of the Risk Management Committee, while Mr. Wang Dongzhi was appointed as a member of the Risk Management Committee.
2. On 14 September 2020, Mr. Zheng Hongtao was appointed as a member of the Risk Management Committee.
3. Mr. Han Jishen resigned as an executive director and vice chairman of the Company on 2 November 2020, therefore he ceased to be the chairman and a member of the Risk Management Committee. One the same date, Mr. Zheng Hongtao was appointed as the chairman of the Risk Management Committee.

The Risk Management Committee held meeting during the year to handle, among others, the followings:

- listened to the work reports from the Management, considered the changes in the nature and extent of significant risks, and the Company's ability to respond to the changes in its business and the external environment;
- reviewed the Group's risk management procedure for identifying, assessing and managing the substantial risks; and
- made recommendations on the optimisation of the risk management and the internal monitoring systems to the Board.

## Other Responsibility Committees

In order to make effective use of the Board's valuable time and resources, the Board has established other responsibility committees to handle insignificant and cumbersome Board matters, environmental, social and corporate governance report, share award scheme and discloseable connected transactions etc.. The responsibility committees may include non-director as members.

### Management Committee

The Board has established the Management Committee (formerly known as "Executive Committee") on 21 March 2019 comprising all executive directors appointed by the Board from time to time. The Management Committee is responsible for the insignificant and cumbersome Board affairs which need approvals from the Board.

During the year, the Management Committee held 13 meetings which dealt with the opening of bank accounts, changes in authorised signers of the bank accounts and related matters, as well as approving the acceptance of facilities offered by certain banks and the provision of guarantee to wholly owned subsidiaries of the Company.

### Environmental, Social and Corporate Governance Committee

The Board has established the ESG Committee on 21 March 2019 comprising four directors, namely Mr. Zheng Hongtao, Mr. Wang Dongzhi, Mr. Wang Zizheng and Mr. Ma Zhixiang which is responsible for formulating and reviewing the Company's environmental, social and corporate governance (the "ESG") policies and practices, setting the Company's ESG goals, updating major ESG issues and ESG risks regularly, and making recommendations to the Board; reviewing and monitoring the training and continuous professional development in ESG by directors and the senior management of the Company; and reviewing and monitoring the Company's policies and practices in compliance with rules and regulations.

During the year, the ESG Committee held two meetings to review the results of work relating to ESG in 2019 and formulate a work plan for 2020 to 2021. The Company is committed to improving the management of ESG, actively responding to the topics concerned by the capital market, and constantly integrating ESG culture and strategies into its daily operation. During the year, MSCI, a prestige ESG rating agency, upgraded the Company's ESG rating from BB to BBB. For more information on our ESG development, please refer to our upcoming 2020 Environmental, Social and Corporate Governance Report.

### Share Award Committee

The Board has established the Share Award Committee on 30 November 2018, currently comprising four directors (namely Mr. Ma Zhixiang, Mr. Yuen Po Kwong, Mr. Law Yee Kwan, Quinn and Mr. Wang Dongzhi), Company Secretary Ms. Liang Hongyu and also the Chief Human Resource Officer Ms. Zhang Jin, is responsible for the execution of the Board's instruction and the administration of the Share Award Scheme.

During the year, the Share Award Committee held a meeting to grant notional gain of 62,000 Award Shares to two outperformed employees.

### Independent Board Committee

The Board has established the Independent Board Committee on 23 October 2020 comprising all independent non-executive directors of the Company as appointed by the Board from time to time, for the purpose of, among others, reviewing and recommending for the Board's approval of all discloseable connected transactions of the Company, and assessing the appropriateness of the continuing connected transactions of the Company, as well as the matters the Board deemed to be appropriate such as identification and judgement on potential competing business. Ms. Yien Yu Yu, Catherine currently is the chairman of the Independent Board Committee.

During the year, the Independent Board Committee held a meeting to approve the continuing connected transactions in relation to the revision of annual caps under the existing master LNG terminal usage services agreement and the new master natural gas purchasing agreement. An independent financial adviser was engaged voluntarily by the Board to advise the Independent Board Committee on such transactions.

## Accountability and Audit

### Financial reporting

The directors are responsible for preparing financial statements for every financial year of the Company with the support of the finance team. The Board is collectively responsible for ensuring a balanced, clear and understandable assessment of the Group's annual and interim reports and other financial disclosures and reports under statutory requirements. In order to enable the Board to make an informed assessment of the financial and other information before its approval, the Board is provided with general financial information with explanation thereof (if appropriate) of the Group on a regular basis, as well as monthly report on operation, investment and financial performance to enable them to assess the Company's operational performance and financial position in a timely manner. Moreover, the management also regularly meets with the directors to present results and discuss any variance between the budget and the actual results. During the year, the Audit Committee discussed and assessed with the Management and external auditor the issues that may affect the going concern of the Group, such as the impact of Covid-19 pandemic on the Group's operation.

The accounting and finance department of the Company, headed by the Chief Financial Officer of the Company, is specifically responsible for the accounting and financial reporting functions of the Group and for coordinating and supervising the relevant departments of all the operating subsidiaries of the Company. A majority of the staff of such departments possess academic qualifications and extensive working experience in accounting and financial reporting. The Group also provides continuous training seminars, on-the-job training and offers allowance for external training programmes by professional bodies to motivate the staff to enhance and refresh their knowledge on an on- going basis. The dedicated staff responsible for preparing the annual and interim reports have professional knowledge on Hong Kong Financial Reporting Standards, the Listing Rules and Companies Ordinance to ensure the reports complied with relevant standards, rules and regulations. They are responsible for clearing audit matters for the annual and interim reports with the external auditor and then the Audit Committee. In addition, all new and amended accounting standards and requirements, as well as any changes in accounting policies adopted by the Group such as the adoption of hedge accounting, have been thoroughly discussed and approved by the Audit Committee before adoption by the Group.

The consolidated financial statements are prepared on a going concern basis, the Board is of the view that they give a true and fair view of the financial position, performance and cash flow of the Group for the year ended 31 December 2020, and the disclosure of other financial information and report therein complies with relevant legal requirements.

A statement of the reporting responsibility of the external auditor is set out in the Independent Auditor's Report on pages 74 to 76 of this annual report.

### Risk Management and Internal controls

The Board is responsible for the Group's risk management and internal control systems, setting appropriate policies and reviewing the effectiveness of the risk management and internal control systems. These strategies and policies are aimed at evaluating and determining the nature and extent of the risks that are compatible with the Group's strategic objectives and risk appetite, with main purpose for provision of reasonable assurance against material misstatement or loss rather than absolute elimination of the risk of failure to achieve business objectives.

The Risk Management Committee that set up by the Board is responsible for overseeing and reviewing the risk management and internal control systems of the Group, as well as monitoring the management's design, implementation and monitoring functions on the risk management and internal control systems. Through the reporting and recommendation given by the independent internal audit team, the Audit Committee is responsible for reviewing and commenting on the effectiveness of the risk management and internal control systems.

The processes used to identify, evaluate and manage significant risks by the Group are summarised as follows:

*Risk Identification*

- Identifies risks that may potentially affect the Group's business and operations, the nine category of risks include policy and price risk, compliance risk, operational risk, media risk, legal risk, health, safety and environmental risk, market risk, financial risk and climate changes; and
- Through the daily communication between the Management and the operational departments (covering the Group's market, engineering, procurement, operation and maintenance, etc.), from bottom to top, and paying attention to the development and change of international and domestic political and economic situation, identify other risks that may have a potential impact on the Group's business and operation.

*Risk Assessment*

- Assesses the risks identified by using the assessment criteria developed by the management; and
- Considers the impact on the business and the likelihood of risk occurrence.

*Risk Response*

- Prioritises the risks by comparing the results of the risk assessment;
- Determines the risk management strategies and internal control procedures to prevent, avoid or mitigate the risks; and
- Strengthens the monitoring and warning function of the internal control and risk management systems continuously based on the result of risk assessment, including the use of digital applications to achieve dynamic early alert of business risks, providing business with risk control rules and standards, business based risk scenarios and coping strategies, customised solutions, and professional risk communication platform; and
- Provides different trainings according to the needs of different groups of people, including online safety certification training for all staff, anti fraud/anti-corruption training for key personnel, etc., promotion of compliance culture and enhance risk prevention awareness and risk alert capability of all staff.

*Risk Monitoring and Reporting*

- Establishes hierarchical supervisory responsibilities in the Group to ensure that risk monitoring is objective and effective;
- Performs ongoing and periodic monitoring of the risk and ensures that appropriate internal control procedures are in place;
- Revises the risk management strategies and internal control procedures in case of any significant change of situation; and
- Reports the results of risk monitoring to the management and the Board regularly.

After consolidation from the subsidiaries and a holistic review of the Group, the management of the Company submitted a written report on the effectiveness of the Group's risk management and internal control systems to the Audit Committee for review on a yearly basis.

The management has reported and confirmed to the Audit Committee and the Board that no significant control failings or weaknesses that have been identified during the year, and the risk management and internal control systems (including financial, operational and compliance controls) have been effective and adequate for the year ended 31 December 2020 and the Board has considered the results of the review of the Audit Committee and confirmed that the Group's risk management and internal control systems are effective.

**Internal Audit Team**

The Group has established an internal audit team, which assesses the adequacy and effectiveness of the risk management and internal control systems of the Group regularly, and reports to the Audit Committee and the Board on the audit results semi-annually and makes recommendations to the management and the Board to address the significant deficiencies of the system or problems that identified during the monitoring process. The internal audit team has the right of access to all information of the Group to perform its duties.

**Whistleblowing Policy**

The Company is committed to achieving and maintaining the highest corporate cultures of openness, probity and accountability. Apart from setting up strict "ENN Compliance Code" and "Policy on Anti-Fraud, Corruption and Bribery", a whistleblowing policy is also in place to create a system for the employees and business partners to raise concerns to the Audit Committee and the Board about possible improprieties relating to the Group. The identity of the whistleblower will be treated with the strictest confidence.

### Inside Information

Regarding the disclosure of inside information, the Company has a mechanism in place for monitoring its business development so that potential inside information can be promptly identified and escalated up. In determining whether certain information constitutes inside information, the Company adopts a bottom-up approach to escalate information about business developments of the organisation. The final decision on the outcome of inside information assessment shall rest with the Board. The Board will ensure the Company following the requirements to disclose information in accordance with the SFO and the Listing Rules and conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission to promote consistent disclosure practices. The Company designates the directors of the Company, the Chief Financial Officer/Financial Controller, the Company Secretary and staff responsible for investor relations who is properly delegated to speak on behalf of the Company when communicating with external parties such as investors, analysts or media. Other internal control measure such as limiting the number of employees on a need-to-know basis and management preview, designation of project codes and assignment of project coordinators to monitor the maintenance of confidentiality for the projects, etc. are instituted in the reporting procedures. The Company has also included in its Code of Conduct a strict prohibition on the unauthorised use of confidential or inside information. The Company's Information Disclosure Policy is available on the Company's website.

During the year, the Company sought for advice from the compliance advisor in accordance with the requirements of information disclosure under the SFO and the Listing Rules from time to time. The Board is of the view that the Company's procedures on and internal control of handling and disseminating inside information are effective.

## Company Secretary

Ms. Liang Hongyu ("Ms. Liang") is a full-time employee of the Company, therefore all directors of the Company are provided with advices and services by the Company Secretary. During the year, she reported to the Chairman of the Board on corporate governance issues and was responsible to provide assistance to the Chairman, the Board and Board committees, and ensure good information flow within the Board and the policy and procedures of the Board are followed.

During the year, Ms. Liang undertook over 15 hours of professional training to update her skills and knowledge in accordance with the requirement under rule 3.29 of the Listing Rules. Her biography is set out on page 37 under the section headed "Directors and Senior Management" of this annual report and on the Company's website.

## Non-compete Undertakings

In order to protect the best interests of the Group and uphold the integrity of independence from its controlling shareholder, the Company entered into the Deed of Non-compete Undertakings with its controlling shareholder on 18 April 2002, which was amended by entering the Supplemental Deed of Non-competition on 21 November 2013 to specify the restricted scopes of business. Such amendment was approved by an extraordinary general meeting held on 30 December 2013. Details of the amended Deed of Non-compete Undertakings are set out in the circular of the Company dated 9 December 2013.

## Communication with Shareholders

### Effective communication

The Board believes that effective communication of full and clear information of the Company is the key to enhance corporate governance standards and shareholders' confidence. The Company has adopted its "Shareholders Communication Policy" with an aim to ensure our shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company (including the Group's financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable our shareholders to exercise their rights in an informed manner, and to allow our shareholders to engage actively with the Company.

The Group uses several formal channels to ensure fair disclosure and comprehensive and transparent reporting of its performance and activities, including issue/publication of, among others, annual report and interim report, announcement, circular and press release both in English and Chinese, in order to provide our shareholders and the capital market with the Company's latest development, these information are posted and made available for downloading at the Company's website. Constantly being updated in a timely manner, the website contains a wide range of additional information on the Group's business activities.

As a part of the day-to-day investor relations programme, the senior management holds regular briefings with institutional investors and financial analysts as well as media, and announces our annual and interim results. To facilitate communications with our shareholders and the capital market, Directors and designated staff members maintain dialogue with investors and analysts through face-to-face interaction, road show and investors relations promotion activities.

Annual general meeting ("AGM") provides a constructive forum to maintain communication with shareholders, and shareholders are encouraged to attend AGM to ensure a high level of accountability and allow our shareholders to understand the strategy and development of the Group. The Company will arrange the Chairman of the Board and the respective chairman of each of the Board Committees, or if failing so due to unexpected and/or uncontrollable reasons, his/their duly appointed delegate(s), to attend the general meetings to exchange views with shareholders and answer their questions. All Directors are encouraged to attend general meetings and develop a balanced understanding of the view of shareholders.

The external auditor will also be invited to attend the AGM of the Company to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor's independence.

The notice of the AGM is distributed to all shareholders at least 21 clear business days prior to such AGM and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules. Separate resolutions are proposed on each substantially separate issue, including the election or re-election of each Director nominated.

To ensure the votes cast are properly counted and recorded, it is the practice of the Company to appoint representatives of its branch share registrar as scrutineer of the voting procedures in general meetings.

Therefore, the Board considers that the Company's shareholder communication policy is still valid.

## Shareholders' rights

### Shareholders' enquiries

Shareholders should direct their questions about their shareholdings to the Company's Hong Kong Branch Share Registrar and Transfer Office.

Shareholders may make enquiries with the Board at the general meetings. Alternatively, shareholders may send written enquiries together with their contact details (such as postal address or email address) to the principal place of business of the Company in Hong Kong at Rooms 3101–04, 31st Floor, Tower 1, Lippo Centre, No. 89 Queensway, Hong Kong or to send e-mail to the Company (email address: enn@enn.cn).

### Procedures to convene extraordinary general meetings and putting forward proposals at general meetings

Pursuant to article 72 of the articles of association of the Company, any two or more members of the Company or any one member of the Company which is a recognised clearing house (or its nominee(s)) may convene a general meeting by depositing at the principal office of the Company in Hong Kong the written requisition specifying the proposed agenda and signed by the requisitionist(s), provided that such requisitionist(s) hold(s) as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

If the Board does not within 21 days from the date of deposit of the requisition convene the meeting in accordance with the established procedures, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Subject to the articles of association of the Company and the law of Cayman Islands, the Company may by ordinary resolution at a general meeting elect any person to be a director either to fill a casual vacancy on the Board, or as an addition to the existing Board. Shareholders may nominate any person other than the directors of the Company to be a candidate for director at a general meeting, shareholders may refer to "Procedures for Putting Forward Proposals at General Meetings" under "Shareholders' rights" on the Company website for details.

### General meetings held during the Year

Affected by the Covid-19 pandemics, the Company held the shareholders' meeting in the form of "network + site" for the first time during the year. The AGM held on 13 May 2020 at Room C, 5/F, United Centre, 95 Queensway, Admiralty, Hong Kong. As the Company also arranged to update its business development and strategy to shareholders after the shareholders' meeting, the number of shareholders participating in the meeting increased significantly compared with previous years. In addition to the proposed resolutions, the Management also delivered an update to the shareholders about the latest development of the Group. All ordinary resolutions proposed at the AGM were passed as more than 95% of the votes were cast in favour of these resolutions. The Chairman of the Board and the chairmen of the Board committees attended the AGM, details of their attendance record are set out in the section headed "Directors' attendance". The resolutions considered and approved mainly include:

- To receive and consider the audited consolidated financial statements for the year ended 31 December 2019 together with the directors' and independent auditor's reports;
- To declare a final dividend of HK$1.67 per share for the year ended 31 December 2019;
- To re-elect retiring Directors and to authorise the Board to fix its Directors' remuneration;
- To re-appoint external auditor and to authorise the Board to fix their remuneration; and
- To grant a general mandate to the Directors to issue new shares of the Company and repurchase shares of the Company.

The full text of the above resolutions was set out in the Notice of the AGM of the Company dated 6 April 2020. The poll result of the AGM was published on the websites of the Stock Exchange and the Company.

## Investor Relations

The Company values the opinion from shareholders, investors and the public, therefore the Company established an investor relations department, which is responsible for communicating with institutional and other investors regularly, so as to enhance the transparency of the Group and collect opinions from the market.

Regular investor relations activities are conducted to facilitate the communications, including projects visits, non-deal roadshows, investor conferences, etc.

Shareholders, investors and the media can make enquiries to the Company through the following means:

| | |
|---|---|
| Hotline telephone number: | (852) 2528 5666/(86) 316 2599928 |
| By fax: | (852) 2865 7204 |
| By post: | Rooms 3101–04, 31st Floor, Tower 1, Lippo Centre, No. 89 Queensway, Hong Kong |
| Attention: | Ms. Shirley Kwok/Ms. Grace Wei/Ms. Olivia Xia |
| By email: | ir@enn.cn |

The latest information on investor relations is uploaded on the link http://ir.ennenergy.com.

## Amendments to the Memorandum and Articles of Association

During the year, the memorandum and articles of association were not amended by the Company. The latest consolidated version of the Company's memorandum and articles of association has been published on the websites of the Company and the Stock Exchange.

By order of the Board
**WANG YUSUO**
*Chairman*

Hong Kong, 22 March 2021

# DIRECTORS' REPORT

The Directors are pleased to present this annual report together with the Group's audited Consolidated Financial Statements (the "Consolidated Financial Statements") for the year ended 31 December 2020.

## Principal Activities

The Company is an investment holding company. The Group is principally engaged in investment and construction, as well as operation and management of gas pipeline infrastructures, integrated energy stations and vehicle and ship refuelling stations, the sales and distribution of piped gas, liquefied natural gas and other multi-energy products, and energy trading business and provision of other services in relation to energy supply in the PRC.

A list of principal subsidiaries as of 31 December 2020 and their particulars are set out in Note 56 to the Consolidated Financial Statements.

## Business Review

The Group's revenue is driven primarily from business activities conducted in China, an analysis of the Group's performance for the year by operating segment is set out in Note 7 to the Consolidated Financial Statements.

The Company is committed to providing a more detailed and comprehensive review in different sections of this annual report about the Group's business in 2020, the relevant disclosures are set out below:

| | Disclosures | Relevant sections |
|---|---|---|
| (1) | Fair review of the Group's business for the year ended 31 December 2020 (including an analysis using financial key performance indicators) | • Chairman's Statement (pages 14 to 21)<br>• Management Discussion and Analysis (pages 22 to 33) |
| (2) | Description of the principal risks and uncertainties facing by the Group | • Management Discussion and Analysis (pages 22 to page 33)<br>• Notes 5 and 53 to the Consolidated Financial Statements |
| (3) | Particulars of important events affecting the Group that have occurred since the end of the financial year 2020 | • There were no important events after the reporting period |
| (4) | Future development in the Group's business | • Chairman's Statement (pages 14 to 21)<br>• Management Discussion and Analysis (pages 22 to 33) |
| (5) | Compliance with the relevant laws and regulations that have a significant impact on the Company | • Section in this report<br>• Corporate Governance Report (pages 38 to 57)<br>• 2020 Environmental, Social and Governance Report to be published by end of April 2021 |
| (6) | The Group's environmental policies and performance | • Section in this report<br>• Chairman's Statement (pages 14 to 21)<br>• 2020 Environmental, Social and Governance Report to be published by end of April 2021 |
| (7) | The Group's relationship with key stakeholders | • Section in this report<br>• 2020 Environmental, Social and Governance Report to be published by end of April 2021 |

## Business Review *(continued)*

### Environmental Policies and Performance

The Group's mission is "Building a Modern Energy System, Co-building a Better Ecology". With an aim to meet customers' needs, the Group leverages its clean energy reserve and transportation resources accumulated for a long time and develops the most efficient tailor-made energy solutions for clients through its system efficiency technology platforms. The Group reduced the harm to the environment caused by economic development by promoting clean energy and conducting energy saving and emission reduction projects. In 2020, the Group recorded a volume of 28,678 million cubic meters of natural gas sales for city-gas and energy trading business, equivalent to reducing 38.14 million tons of standard coal and reducing 37.16 million tons of carbon dioxide. A total of 119 integrated energy projects had been put into operation during the year, the Group recorded 12,042 million Kwh of energy sales for cooling, heat, electricity and steam etc., equivalent to reducing 1,476,085 tons of standard coal for customers' energy consumption, and reducing 4,444,264 tons of carbon dioxide emission.

### Compliance with Laws and Regulations

The Group understands the importance of complying regulatory requirements. The existing compliance procedures of the Group are in place to ensure adherence to applicable laws, rules and regulations, in particular those which have significant impact on the Group. The Board reviews and monitors the Group's policies and practices on compliance with relevant legal and regulatory requirements in a regular basis. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

During the year under review, to the best of our knowledge, the Group has complied with the Companies Laws of the Cayman Islands, Cap. 622 of the Hong Kong Companies Ordinance, the Listing Rules, the Securities and Futures Ordinances, and other relevant rules and regulations. In addition, the subsidiaries of the Group continue to comply with applicable local laws and relevant laws and regulations that have a significant impact on their business and operations. During the year, the Company was not aware of any special laws and regulations that have a significant impact on the business and operation of the Group.

### Relationships with Key Stakeholders

The Group's success depends on the support from key stakeholders which comprise shareholders, customers, suppliers and employees, etc. Therefore, the Group attaches great importance to the valuable opinions from the stakeholders, and actively understands their demands and expectations of the Group through two-way communication via different channels and platforms, and these provide a strong basis for the formulation or adjustment to the Group's sustainable development strategies.

### Shareholders

The Group targets to foster business development for achieving sustainable earnings growth and rewarding shareholders by stable dividend payouts, taking into account capital adequacy levels, liquidity positions and business expansion needs of the Group.

### Customers

Providing quality services to customers is the foundation for sustainable development of the Company. The Group continues to promote the improvement of service quality, creates diversified services and communication channels, and is committed to providing customers with high quality services and safe products. The percentage of the revenue attributable from the Group's five largest customers was approximately 4%.

### Suppliers

Suppliers are important partners for the sustainable development of the Company. The Group continues to optimise the supply chain management system, drives partners to grow together. During the year, the percentage of the purchases attributable from the Group's five largest suppliers was approximately 17%.

## Business Review *(continued)*

### Employees

We know the success of our Company depends on the contributions of our employees, so we regard our employees as valuable assets of the Group. The Group has different talent training programs for employees to participate in to ensure that employees continue to add value and make the greatest contribution to the Group. The Group also has a system to encourage employees to mobilise internally between different departments, strengthen collaboration, cultivate more "all-rounded" talents who have deepened understanding about the Group's business, and provide special training to potential management trainees for succession planning of the Group.

More than 99% of the Group's employees work in China. The Group determines remuneration based on individual performance, job nature and responsibilities involved. The Group provides on-the-job training as well as optimal benefits packages for employees, including medical welfare, retirement plans, year-end bonuses and other incentives. The Group also encourages employees to work and rest in an orderly manner, and adopt a work-life balance.

The remuneration of directors and senior management are recommended by the remuneration committee of the Company for the Board's approval, having regard to comparable companies' paid remuneration, working hours, responsibilities assumed, and employment conditions for other positions of the Group. No Directors or executives, nor any of his/her associates, is involved in deciding his/her own remuneration. Details are set out in Note 12 to the Consolidated Financial Statements and the Corporate Governance Report on pages 38 to 57 of this annual report.

## Results and Appropriation

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss and other comprehensive income on page 77 in this Annual Report.

The Company's dividend policy allows shareholders to share the Company's profits while reserving sufficient reserves for the Group's future development. Subject to the financial performance of the Company, the Company intends to share its profits with shareholders in the form of annual dividends. Barring unforeseen circumstances, the Company intends to maintain annual dividends in an amount of no less than 15% of the Group's annual consolidated net profit attributable to the owners of the Company. Proposed dividends, if any, will be declared at the discretion of the Board and will depend upon, among others things, the Group's general financial conditions and strategies, expected operating cash flows and capital expenditure needed for future expansion, surplus, contractual restrictions, actual and expected government financial conditions, macroeconomics and such other factors as the Board may deem relevant.

The Directors recommend the payment of a final dividend of HK$2.10 (equivalent to approximately RMB1.77) per ordinary share and special dividend of HK$0.32 (equivalent to approximately RMB0.27) per ordinary share to the shareholders on the register of members on Tuesday, 18 May 2021. The total dividend amount is approximately RMB2,302 million, and remaining profit for the year of approximately RMB3,918 million is retained. The distributions to shareholders are subject to the approval by shareholders at the 2021 annual general meeting to be held on Monday, 10 May 2021. For the purpose of ascertaining shareholders who are entitled to the final dividend and special dividend, the register of members of the Company will be closed from Monday, 17 May 2021 to Tuesday, 18 May 2021, both days inclusive, during which period no transfer of shares of the Company will be effected.

## Financial Summary

Details of the summary of the published financial information of the Group for the past ten financial years are set out on pages 12 to 13 in this Annual Report.

## Property, Plant and Equipment

Details of the movements during the year in property, plant and equipment of the Group are set out in Note 16 to the Consolidated Financial Statements.

## Share Capital

Details of movements during the year in the share capital of the Company are set out in Note 39 to the Consolidated Financial Statements.

## Equity-Linked Agreements

Save for Share Option Schemes and Share Award Scheme as disclosed in this Annual Report, no equity-linked agreements were entered into during the year or subsisted at the end of the year.

## Pre-emptive Rights

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

## Purchase, Sale or Redemption of Listed Securities

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased 270,000 shares of the Company on the exchange at a total consideration of HK$19,027,495.

## Reserves

According to the applicable laws of the Cayman Islands, the Company's reserve available for distribution as at 31 December 2020 amounted to RMB3,930 million.

Details of movements during the year in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on page 80 in this Annual Report and Note 57 to the Consolidated Financial Statements.

## Bank and Other Loans

Details of bank and other loans of the Group are set out in Note 40 to the Consolidated Financial Statements.

## Directors

The list of Directors of the Company during the year and up to the date of this report is set out below:

**Executive Directors:**

Mr. Wang Yusuo
Mr. Cheung Yip Sang (retired on 13 May 2020)
Mr. Han Jishen (resigned on 2 November 2020)
Mr. Zheng Hongtao (appointed on 14 September 2020)
Mr. Zhang Yuying
Mr. Wang Dongzhi

**Non-executive Directors:**

Mr. Wang Zizheng (re-designated from executive director to non-executive director on 16 March 2020)
Mr. Jin Yongsheng (appointed on 16 March 2020)

**Independent Non-executive Directors:**

Mr. Ma Zhixiang
Mr. Yuen Po Kwong
Mr. Law Yee Kwan, Quinn
Ms. Yien Yu Yu, Catherine

In accordance with article 99 of the Company's Article of Association, Mr. Zheng Hontao shall retire at the forthcoming annual general meeting ("AGM") of the Company, while in accordance with article 116 of the Company's Article of Association, Mr. Wang Yusuo, Mr. Wang Zizheng, Mr. Ma Zhixiang and Mr. Yuen Po Kwong, shall retire by rotation at the forthcoming AGM of the Company. All the above retiring Directors are eligible and offer themselves for re-election. Details of these Directors proposed for re-election are set out in the circular sent together with this Annual Report.

Mr. Zheng Hongtao had been appointed as an executive director of the Company on 14 September 2020. Mr. Cheung Yip Sang retired as an executive director of the Company due to other work commitment on 13 May 2020. Mr. Han Jishen resigned as an executive director of the Company on 2 November 2020 due to job redesignation. They has confirmed that he has no disagreement with the Board and there is no matters in relation to his resignation that needs to be brought to the attention of the shareholders of the Company or The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

As of 31 December 2020, none of the Directors had entered, or proposed to enter, into any service contract with any members of the Group which does not expire or is not determinable by the Group within one year without compensation (other than statutory compensation).

The Company has received an annual confirmation from each Independent Non-executive Director with each confirming his/her independence pursuant to rule 3.13 of the Listing Rules, and the Company still considers such Directors as independent of the Company.

The biographical details of the Directors of the Company are set out on pages 34 to 36 of this Annual Report.

## Permitted Indemnity Provision

The articles of association of the Company provides that every director shall be indemnified out of the assets of the Company against all loss or liability incurred or sustained by him as such director in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

The Company has taken out insurance against the liabilities and costs associated with defending any proceedings which may be brought against the Directors of the Company.

## Disclosure of Interests

**Directors' interests or short positions in shares, underlying shares and debentures**

As at 31 December 2020, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), Appendix 10 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange, were as follows:

*(a) The Company*

| Name of Director | Capacity | Personal interests | Corporate interests | Interests in shares pursuant to share options | Total aggregate interests | Approximate percentage of the Company's total issued share capital |
|---|---|---|---|---|---|---|
| Wang Yusuo ("Mr Wang") | Beneficial owner and interest of controlled corporation | 289,600 | 369,175,534 (Note) | 1,060,000 | 370,525,134 | 32.84% |
| Zhang Yuying | Beneficial owner | – | – | 200,525 | 200,525 | 0.02% |
| Wang Dongzhi | Beneficial owner | – | – | 320,000 | 320,000 | 0.03% |
| Wang Zizheng | Beneficial owner | – | – | 420,000 | 420,000 | 0.04% |
| Jin Yongsheng | Beneficial owner | 10,000 | – | – | 10,000 | 0.00% |
| Ma Zhixiang | Beneficial owner | – | – | 60,000 | 60,000 | 0.01% |
| Yuen Po Kwong | Beneficial owner | – | – | 60,000 | 60,000 | 0.01% |
| Law Yee Kwan, Quinn | Beneficial owner | – | – | 60,000 | 60,000 | 0.01% |
| Yien Yu Yu, Catherine | Beneficial owner | 106,000 | – | 60,000 | 166,000 | 0.01% |

Note:

Such shares are beneficially owned by Mr. Wang and Ms. Zhao Baoju ("Ms. Zhao"), the spouse of Mr. Wang through their controlled corporations, including Langfang City Natural Gas Company Limited ("LCNG"), ENN Investment Holdings Company Limited ("EIH"), ENN Group International Investment Limited ("EGII"), ENN Natural Gas Co., Ltd. ("ENN-NG") and Xinneng (Hong Kong) Energy Investment Limited ("Xinneng HK").

Details of the Directors' interests in share options and award shares granted by the Company are set out under the heading "Share-based Compensation Scheme" in this report.

## Disclosure of Interests *(continued)*

**Directors' interests or short positions in shares, underlying shares and debentures** *(continued)*

*(b) Associated corporation*

| Company Name | Name of Director | Capacity | Number of shares | Subscribed share capital RMB | Percentage of share capital |
|---|---|---|---|---|---|
| LCNG | Mr. Wang | Beneficial owner (Note) | – | 64.39 million | 100% |
| EIH | Mr. Wang | Interest of controlled corporation | 8,000,000,000 | – | 100% |
| EGII | Mr. Wang | Interest of controlled corporation | 1,000 | – | 100% |
| ENN-NG | Mr. Wang | Beneficial owner and interest of controlled corporation | 1,966,053,704 | – | 75.62% |
| Xinneng HK | Mr. Wang | Interest of controlled corporation | 2,132,377,984 | – | 75.62% |
| Beijing Xinyi Aite Art Development Company Limited* | Mr. Wang | Beneficial owner and interest of controlled corporation | – | 10 million | 100% |
| Xinyi Theater (Langfang) Culture Development Company Limited* | Mr. Wang | Beneficial owner and interest of controlled corporation | – | 10 million | 100% |
| ENN Group Co., Ltd.* | Mr. Wang | Beneficial owner and interest of controlled corporation | 4,987,770,000 | – | 99.76% |
| Yicheng Yijia Internet Technology Company Limited* | Wang Zizheng | Beneficial owner | – | 80 million | 20% |
| Xi'an Data IT Company Limited* | Wang Zizheng | Beneficial owner | – | 40 million | 20% |

* For identification purpose only

Note: Such shares are beneficially owned by Mr. Wang and Ms. Zhao.

Save as disclosed above, as at 31 December 2020, there were no other interests or short positions of the Directors and chief executives 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) in the register maintained by the Company pursuant to section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Share-based Compensation Scheme

The Company operates share option schemes ("Share Option Scheme") and share award scheme ("Share Award Scheme") for the purpose of attracting, retaining and incentivising major employees. The eligible persons for the schemes are employees (including directors) and business consultants who contributed to the success of the Group. The company has also formulated Shares and Options Management Regulations as the Company's management guidelines for granting share options and Award Shares. The purpose of this management regulations refers to the implementation of the Company's concept of value sharing, co-creation and sharing, aligning the interests of selected persons and shareholders, focusing on the Company's medium and long-term business, and promoting the long-term sustainable development of the group.

The number of share options granted to employees (including directors) and business consultants under the Share Option Schemes depends on their roles. Three to four years as a cycle, and the granted share options would be vested equally in three or four years. If the roles of the employees (including directors) and business consultants granted during the cycle are adjusted or their evaluation results exceed expectations or there are newly selected participants, the Company may grant them Award Shares as a supplement, the vesting conditions and mechanisms will be consistent with the Share Option Scheme. The chairman of the Board and non-executive directors of the Company do not have performance targets, but they must be remained employed by the company by the time of vesting. Moreover, other directors and employees are subject to performance targets. The performance targets cover both financial indicators and non-financial indicators, among them, financial indicators mainly include sales revenue, net profit, and per capita profit, while non-financial indicators include sales volume, capacity building, industrial coordination, risk management and control. Those performance targets are formulated and allocated based on the Group's long-term development goals, annual guidance and prioritised works. The performance target is set at the beginning of each year and strictly appraised at the beginning of the following year. In case of failure to meet the performance targets, unless in the discretion of the Board, the share options would be lapsed.

### Share Option Schemes

The Company has adopted the "2002 Scheme" and the "2012 Scheme" of the share option schemes pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 21 May 2002 and passed at an annual general meeting of the Company held on 26 June 2012 respectively.

The following table discloses details of the Company's share options held by the employees (including directors) and business consultants, and movements in such holdings under the 2002 Scheme and 2012 Scheme during the year:

| Grantee | Date of grant | Exercise period (Note 1) | Exercise price (HK$) | Number of shares subject to outstanding options as at 1 January 2020 | Exercised during the year (Note 3) | Lapsed during the year | Reclassified during the year | Number of shares subject to outstanding options as at 31 December 2020 (Note 2) |
|---|---|---|---|---|---|---|---|---|
| **2002 Scheme** | | | | | | | | |
| Employee | 14.06.2010 | 14.12.2010–13.06.2020 | 16.26 | 100,000 | (100,000) | – | – | – |
| | 14.06.2010 | 14.06.2012–13.06.2020 | 16.26 | 100,000 | (100,000) | – | – | – |
| Total | | | | 200,000 | (200,000) | – | – | – |
| **2012 Scheme – Batch 1** | | | | | | | | |
| Directors | 09.12.2015 | 01.04.2017–08.12.2025 | 40.34 | 230,500 | (106,000) | – | 35,500 | 160,000 |
| | 09.12.2015 | 01.04.2018–08.12.2025 | 40.34 | 442,575 | (167,700) | – | (114,875) | 160,000 |
| | 09.12.2015 | 01.04.2019–08.12.2025 | 40.34 | 538,775 | (176,025) | – | (202,750) | 160,000 |
| | 09.12.2015 | 01.04.2020–08.12.2025 | 40.34 | 581,250 | (217,975) | (96,575) | (106,175) | 160,525 |
| Employees | 09.12.2015 | 01.04.2017–08.12.2025 | 40.34 | 205,250 | (38,650) | – | (35,500) | 131,100 |
| | 09.12.2015 | 01.04.2018–08.12.2025 | 40.34 | 366,261 | (329,212) | – | 114,875 | 151,924 |
| | 09.12.2015 | 01.04.2019–08.12.2025 | 40.34 | 560,474 | (514,924) | (17,750) | 202,750 | 230,550 |
| | 09.12.2015 | 01.04.2020–08.12.2025 | 40.34 | 1,425,000 | (662,314) | (426,950) | 106,175 | 441,911 |
| Sub-total | | | | 4,350,085 | (2,212,800) | (541,275) | – | 1,596,010 |

## Share-based Compensation Scheme *(continued)*

**Share Option Schemes** *(continued)*

| Grantee | Date of grant | Exercise period (Note 1) | Exercise price (HK$) | Number of shares subject to outstanding options as at 1 January 2020 | Exercised during the year (Note 3) | Lapsed during the year | Reclassified during the year | Number of shares subject to outstanding options as at 31 December 2020 (Note 2) |
|---|---|---|---|---|---|---|---|---|
| **2012 Scheme – Batch 2** | | | | | | | | |
| Directors | 28.3.2019 | 01.04.2020–27.03.2029 | 76.36 | 15,000 | – | – | – | 15,000 |
| | 28.3.2019 | 01.04.2021–27.03.2029 | 76.36 | 768,200 | – | – | (240,000) | 528,200 |
| | 28.3.2019 | 01.04.2022–27.03.2029 | 76.36 | 768,400 | – | – | (240,000) | 528,400 |
| | 28.3.2019 | 01.04.2023–27.03.2029 | 76.36 | 768,400 | – | – | (240,000) | 528,400 |
| Employees | 28.3.2019 | 01.04.2020–27.03.2029 | 76.36 | 1,061,300 | (365,700) | (246,000) | – | 449,600 |
| | 28.3.2019 | 01.04.2021–27.03.2029 | 76.36 | 2,539,900 | – | (31,500) | 240,000 | 2,748,400 |
| | 28.3.2019 | 01.04.2022–27.03.2029 | 76.36 | 2,541,400 | – | (31,500) | 240,000 | 2,749,900 |
| | 28.3.2019 | 01.04.2023–27.03.2029 | 76.36 | 2,541,400 | – | (31,500) | 240,000 | 2,749,900 |
| Business | 28.3.2019 | 01.04.2020–27.03.2029 | 76.36 | 201,000 | (109,500) | – | – | 91,500 |
| Consultants | 28.3.2019 | 01.04.2021–27.03.2029 | 76.36 | 201,000 | – | (22,500) | – | 178,500 |
| | 28.3.2019 | 01.04.2022–27.03.2029 | 76.36 | 201,000 | – | (22,500) | – | 178,500 |
| | 28.3.2019 | 01.04.2023–27.03.2029 | 76.36 | 201,000 | – | (22,500) | – | 178,500 |
| Sub-total | | | | 11,808,000 | (475,200) | (408,000) | – | 10,924,800 |
| Total | | | | 16,158,085 | (2,688,000) | (949,275) | – | 12,520,810 |

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. A total number of 12,355,110 shares, representing 1.09% of the issued share capital of the Company as at the date of this report are available for issue under the 2012 Scheme. The vesting of certain part of the 12,355,110 share options is subject to the fulfilment of performance target.
3. The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised is approximately HK$99.77.

Pursuant to the 2012 Scheme, the Company granted 12,000,000 share options ("2012 Scheme – Batch 1") and 12,328,000 share options ("2012 Scheme – Batch 2") on 9 December 2015 and 28 March 2019 respectively to directors, employees and business consultants who contributed to the success of the Group.

The Company's Shares and Options Management Regulations has a withdrawal mechanism. The regulations state that if the grantee makes mistakes, errors, omissions, rule-abiding or frauds during the performance of his duties, depending to the extend of loss brought to the Company and the severity, to decide whether to take action to return/withdraw current year's or unvested share options. In addition, the share options may be lapsed for other reasons such as resignation, dismissal and job re-designation.

Details of the share options are set out in Note 45 to the Consolidated Financial Statements.

## Share-based Compensation Scheme *(continued)*

### Directors' right to acquire shares

Pursuant to the Company's Share Option Schemes, the Company has granted options to subscribe for the Company's ordinary shares in favour of certain Directors, the details of which are as follows:

| Name of Director | Date of grant | Exercise period (Note 1) | Exercise price (HK$) | Number of shares subject to outstanding options as at 1 January 2020 | Exercised during the year (Note 2) | Lapsed during the year (Note 2) | Reclassified during the year (Note 2) | Number of shares subject to outstanding options as at 31 December 2020 |
|---|---|---|---|---|---|---|---|---|
| Wang Yusuo | 09.12.2015 | 01.04.2017–08.12.2025 | 40.34 | 145,000 | – | – | – | 145,000 |
| | 09.12.2015 | 01.04.2018–08.12.2025 | 40.34 | 145,000 | – | – | – | 145,000 |
| | 09.12.2015 | 01.04.2019–08.12.2025 | 40.34 | 145,000 | – | – | – | 145,000 |
| | 09.12.2015 | 01.04.2020–08.12.2025 | 40.34 | 145,000 | – | – | – | 145,000 |
| | 28.03.2019 | 01.04.2021–27.03.2029 | 76.36 | 160,000 | – | – | – | 160,000 |
| | 28.03.2019 | 01.04.2022–27.03.2029 | 76.36 | 160,000 | – | – | – | 160,000 |
| | 28.03.2019 | 01.04.2023–27.03.2029 | 76.36 | 160,000 | – | – | – | 160,000 |
| Cheung Yip Sang | 09.12.2015 | 01.04.2017–08.12.2025 | 40.34 | – | – | – | – | – |
| (Notes 3,4) | 09.12.2015 | 01.04.2018–08.12.2025 | 40.34 | 133,000 | – | – | (133,000) | – |
| | 09.12.2015 | 01.04.2019–08.12.2025 | 40.34 | 133,000 | – | – | (133,000) | – |
| | 09.12.2015 | 01.04.2020–08.12.2025 | 40.34 | 133,000 | – | (83,000) | (50,000) | – |
| | 28.03.2019 | 01.04.2021–27.03.2029 | 76.36 | 120,000 | – | – | (120,000) | – |
| | 28.03.2019 | 01.04.2022–27.03.2029 | 76.36 | 120,000 | – | – | (120,000) | – |
| | 28.03.2019 | 01.04.2023–27.03.2029 | 76.36 | 120,000 | – | – | (120,000) | – |
| Han Jishen | 09.12.2015 | 01.04.2017–08.12.2025 | 40.34 | – | – | – | – | – |
| (Notes 3,4) | 09.12.2015 | 01.04.2018–08.12.2025 | 40.34 | 17,375 | – | – | (17,375) | – |
| | 09.12.2015 | 01.04.2019–08.12.2025 | 40.34 | 105,250 | – | – | (105,250) | – |
| | 09.12.2015 | 01.04.2020–08.12.2025 | 40.34 | 105,250 | – | (13,575) | (91,675) | – |
| | 28.03.2019 | 01.04.2021–27.03.2029 | 76.36 | 120,000 | – | – | (120,000) | – |
| | 28.03.2019 | 01.04.2022–27.03.2029 | 76.36 | 120,000 | – | – | (120,000) | – |
| | 28.03.2019 | 01.04.2023–27.03.2029 | 76.36 | 120,000 | – | – | (120,000) | – |
| Zhang Yuying | 09.12.2015 | 01.04.2017–08.12.2025 | 40.34 | – | – | – | – | – |
| (Note 3) | 09.12.2015 | 01.04.2018–08.12.2025 | 40.34 | – | – | – | – | – |
| | 09.12.2015 | 01.04.2019–08.12.2025 | 40.34 | 25 | (25) | – | – | – |
| | 09.12.2015 | 01.04.2020–08.12.2025 | 40.34 | 42,500 | (41,975) | – | – | 525 |
| | 28.03.2019 | 01.04.2021–27.03.2029 | 76.36 | 66,600 | – | – | – | 66,600 |
| | 28.03.2019 | 01.04.2022–27.03.2029 | 76.36 | 66,700 | – | – | – | 66,700 |
| | 28.03.2019 | 01.04.2023–27.03.2029 | 76.36 | 66,700 | – | – | – | 66,700 |
| Wang Dongzhi | 09.12.2015 | 01.04.2017–08.12.2025 | 40.34 | 40,500 | (40,500) | – | – | – |
| (Note 3) | 09.12.2015 | 01.04.2018–08.12.2025 | 40.34 | 95,500 | (95,500) | – | – | – |
| | 09.12.2015 | 01.04.2019–08.12.2025 | 40.34 | 95,500 | (95,500) | – | – | – |
| | 09.12.2015 | 01.04.2020–08.12.2025 | 40.34 | 95,500 | (95,500) | – | – | – |
| | 28.03.2019 | 01.04.2021–27.03.2029 | 76.36 | 106,600 | – | – | – | 106,600 |
| | 28.03.2019 | 01.04.2022–27.03.2029 | 76.36 | 106,700 | – | – | – | 106,700 |
| | 28.03.2019 | 01.04.2023–27.03.2029 | 76.36 | 106,700 | – | – | – | 106,700 |
| Wang Zizheng | 09.12.2015 | 01.04.2017–08.12.2025 | 40.34 | 15,000 | – | – | – | 15,000 |
| (Note 3) | 09.12.2015 | 01.04.2018–08.12.2025 | 40.34 | 15,000 | – | – | – | 15,000 |
| | 09.12.2015 | 01.04.2019–08.12.2025 | 40.34 | 15,000 | – | – | – | 15,000 |
| | 09.12.2015 | 01.04.2020–08.12.2025 | 40.34 | 15,000 | – | – | – | 15,000 |
| | 28.03.2019 | 01.04.2021–27.03.2029 | 76.36 | 120,000 | – | – | – | 120,000 |
| | 28.03.2019 | 01.04.2022–27.03.2029 | 76.36 | 120,000 | – | – | – | 120,000 |
| | 28.03.2019 | 01.04.2023–27.03.2029 | 76.36 | 120,000 | – | – | – | 120,000 |

## Share-based Compensation Scheme *(continued)*

**Directors' right to acquire shares** *(continued)*

| Name of Director | Date of grant | Exercise period (Note 1) | Exercise price (HK$) | Number of shares subject to outstanding options as at 1 January 2020 | Exercised during the year (Note 2) | Lapsed during the year (Note 2) | Reclassified during the year (Note 2) | Number of shares subject to outstanding options as at 31 December 2020 |
|---|---|---|---|---|---|---|---|---|
| Jin Yongsheng (Notes 3,4) | 09.12.2015 | 01.04.2017–08.12.2025 | 40.34 | – | (35,500) | – | 35,500 | – |
| | 09.12.2015 | 01.04.2018–08.12.2025 | 40.34 | – | (35,500) | – | 35,500 | – |
| | 09.12.2015 | 01.04.2019–08.12.2025 | 40.34 | – | (35,500) | – | 35,500 | – |
| | 09.12.2015 | 01.04.2020–08.12.2025 | 40.34 | – | (35,500) | – | 35,500 | – |
| Ma Zhixiang | 09.12.2015 | 01.04.2017–08.12.2025 | 40.34 | – | – | – | – | – |
| | 09.12.2015 | 01.04.2018–08.12.2025 | 40.34 | 6,700 | (6,700) | – | – | – |
| | 09.12.2015 | 01.04.2019–08.12.2025 | 40.34 | 15,000 | (15,000) | – | – | – |
| | 09.12.2015 | 01.04.2020–08.12.2025 | 40.34 | 15,000 | (15,000) | – | – | – |
| | 28.03.2019 | 01.04.2021–27.03.2029 | 76.36 | 20,000 | – | – | – | 20,000 |
| | 28.03.2019 | 01.04.2022–27.03.2029 | 76.36 | 20,000 | – | – | – | 20,000 |
| | 28.03.2019 | 01.04.2023–27.03.2029 | 76.36 | 20,000 | – | – | – | 20,000 |
| Yuen Po Kwong | 09.12.2015 | 01.04.2017–08.12.2025 | 40.34 | 15,000 | (15,000) | – | – | – |
| | 09.12.2015 | 01.04.2018–08.12.2025 | 40.34 | 15,000 | (15,000) | – | – | – |
| | 09.12.2015 | 01.04.2019–08.12.2025 | 40.34 | 15,000 | (15,000) | – | – | – |
| | 09.12.2015 | 01.04.2020–08.12.2025 | 40.34 | 15,000 | (15,000) | – | – | – |
| | 28.03.2019 | 01.04.2021–27.03.2029 | 76.36 | 20,000 | – | – | – | 20,000 |
| | 28.03.2019 | 01.04.2022–27.03.2029 | 76.36 | 20,000 | – | – | – | 20,000 |
| | 28.03.2019 | 01.04.2023–27.03.2029 | 76.36 | 20,000 | – | – | – | 20,000 |
| Law Yee Kwan, Quinn | 09.12.2015 | 01.04.2017–08.12.2025 | 40.34 | 15,000 | (15,000) | – | – | – |
| | 09.12.2015 | 01.04.2018–08.12.2025 | 40.34 | 15,000 | (15,000) | – | – | – |
| | 09.12.2015 | 01.04.2019–08.12.2025 | 40.34 | 15,000 | (15,000) | – | – | – |
| | 09.12.2015 | 01.04.2020–08.12.2025 | 40.34 | 15,000 | (15,000) | – | – | – |
| | 28.03.2019 | 01.04.2021–27.03.2029 | 76.36 | 20,000 | – | – | – | 20,000 |
| | 28.03.2019 | 01.04.2022–27.03.2029 | 76.36 | 20,000 | – | – | – | 20,000 |
| | 28.03.2019 | 01.04.2023–27.03.2029 | 76.36 | 20,000 | – | – | – | 20,000 |
| Yien Yu Yu, Catherine | 28.03.2019 | 01.04.2020–27.03.2029 | 76.36 | 15,000 | – | – | – | 15,000 |
| | 28.03.2019 | 01.04.2021–27.03.2029 | 76.36 | 15,000 | – | – | – | 15,000 |
| | 28.03.2019 | 01.04.2022–27.03.2029 | 76.36 | 15,000 | – | – | – | 15,000 |
| | 28.03.2019 | 01.04.2023–27.03.2029 | 76.36 | 15,000 | – | – | – | 15,000 |
| Total | | | | 4,113,100 | (667,700) | (96,575) | (1,108,300) | 2,240,525 |

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. "Year" refers to the period from 1 January 2020 to 31 December 2020.
3. The vesting of share options is subject to the fulfilment of performance target.
4. Mr. Cheung Yip sang and Mr. Han Jishen ceased to be the directors of the Company since 13 May 2020 and 2 November 2020 respectively, the 676,000 share options and 574,300 shares options granted to them respectively were reclassified from share options held by directors to share options held by employees. Mr. Jin Yongsheng had been appointed as the non-executive director of the Company, the 142,000 share options held by him was reclassified from share options held by employees to share options held by directors.

Save as disclosed above, no share option was granted, exercised, lapsed or cancelled during the year.

## Share-based Compensation Scheme *(continued)*

### Share Award Scheme

On 30 November 2018, the Company adopted the Share Award Scheme under which the shares of the Company (the "Awarded Shares") may be granted to selected employees (including, without limitation, any executive directors and independent non-executive directors) of any members of the Group (the "Selected Employees") pursuant to the terms of the Share Award Scheme and the trust deed of the Share Award Scheme. As discussed above, the Share Award Scheme is mainly used as a supplement to the Share Option Scheme. The Share Award Scheme became effective on the adoption date and, unless otherwise terminated or amended, will remain in force for 10 years from the date, i.e. till 29 November 2028.

The aggregate number of Award Shares permitted to be granted under the Share Award Scheme is limited to 5% of the issued share capital of the Company from time to time. The maximum number of Awarded Share which may be awarded to each Selected Employee shall not in aggregate over 1% of the issued share capital of the Company from time to time.

When a Selected Employee has satisfied all vesting conditions, which might include service and/or performance conditions, specified by the Board at the time of making the award and become entitled to the shares of the Company forming the subject of the award, the trustee shall transfer the relevant Award Shares to that employee at once.

The trustee of the Share Award Scheme of the Company purchased 270,000 shares at an average price of HK$70.47 per share on the exchange on 18 March 2020. As at 31 December 2020, there were 2,685,100 shares of the Company held in the trust under the Share Award Scheme, approximately 0.24% of the issued share capital of the Company. During the year, the Company has granted notional gain of 62,000 Award Shares to two outperformed employees under the scheme to reflect their changes in roles and commitment subsequent to the grant of share options to them under the 2012 Scheme, the Award Prices were also HK$76.36, and the vesting of the notional gains (if any) were subject to the fulfillment of their respective performance targets.

Save as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors or the chief executives or any of their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in,

## Directors' Rights to Acquire Shares or Debentures

Other than the Share Option Schemes as set out in the section headed "Share-based Compensation Scheme" and disclosed in Note 45 to the Consolidated Financial Statements, and the Shares Award Scheme as set out in the section headed "Share-based Compensation Scheme" in this report, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2020. At no time during the year was the Company, its parent company, or any of its subsidiaries a party to any arrangements to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other corporate.

## Management Contracts

Except the employment contracts with employees, no contract concerning the management and administration of the whole or any substantial part of the business of the company was entered into or existed during the year.

## Substantial Shareholders

As at 31 December 2020, the interests and short positions of every person, other than 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 Part XV of the SFO were as follows:

| Name of shareholder | Capacity | Personal interests/ Spouse interests | Corporate interests | Interests in shares pursuant to share options | Total aggregate interests in shares and underlying shares (Note 6) | Approximate percentage of the Company's total issued share capital |
|---|---|---|---|---|---|---|
| Mr. Wang | Beneficial owner and interest of controlled corporation | 289,600 (Note 5) | 369,175,534 (Notes 1, 2, 3, 4, 5) | 1,060,000 (Note 5) | 370,525,134 (L) | 32.84% |
| Ms. Zhao | Interest of controlled corporation and interest of spouse | 289,600 (Note 5) | 369,175,534 (Notes 1, 2, 3, 4, 5) | 1,060,000 (Note 5) | 370,525,134 (L) | 32.84% |
| LCNG | Interest of controlled corporation | – | 369,175,534 (Notes 1, 2 & 3) | – | 369,175,534 (L) | 32.72% |
| EIH | Interest of controlled corporation | – | 369,175,534 (Notes 1 & 2) | – | 369,175,534 (L) | 32.72% |
| EGII | Interest of controlled corporation | – | 369,175,534 (Note 1) | – | 369,175,534 (L) | 32.72% |
| ENN-NG | Interest of controlled corporation | – | 369,175,534 (Note 1) | – | 369,175,534 (L) | 32.72% |
| Xinneng HK | Beneficial owner | – | 369,175,534 (Note 1) | – | 369,175,534 (L) | 32.72% |
| The Capital Group Companies, Inc. | Beneficial owner | – | 158,124,176 | – | 158,124,176 (L) | 14.01% |
| JPMorgan Chase & Co. | Interest of controlled corporation, investment manager, person having a security interest in shares, trustee and approved lending agent | – | 101,659,301 | – | 101,659,301 (L) (including 844,446 (S) 83,269,330 (P)) | 9.01% |
| BlackRock, Inc. | Interest of controlled corporation | – | 67,511,042 | – | 67,511,042 (L) (including 30,800 (S)) | 5.98% |

## Substantial Shareholders *(continued)*

Notes:

1. EGII holds 52.72% interests of ENN-NG, therefore it holds 32.72% of the issued share capital of the Company through Xinneng HK, a wholly owned subsidiary of ENN-NG. EGII is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.

2. On 30 November 2018, Mr. Wang and Ms. Zhao entered into an equity entrustment agreement with EIH, pursuant to which each of Mr. Wang and Ms. Zhao entrusts EIH to manage their respective shareholding of 50% in EGII till 31 December 2040. Pursuant to the agreement, EGII is controlled by EIH. Accordingly, EIH is deemed to be interested in the shares in which EGII is interested in (1) above. In addition, EIH directly and indirectly holds 22.90% interests of ENN-NG.

3. EIH is a wholly-owned subsidiary of LCNG, LCNG hence is deemed to be interested in the shares in which EIH is interested in (1) and (2) above.

4. LCNG is 100% beneficially owned by. Mr. Wang and Ms. Zhao, hence they are deemed to be interested in the shares in which LCNG is interested in (1), (2) and (3) above. In addition, Mr. Wang holds 0.07% interests of ENN-NG.

5. As Mr. Wang's spouse, Ms. Zhao is deemed as holding Mr. Wang's interests in shares.

6. (L) represents Long Position; (S) represents Short Position; (P) represents Lending Pool.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2020, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Save as disclosed above, as at 31 December 2020, the Company had not been notified of any other person who had interest or short position in the shares or underlying shares of the Company, which are required to be recorded in the register maintained by the Company pursuant to section 336 of Part XV of the SFO and Listing Rules.

## Controlling shareholder and Directors' Interests in Competing Business

Set out below is information disclosed pursuant to Rule 8.10 of the Listing Rules. Mr. Wang and his spouse, Ms. Zhao, hold 32.72% of the issued share capital of the Company through Xinneng HK, a wholly-owned subsidiary of ENN-NG (a controlling shareholder of the Company). Four directors of the Company, namely Mr. Wang, Mr. Wang Zizheng, Mr. Zheng Hongtao, and Mr. Wang Dongzhi, being directors of ENN-NG and/or certain subsidiary(ies) (for this purpose excluding the Group) and/or associate(s) of ENN-NG (the "ENN-NG Group"), are considered as having an interest in ENN-NG Group under Rule 8.10(1) and (2) of the Listing Rules.

The business of ENN-NG Group (excluding the Group) mainly includes the gas sales based on obtaining upstream natural gas resources (including the import and production of liquefied natural gas), energy engineering and energy chemical business. Among them, gas sales business may be considered as competing business for the Group. However, the Group's gas sales are mainly to match the needs of downstream customers. Given the Group has extensive experience in gas sales business, diversified distribution channels, and large and sticky customer base, it is capable of carrying on independently of ENN-NG Group (excluding the Group).

For safeguarding the interests of the Group, the Company established an independent board committee composed of all independent non-executive directors of the Company in 2020 to review the situation of the Group from time to time to ensure that (among other things) the Group and ENN-NG Group operate gas sales business based on their respective interest.

Save as disclosed above, during the year, none of the directors or the management shareholders of the Company or their respective associates had an interest in a business which compete with the business of the Group.

## Connected Transactions

During the year, the Group has entered into the transactions and arrangements as described below with connected persons for the purposes of the Listing Rules.

### Continuing Connected Transactions

During the year, the Group carried out the following transactions which constituted continuing connected transactions under Chapter 14A of the Listing Rules and were subject to annual review.

The following table sets out the continuing connected transactions between the Group and the Wang Family Companies for the year ended 31 December 2020:

| Transaction details | Annual Cap (RMB) | Transaction Sum (RMB) |
|---|---|---|
| (A) Equipment Purchasing and Modification Services | | |
| On 30 November 2018, the Company entered into a Master Equipment Purchasing and Modification Services Agreement with EIH for a term commencing from 1 January 2019 and expiring on 31 December 2021, whereby the Wang Family Companies agreed to provide equipment as well as equipment modification and enhancement services to the Group. | 216,000,000 | 128,000,000 |
| (B) Construction Services | | |
| On 30 November 2018, the Company entered into a Master Construction Services Agreement with EIH for a term commencing from 1 January 2019 and expiring on 31 December 2021, whereby the Wang Family Companies agreed to provide the Group with engineering design and construction services. | 1,669,000,000 | 974,000,000 |
| (C) Information Technology Services | | |
| On 30 November 2018, the Company entered into a Master Information Technology Services Agreement with EIH for a term commencing from 1 January 2019 and expiring on 31 December 2021, whereby the Wang Family Companies agreed to provide the Group with information technology services. | 317,890,000 | 195,000,000 |
| (D) LNG Purchasing (Note 3) | | |
| On 28 September 2018, the Company entered into a Master LNG Purchasing Agreement with LCNG for a term commencing from 1 October 2018 and expiring on 31 December 2020, whereby the Wang Family Companies agreed to provide the Group with LNG supply. | 1,665,000,000 | 136,000,000 |
| (E) LNG Terminal Usage Services (Note 4) | | |
| On 28 September 2018, the Company entered into a Master LNG Terminal Usage Services Agreement with LCNG for a term commencing from 1 October 2018 and expiring on 31 December 2028, whereby the Wang Family Companies agreed to provide LNG terminal usage services to the Group, such that the Group will be able to receive imported LNG through Zhoushan LNG Terminal. | 714,000,000 | 644,000,000 |

Notes:

1. Wang Family Company is a company controlled (entitled to exercise, or control the exercise of 30% or more of the voting power at any general meeting of the relevant company) by Mr. Wang, the Chairman, an Executive Director and a controlling shareholder of the Company, and/or his associates (including Ms. Zhao, a controlling shareholder of the Company and the spouse of Mr. Wang), thereby being connected persons of the Group during the year.
2. Wang Family Companies refers to the Wang Family Company and its subsidiaries and associates (as the case may be).
3. Since the Master LNG Purchasing Agreement will expire on 31 December 2020 and under the independent operation of the National Pipeline Network Company, the availability and inter-connection of infrastructures will be enhanced and the "incoming in liquefied form and outgoing in gaseous form" of LNG will become the new standard mode. The transactions cannot only be limited to purchasing LNG. Thus, the Company entered into a Master Natural Gas Purchasing Agreement with ENN-NG on 30 November 2020.
4. The Group also expects that the annual transaction amounts of the existing Master LNG Terminal Usage Services Agreement in the next few years may exceed the currently announced Annual caps. Therefore, the Company has revised the relevant annual caps from 2021 to 2028 of the existing Master LNG Terminal Usage Services Agreement in accordance with Rule 14A.54 of the Listing Rules on 30 November 2020.

## Connected Transactions *(continued)*

### Continuing Connected Transactions *(continued)*

The continuing connected transactions mentioned above have been reviewed by the independent non-executive directors. The independent non-executive directors have confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreements governing such transactions and on terms that are fair and reasonable and in the interests of shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the Auditor of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 71 to 72 of this Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the Auditor's letter has been provided by the Company to the Stock Exchange.

The Board confirmed that the disclosure requirements of Chapter 14A of the Listing Rules have been complied with.

Details of the related party transactions undertaken in the normal course of business are set out in Note 55 to the Consolidated Financial Statements. In relation to parts of those related party transactions that also constituted connected transactions under the Listing Rules, they are in compliance with applicable requirements under the Listing Rules and are reported in this Annual Report in accordance with the Listing Rules.

### Other Connected Transactions

Save as disclosed above, the Group did not enter into other connected transactions during the year.

## Loan Agreements Imposing Specific Performance Obligations on Controlling Shareholders

The Company issued 10-year senior notes on 13 May 2011 (the "2021 Senior Notes") in an aggregate amount of USD750 million (equivalent to RMB4,863 million). The terms and conditions of the 2021 Senior Notes requires Mr. Wang, the controlling shareholder of the Company, to retain his interests in the Company of at least 25% of the total issued share capital of the Company throughout the term of the respective agreements. The balance of the 2021 Senior Notes outstanding as at 31 December 2020 is USD366 million (equivalent to RMB2,380 million).

The Company issued 5-year bonds on 24 July 2017 (the "2022 Unsecured Bonds") which was due on 2022. The terms and conditions of the bond requires Mr. Wang, the controlling shareholder of the Company, to retain his interests in the Company of at least 20% of the total issued share capital of the Company throughout the term of the bonds. The principal loan balances of the bond is USD600 million (equivalent to RMB4,066 million). As at 31 December 2020, the outstanding balance is USD570 million (equivalent to RMB3,712 million) respectively.

On 23 November 2018, the Company entered into a club loan agreement with various banks in the amount of USD300 million (equivalent to RMB2,059 million) for a term of three years. The terms and conditions of the club loan agreement requires EGII, the controlling shareholder of the Company, to retain its interest in the Company of at least 20% of the total issued share capital of the Company throughout the terms of the loan, or Mr. Wang and Ms. Zhao collectively to retain their interest in the Company of at least 20% of the total issued share capital of the Company throughout the terms of the loan and remained as the single largest group of direct or indirect holder of the issued share capital of the Company. As at 31 December 2020, the outstanding balances are USD150 million (equivalent to RMB979 million).

Moreover, the Company issued 10-year green senior notes on 17 September 2020 (the "Green Senior Notes") in an aggregate amount of USD750 million (equivalent to RMB5,137 million). The terms and conditions of the 2030 Green Senior Notes requires Mr. Wang and Ms. Zhao, controlling shareholders of the Company, collectively to retain their interest in the Company of at least 20% of the total issued share capital of the Company throughout the terms of the notes. As at 31 December 2020, the outstanding balance is USD750 million (equivalent to RMB4,827 million).

## Charitable Donations

Charitable donations made by the Group during the year amounted to RMB52.85 million (2019: RMB36.80 million).

## Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this Annual Report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

## Review of Financial Result

A meeting of the Audit Committee was held on 19 March 2021 to review with the Company's external auditor on the Group's annual results and the Audited Consolidated Financial Statements for the year ended 31 December 2020. Based on the relevant reviews and discussions with the Management, the Audit Committee was satisfied that the Consolidated Financial Statements have been prepared in accordance with applicable accounting standards, and it presents fairly the financial position and results of the Group for the year ended 31 December 2020.

## Auditor

The Consolidated Financial Statements for the year ended 31 December 2020 have been audited by Messrs. Deloitte Touche Tohmatsu who would retire at the 2021 annual general meeting and, being eligible, offer themselves for re-appointment. A resolution to re-appoint Messrs. Deloitte Touche Tohmatsu as the auditor of the Company and authorise the Board to fix their remuneration will be proposed at the 2021 annual general meeting.

The other sections, reports and notes in the annual reports as mentioned above form parts of this Directors' Report.

On behalf of the Board
**WANG Yusuo**
*Chairman*

Hong Kong, 22 March 2021

# INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

**TO THE SHAREHOLDERS OF ENN ENERGY HOLDINGS LIMITED**
*(incorporated in the Cayman Islands with limited liability)*

## Opinion

We have audited the consolidated financial statements of ENN Energy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 77 to 184, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 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 disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

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

## Key Audit Matters

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Impairment assessment of goodwill allocated to integrated energy business** | |
| We identified the impairment assessment of goodwill attributable to integrated energy business (the "Integrated Energy CGU") as a key audit matter owing to the significance of the carrying amount of this goodwill and the significant estimates made by the management in determining the recoverable amounts of the Integrated Energy CGU and relevant inputs as disclosed in Note 5.<br><br>As disclosed in Note 19 to the consolidated financial statements, the carrying amount of goodwill attributable to integrated energy business amounted to RMB2,028 million as at 31 December 2020. | Our audit procedures in relation to impairment assessment of goodwill allocated to the Integrated Energy CGU included:<br><br>• Evaluating management's methodology for impairment assessment of goodwill and corroborating the discount rate used based on the market information with the assistance of internal valuation expert;<br><br>• Evaluating the discounted cash flows prepared by the management in deriving the recoverable amounts of the Integrated Energy CGU for the impairment assessment by checking the mathematical accuracy of discounted cash flow calculation, assessing the reasonableness of the key assumptions adopted by the management in the model with reference to the Group's historical performances and external market data, and reviewing the budget of the underlying projects approved by the management on a sample basis. |

## Key Audit Matters *(continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Fair value measurement of commodity derivative contracts**<br>We identified the fair value measurement of commodity derivative contracts as disclosed in Note 24 to the consolidated financial statements as a key audit matter due to the judgement and estimation required in establishing the relevant valuation techniques and inputs.<br><br>As further disclosed in Notes 5 and 53 to the consolidated financial statements, changes in these factors could affect the fair values of commodity derivative contracts. | Our audit procedures in relation to the fair value measurement of commodity derivative contracts included:<br>• Understanding the design and implementation of key controls over the valuation of commodity derivative contracts;<br>• Testing the completeness of commodity derivative contracts by arranging confirmation to the counterparties; and<br>• With the assistance of internal valuation expert, performing the following procedures on sample base:<br>– evaluating the appropriateness of management's valuation methodology;<br>– checking the relevant inputs used by the management to our independently sourced market inputs; and<br>– comparing the valuation based on our inputs with the management's results and investigating any differences. |

## Other Information

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

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

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

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

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of 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.

INDEPENDENT
AUDITOR'S REPORT

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

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

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

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

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*

Hong Kong
22 March 2021

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

| | Notes | **2020**<br>**RMB million** | 2019<br>RMB million |
|---|---|---|---|
| Revenue | 6 | **71,617** | 70,183 |
| Cost of sales | | **(59,285)** | (58,918) |
| Gross profit | | **12,332** | 11,265 |
| Other income | 8 | **952** | 861 |
| Other gains and losses | 9 | **282** | 644 |
| Distribution and selling expenses | | **(951)** | (976) |
| Administrative expenses | | **(3,230)** | (3,099) |
| Share of results of associates | | **306** | 326 |
| Share of results of joint ventures | | **476** | 547 |
| Finance costs | 10 | **(609)** | (727) |
| Profit before tax | 11 | **9,558** | 8,841 |
| Income tax expense | 13 | **(2,227)** | (1,980) |
| Profit for the year | | **7,331** | 6,861 |
| Other comprehensive income | | | |
| *Items that will not be reclassified to profit or loss:* | | | |
| Fair value change of equity instruments at fair value through other comprehensive income ("FVTOCI") | | **65** | (1) |
| Fair value change of properties transferred from property, plant and equipment to investment properties | | **–** | 3 |
| Income tax relating to items that will not be reclassified | | **(16)** | – |
| | | **49** | 2 |
| *Items that have been reclassified or may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising on translating foreign operations | | **1** | – |
| Reclassification of exchange reserve to profit or loss upon deregistration of a subsidiary | | **–** | 3 |
| Fair value change of derivative financial instruments under hedge accounting | | **(122)** | – |
| Income tax relating to items that may be reclassified | | **14** | – |
| Other comprehensive income for the year | | **(58)** | 5 |
| Total comprehensive income for the year | | **7,273** | 6,866 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | **6,278** | 5,670 |
| Non-controlling interests | | **1,053** | 1,191 |
| | | **7,331** | 6,861 |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **6,220** | 5,674 |
| Non-controlling interests | | **1,053** | 1,192 |
| | | **7,273** | 6,866 |

| | | **RMB** | RMB |
|---|---|---|---|
| Earnings per share | 15 | | |
| – Basic | | **5.59** | 5.05 |
| – Diluted | | **5.57** | 5.04 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

| | Notes | 2020 RMB million | 2019 RMB million |
|---|---|---|---|
| **Non-current Assets** | | | |
| Property, plant and equipment | 16 | **41,861** | 37,955 |
| Right-of-use assets | 17 | **2,129** | 2,185 |
| Investment properties | 18 | **261** | 268 |
| Goodwill | 19 | **2,511** | 2,379 |
| Intangible assets | 20 | **4,446** | 4,175 |
| Interests in associates | 21 | **3,619** | 3,308 |
| Interests in joint ventures | 22 | **4,141** | 3,841 |
| Other receivables | 23 | **73** | 48 |
| Derivative financial instruments | 24 | **292** | 328 |
| Financial assets at fair value through profit or loss ("FVTPL") | 25 | **4,760** | 4,841 |
| Equity instruments at FVTOCI | 26 | **211** | 123 |
| Amounts due from associates | 29 | **6** | 345 |
| Amounts due from joint ventures | 30 | **10** | 12 |
| Deferred tax assets | 32 | **1,370** | 1,292 |
| Deposits paid for investments | | **1** | 15 |
| Prepayment and deposits paid for acquisition of property, plant and equipment, land use rights and right of operation | | **134** | 169 |
| Restricted bank deposits | 34 | **650** | 446 |
| | | **66,475** | 61,730 |
| **Current Assets** | | | |
| Inventories | 33 | **1,285** | 1,169 |
| Trade and other receivables | 23 | **9,053** | 7,492 |
| Contract assets | 28 | **732** | 757 |
| Derivative financial instruments | 24 | **336** | 345 |
| Financial assets at FVTPL | 25 | **70** | 16 |
| Amounts due from associates | 29 | **892** | 575 |
| Amounts due from joint ventures | 30 | **2,106** | 1,058 |
| Amounts due from related companies | 31 | **348** | 164 |
| Restricted bank deposits | 34 | **116** | 566 |
| Cash and cash equivalents | 34 | **8,630** | 7,373 |
| | | **23,568** | 19,515 |

| | Notes | 2020 RMB million | 2019 RMB million |
|---|---|---|---|
| **Current Liabilities** | | | |
| Trade and other payables | 36 | **8,302** | 7,635 |
| Contract liabilities | 37 | **14,242** | 12,613 |
| Deferred income | 38 | **38** | 33 |
| Amounts due to associates | 29 | **319** | 189 |
| Amounts due to joint ventures | 30 | **976** | 785 |
| Amounts due to related companies | 31 | **925** | 1,060 |
| Taxation payables | | **971** | 962 |
| Lease liabilities | 35 | **89** | 100 |
| Bank and other loans – due within one year | 40 | **4,590** | 7,495 |
| Senior notes | 42 | **2,380** | – |
| Derivative financial instruments | 24 | **401** | 416 |
| | | **33,233** | 31,288 |
| **Net Current Liabilities** | | **(9,665)** | (11,773) |
| **Total Assets less Current Liabilities** | | **56,810** | 49,957 |
| **Capital and Reserves** | | | |
| Share capital | 39 | **117** | 116 |
| Reserves | | **30,444** | 25,752 |
| Equity attributable to owners of the Company | | **30,561** | 25,868 |
| Non-controlling interests | | **5,611** | 5,152 |
| **Total Equity** | | **36,172** | 31,020 |
| **Non-current Liabilities** | | | |
| Contract liabilities | 37 | **3,212** | 3,302 |
| Deferred income | 38 | **729** | 650 |
| Amounts due to joint ventures | 30 | **585** | 735 |
| Lease liabilities | 35 | **310** | 450 |
| Bank and other loans – due after one year | 40 | **2,078** | 2,848 |
| Corporate bonds | 41 | **2,097** | 2,094 |
| Senior notes | 42 | **4,827** | 2,539 |
| Unsecured bonds | 43 | **3,712** | 4,169 |
| Derivative financial instruments | 24 | **526** | 330 |
| Deferred tax liabilities | 32 | **2,562** | 1,820 |
| | | **20,638** | 18,937 |
| | | **56,810** | 49,957 |

The consolidated financial statements on pages 77 to 184 were approved and authorised for issue by the Board of Directors on 22 March 2021 and are signed on its behalf by:

**Wang Yusuo**
*DIRECTOR*

**Wang Dongzhi**
*DIRECTOR*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

| | Equity attributable to owners of the Company | | | | | | | | | | | | Non-controlling interests RMB million | Total equity RMB million |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB million (Note 39) | Treasury stocks RMB million | Share premium RMB million | Special reserve RMB million (note a) | Revaluation reserve RMB million | Share options reserve RMB million | Exchange reserve RMB million | Surplus reserve fund RMB million (note b) | Hedging reserve RMB million (Note 44) | Designated safety fund RMB million (note c) | Retained earnings RMB million | Total RMB million | | |
| At 1 January 2019 | 116 | – | 2,614 | (92) | 22 | 78 | (3) | 2,414 | – | 60 | 16,176 | 21,385 | 4,169 | 25,554 |
| Profit for the year | – | – | – | – | – | – | – | – | – | – | 5,670 | 5,670 | 1,191 | 6,861 |
| Other comprehensive income for the year | – | – | – | – | 1 | – | 3 | – | – | – | – | 4 | 1 | 5 |
| Total comprehensive income for the year | – | – | – | – | 1 | – | 3 | – | – | – | 5,670 | 5,674 | 1,192 | 6,866 |
| Recognition of equity-settled share-based payment (Note 45) | – | – | – | – | – | 74 | – | – | – | – | – | 74 | – | 74 |
| Issue of ordinary shares on exercise of share options (Notes 39 & 45) | – | – | 76 | – | – | (24) | – | – | – | – | – | 52 | – | 52 |
| Purchase of shares under Share Award Scheme | – | (151) | – | – | – | – | – | – | – | – | – | (151) | – | (151) |
| Acquisition of subsidiaries (Notes 47 & 48) | – | – | – | – | – | – | – | – | – | – | – | – | 314 | 314 |
| Disposal of subsidiaries (Note 49) | – | – | – | – | – | – | – | – | – | – | – | – | (2) | (2) |
| Acquisition of additional interests in subsidiaries | – | – | – | 10 | – | – | – | – | – | – | – | 10 | (110) | (100) |
| Capital contribution from non-controlling shareholders | – | – | – | – | – | – | – | – | – | – | – | – | 148 | 148 |
| Dividends appropriation (Note 14) | – | – | – | – | – | – | – | – | – | – | (1,176) | (1,176) | – | (1,176) |
| Dividends paid to non-controlling shareholders | – | – | – | – | – | – | – | – | – | – | – | – | (559) | (559) |
| Transfer to surplus reserve fund (note b) | – | – | – | – | – | – | – | 234 | – | – | (234) | – | – | – |
| Transfer from designated safety fund (note c) | – | – | – | – | – | – | – | – | – | (1) | 1 | – | – | – |
| At 31 December 2019 | 116 | (151) | 2,690 | (82) | 23 | 128 | – | 2,648 | – | 59 | 20,437 | 25,868 | 5,152 | 31,020 |
| Profit for the year | – | – | – | – | – | – | – | – | – | – | 6,278 | 6,278 | 1,053 | 7,331 |
| Other comprehensive income for the year | – | – | – | – | 49 | – | 1 | – | (108) | – | – | (58) | – | (58) |
| Total comprehensive income for the year | – | – | – | – | 49 | – | 1 | – | (108) | – | 6,278 | 6,220 | 1,053 | 7,273 |
| Cumulative loss transferred to initial carrying value of hedged items (Note 44) | – | – | – | – | – | – | – | – | 71 | – | – | 71 | – | 71 |
| Recognition of equity-settled share-based payment (Note 45) | – | – | – | – | – | 70 | – | – | – | – | – | 70 | – | 70 |
| Issue of ordinary shares on exercise of share options (Notes 39 & 45) | 1 | – | 163 | – | – | (51) | – | – | – | – | – | 113 | – | 113 |
| Purchase of shares under Share Award Scheme | – | (17) | – | – | – | – | – | – | – | – | – | (17) | – | (17) |
| Acquisition of subsidiaries (Notes 47 & 48) | – | – | – | – | – | – | – | – | – | – | – | – | 178 | 178 |
| Disposal/deregistration of subsidiaries | – | – | – | – | – | – | – | – | – | – | – | – | (161) | (161) |
| Acquisition of additional interests in subsidiaries | – | – | – | (45) | - | – | – | – | – | – | – | (45) | (123) | (168) |
| Disposal of partial interest in a subsidiary | – | – | – | – | – | – | – | – | – | – | – | – | 4 | 4 |
| Capital contribution from non-controlling shareholders | – | – | – | – | – | – | – | – | – | – | – | – | 97 | 97 |
| Dividends appropriation (Note 14) | – | – | (1,719) | – | – | – | – | – | – | – | – | (1,719) | – | (1,719) |
| Dividends paid to non-controlling shareholders | – | – | – | – | – | – | – | – | – | – | – | – | (589) | (589) |
| Transfer to surplus reserve fund (note b) | – | – | – | – | – | – | – | 478 | – | – | (478) | – | – | – |
| Transfer to designated safety fund (note c) | – | – | – | – | – | – | – | – | – | 8 | (8) | – | – | – |
| At 31 December 2020 | 117 | (168) | 1,134 | (127) | 72 | 147 | 1 | 3,126 | (37) | 67 | 26,229 | 30,561 | 5,611 | 36,172 |

Notes:

a. The balance represents the difference between the fair values of consideration paid and the carrying values of net assets attributable to the additional interests of subsidiaries acquired or disposed of with no change in control.

b. In accordance with the People's Republic of China ("PRC") regulations, the surplus reserve fund retained by subsidiaries in the PRC is non-distributable.

c. Pursuant to relevant PRC regulation, the Group is required to transfer 1.5% on revenue generated from construction and installation, transportation of gas or other dangerous chemical into a designated fund. The fund will be used for installation and repair and maintenance of safety facilities. The movement during the year represents the difference between the amount provided and the amount utilised during the year.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

| | Notes | **2020 RMB million** | 2019 RMB million |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit before tax | | **9,558** | 8,841 |
| Adjustments for: | | | |
| Share of results of associates | | **(306)** | (326) |
| Share of results of joint ventures | | **(476)** | (547) |
| Exchange differences | | **(553)** | 194 |
| Net loss (gain) of financial assets at FVTPL | | **45** | (5) |
| Net gain of derivative financial instruments | | **(102)** | (915) |
| Bargain purchase gain on acquisition of subsidiaries | 47 | **–** | (15) |
| Impairment losses on receivables and contract assets, net of reversal | | **129** | 44 |
| Impairment losses on property, plant and equipment | | **70** | – |
| Loss on disposal of property, plant and equipment | | **128** | 77 |
| Gain on disposal right-of-use assets | | **(18)** | (29) |
| Loss on disposal of subsidiaries | 49 | **62** | 2 |
| Gain on disposal of joint ventures | | **(4)** | (3) |
| Loss on disposal of associates | | **–** | 16 |
| Gain on remeasurement of interest in joint ventures previously held | | **–** | (11) |
| Loss on repurchase of unsecured bonds | | **9** | – |
| Dividends income from financial assets at FVTPL | | **(73)** | (139) |
| Dividends income from equity instruments at FVTOCI | | **(1)** | (7) |
| Decrease (increase) in fair value of investment properties | | **7** | (6) |
| Share-based payment expenses | | **70** | 74 |
| Depreciation of property, plant and equipment | | **1,603** | 1,377 |
| Depreciation of right-of-use assets | | **174** | 169 |
| Amortisation of intangible assets | | **304** | 238 |
| Interest income on bank deposits and loan receivables | | **(204)** | (200) |
| Finance costs | | **609** | 727 |
| | | **11,031** | 9,556 |
| Movements in working capital: | | | |
| (Increase) decrease in inventories | | **(117)** | 216 |
| (Increase) decrease in trade and other receivables | | **(1,297)** | 1,631 |
| Decrease (increase) in contract assets | | **36** | (148) |
| Increase in contract liabilities | | **1,480** | 2,185 |
| Increase in amounts due from associates | | **(57)** | (128) |
| Increase in amounts due from joint ventures | | **(84)** | (198) |
| (Increase) decrease in amounts due from related companies | | **(49)** | 55 |
| Increase (decrease) in trade and other payables | | **348** | (445) |
| Increase (decrease) in amounts due to joint ventures | | **201** | (51) |
| (Decrease) increase in amounts due to associates | | **(13)** | 68 |
| Increase in deferred income | | **91** | 138 |
| (Decrease) increase in amounts due to related companies | | **(165)** | 266 |
| Cash generated from operations | | **11,405** | 13,145 |
| PRC enterprise income tax paid | | **(1,709)** | (1,455) |
| **Net cash generated from operating activities** | | **9,696** | 11,690 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

| | Notes | 2020 RMB million | 2019 RMB million |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Dividends received from joint ventures | | **405** | 404 |
| Dividends received from associates | | **208** | 103 |
| Dividends received from financial assets at FVTPL | | **56** | 139 |
| Dividends received from equity instruments at FVTOCI | | **1** | 7 |
| Settlement of derivative financial instruments | | **10** | 108 |
| Option premium paid in relation to derivative financial instruments | | **(7)** | (19) |
| Interest received | | **204** | 200 |
| Purchases of property, plant and equipment | | **(5,515)** | (7,146) |
| Acquisition of intangible assets | | **(61)** | (39) |
| Proceeds from disposal of property, plant and equipment | | **179** | 234 |
| Purchases of wealth management products | | **(10,364)** | (20,480) |
| Redemptions of wealth management products | | **10,310** | 20,530 |
| Addition of right-of-use assets | | **(80)** | (197) |
| Deposits paid for investments | | **–** | (14) |
| Deposits paid for acquisition of right-of use assets | | **(13)** | (18) |
| Deposits paid for acquisition of property, plant and equipment | | **–** | (126) |
| Net cash outflow on acquisition of subsidiaries | 47&48 | **(636)** | (1,175) |
| Net cash inflow on disposal of subsidiaries | 49 | **246** | 42 |
| Proceeds from refund of financial assets at FVTPL | | **36** | 282 |
| Proceeds from disposal of joint ventures | | **28** | 17 |
| Proceeds from disposal of associates | | **12** | 26 |
| Proceeds from disposal of right-of-use assets | | **31** | 119 |
| Purchases of equity instruments at FVTOCI | | **(23)** | (12) |
| Investments in joint ventures | | **(211)** | (74) |
| Investments in associates | | **(225)** | (109) |
| Addition of restricted bank deposits | | **(547)** | (606) |
| Release of restricted bank deposits | | **793** | 295 |
| Amounts advanced to third parties | | **(1,421)** | (320) |
| Amounts repaid by third parties | | **1,233** | 311 |
| Amounts advanced to associates | | **(105)** | (114) |
| Amounts repaid by associates | | **166** | 195 |
| Amounts advanced to joint ventures | | **(1,097)** | (83) |
| Amounts repaid by joint ventures | | **34** | 812 |
| Amounts advanced to related companies | | **(139)** | (2) |
| Amounts repaid by related companies | | **1** | 14 |
| **Net cash used in investing activities** | | **(6,491)** | (6,696) |

| | 2020<br>RMB million | 2019<br>RMB million |
|---|---|---|
| **FINANCING ACTIVITIES** | | |
| Interest paid | **(756)** | (806) |
| Advanced from banks and other financial institutions by ENN Finance Company Limited ("ENN Finance") | **10,830** | 8,854 |
| Amounts repaid to banks and other financial institutions by ENN Finance | **(10,830)** | (8,854) |
| Purchase of shares under Share Award Scheme | **(17)** | (151) |
| Net proceeds from ordinary shares issued on exercise of share options | **113** | 52 |
| Proceeds from issuance of corporate bonds | **–** | 2,093 |
| Proceeds from issuance of Green Senior Notes | **5,065** | – |
| Capital contribution from non-controlling shareholders | **97** | 142 |
| Net cash outflow on acquisition of additional interest in subsidiaries | **(154)** | (100) |
| Net cash inflow on disposal of partial interest in a subsidiary | **6** | – |
| Dividends paid to non-controlling shareholders | **(589)** | (559) |
| Dividends paid to shareholders | **(1,719)** | (1,176) |
| New bank loans raised | **9,941** | 9,900 |
| Repayment of bank loans | **(13,586)** | (10,561) |
| Repayment of corporate bonds | **–** | (2,500) |
| Repayment of unsecured bonds | **(208)** | (459) |
| Repayment of lease liabilities | **(107)** | (101) |
| Advanced from associates | **144** | 3 |
| Amounts repaid to associates | **(1)** | (233) |
| Advanced from joint ventures | **214** | 14 |
| Amounts repaid to joint ventures | **(374)** | (1,106) |
| Advanced from related companies | **33** | 31 |
| Amounts repaid to related companies | **(3)** | (30) |
| **Net cash used in financing activities** | **(1,901)** | (5,547) |
| **Net increase (decrease) in cash and cash equivalents** | **1,304** | (553) |
| **Effect of foreign exchange rate changes** | **(47)** | 3 |
| **Cash and cash equivalents at the beginning of the year** | **7,373** | 7,923 |
| **Cash and cash equivalents at the end of the year** | **8,630** | 7,373 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 1. GENERAL INFORMATION

ENN Energy Holdings Limited (the "Company") is an exempted company incorporated in the Cayman Islands under the Companies Law and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of its registered office and principal place of business are disclosed in the section headed "Corporate Information" of the Company's Annual Report.

The consolidated financial statements of the Company and its subsidiaries (collectively referred to the "Group") are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 56.

## 2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company (the "Directors") have given careful consideration of the Group's net current liabilities of approximately RMB9,665 million as at 31 December 2020. A wholly-owned subsidiary of the Company has been approved by the National Development and Reform Commission on 19 January 2020 to issue green bonds amounting to RMB5,000 million. Except for the unutilised issuance quota of the green bonds, the Group has unutilised credit facilities of approximately RMB12,001 million as at 31 December 2020, which are subject to renewal within twelve months from the end of the reporting period. The Directors are therefore satisfied that the Group will be able to meet in full its financial obligations when they fall due in the foreseeable future. Accordingly, the consolidated financial statements for the year ended 31 December 2020 have been prepared on a going concern basis.

## 3. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

In the current year, The Group has applied the "Amendments to References to the Conceptual Framework in HKFRS Standards" and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

| | |
|---|---|
| Amendments to HKAS 1 and HKAS 8 | Definition of Material |
| Amendments to HKFRS 3 | Definition of a Business |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform |

The application of the "Amendments to References to the Conceptual Framework in HKFRS Standards" and amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

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

| | |
|---|---|
| HKFRS 17 | Insurance Contracts and the related Amendments[4] |
| Amendment to HKFRS 16 | Covid-19-Related Rent Concessions[1] |
| Amendments to HKFRS 3 | Reference to the Conceptual Framework[3] |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform – Phase 2[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5] |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[4] |
| Amendment to HKAS 16 | Property, Plant and Equipment – Proceeds before Intended Use[3] |
| Amendment to HKAS 37 | Onerous Contracts – Cost of Fulfilling a Contract[3] |
| Amendment to HKFRSs | Annual Improvements to HKFRSs 2018–2020[3] |

1 Effective for annual periods beginning on or after 1 June 2020

2 Effective for annual periods beginning on or after 1 January 2021

3 Effective for annual periods beginning on or after 1 January 2022

4 Effective for annual periods beginning on or after 1 January 2023

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

The management anticipates that the application of the new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation of consolidated financial statements**

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments, which are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

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

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

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

The principal accounting policies are set out below.

**Basis of consolidation**

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

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

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

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

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

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Basis of consolidation** *(continued)*

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

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

*Changes in the Group's ownership interests in existing subsidiaries*

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

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

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

**Business combinations or asset acquisition**

*Business*

A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

*Asset acquisitions*

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

*Business combinations*

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

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Business combinations or asset acquisition** *(continued)*

*Business combinations (continued)*

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the "Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting" issued in October 2010).

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

(a) deferred tax assets or liabilities, and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

(b) liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date;

(c) assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard; and

(d) lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases at the acquisition date, except for leases for which the lease term ends within 12 months of the acquisition date. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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

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

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date, and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have been recognised in other comprehensive income and measured under HKFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (which cannot exceed one year from the acquisition date), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Goodwill**

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") (or groups of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes.

A cash-generating unit (or group of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For goodwill arising on acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs). Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of profit or loss and other comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

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

**Investments in associates and joint ventures**

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

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

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is or the portion so classified is accounted for in accordance with HKFRS 5. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate or joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Investments in associates and joint ventures** *(continued)*

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any assets, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

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

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

**Revenue from contracts with customers**

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

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

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

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

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

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Revenue from contracts with customers** *(continued)*

*Performance obligations for contracts with customers*

The Group recognises revenue from the following sources:

(1) Retail gas sales

The Group sells natural gas to customers through pipelines, including both residential households and commercial and industrial customers. Revenue is recognised when the piped natural gas is transferred to and consumed by customers of which the volume of gas sold is measured by gas meters installed at customer sites.

The Group also operates vehicle gas refuelling stations to refuel vehicles with liquefied natural gas ("LNG") and compressed natural gas ("CNG"). Revenue is recognised when the refuelling is completed at the refuelling stations, being the time when LNG or CNG is transferred to customers.

(2) Sales of integrated energy

The Group supplies various energy products, such as gas, electricity, cooling, heating and steam. Revenue from sales of integrated energy is recognised when the energy is transferred to and consumed by the customers.

(3) Construction and installation

The Group provides construction and installation service under construction contracts with its customers. Such contracts are entered into for customers to gain access to the Group's gas pipelines or supply of integrated energy. Revenue is recognised over time based on the completion status of respective construction. The construction period is typically less than one year. The management considers that this output method is an appropriate measure of the progress towards complete satisfaction of the performance obligation.

(4) Wholesale of gas

The Group supplies LNG to wholesale customers. Revenue is recognised when control of LNG has transferred, being when the LNG has been bulk delivered to the customers' specific location.

(5) Sales of gas appliances and material

The Group sells gas appliances such as cooking stoves, water boilers, range hoods and space heaters to residential customers. In addition, the Group also sells construction materials and other energy products to commercial and industrial customers. Revenue is recognised when control of goods has transferred, being at the point the customers purchase the goods.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

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

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

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

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

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

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Revenue from contracts with customers** *(continued)*

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

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

*Existence of significant financing component*

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

For advance payments received from customers before the transfer of the associated goods or services in which the Group adjusts for the promised amount of considerations for a significant financing component, the Group applies a discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. The relevant interest expenses during the period between the advanced payments were received and the transfer of the associated goods and services are accounted for on the same basis as other borrowing costs.

*Principal versus agent*

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

**Lease**

*Definition of a lease*

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

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

*The Group as a lessee*

Allocation of consideration to components of a contract

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

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

As a practical expedient, leases with similar characteristics are accounted for on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Lease** *(continued)*

*The Group as a lessee (continued)*

Short-term leases

The Group applies the short-term lease recognition exemption to leases of various offices, warehouses, equipment and vehicles that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

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

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

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

Lease liabilities

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

The lease payments include:

- fixed payments less any lease incentives receivable;
- variable lease payments that depend on an index or a rate; and
- amounts expected to be paid under residual value guarantees.

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

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

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

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Lease** *(continued)*

*The Group as a lessee (continued)*

Lease modifications

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

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

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

*The Group as a lessor*

Classification and measurement of leases

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

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective lease. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 "Revenue from Contracts with Customers" to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments/ hedge accounting); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. All resulting exchange differences are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognised in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Government grants**

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

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

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

**Retirement benefit scheme contribution**

Payable to the Mandatory Provident Fund Scheme and the retirement funds scheme managed by local social security bureau in accordance with the government regulations of the PRC, are recognised as an expense when employees have rendered service entitling them to the contributions.

**Short-term and other long-term employee benefit**

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

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusions in the cost of an asset.

**Share-based payment**

Share options granted by the Company to employees (including directors) of the Group in an equity-settled share-based payment arrangement

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

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). Vesting conditions, other than market condition, shall not be taken into account when estimating the fair value of the share options at the measurement date. Instead, vesting conditions, i.e. a specified service period with or without a performance target, shall be taken into account in estimating the number of equity instrument that will ultimately vest. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share capital and share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary difference associated with investments in subsidiaries and interests in associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities.

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

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

Current and deferred tax are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Property, plant and equipment**

Property, plant and equipment are tangible assets included building and leasehold land (classified as finance lease) that are held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost or deemed cost for properties transferred from investment properties, less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

**Ownership interests in leasehold land and building**

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

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

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

If a property becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item (including the relevant leasehold land classified as right-of-use) at the date of transfer is recognised in other comprehensive income and accumulated in revaluation reserve. On the subsequent sale or retirement of the property, the relevant revaluation reserve will be transferred directly to retained earnings.

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

**Investment properties**

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

Investment properties are measured initially at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values, adjusted to exclude any prepaid or accrue operating lease income.

Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

For a transfer from investment property to property, plant and equipment, the investment property is measured at the fair value at the date of transfer. The fair value of the investment property will be recognised as the deemed cost of the property for subsequent accounting in accordance with the accounting policy of property, plant and equipment as set out above.

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Intangible assets

*Intangible assets acquired separately*

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

*Internally-generated intangible assets – research and development expenditure*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development or from the development phase of an internal project is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

*Intangible assets acquired in a business combination*

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

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

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

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

The recoverable amounts of property, plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if applicable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

**Inventories**

Inventories, including construction materials, gas appliances, natural gas, other energy inventories, spare parts and consumables and integrated energy appliances are stated at the lower of cost and net realisable value. Costs of inventories are determined using weighted average cost formula. Net realisable value represents the estimated selling price for inventories less all estimated costs to completion and the costs necessary to make the sale.

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instruments**

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

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

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

*Financial assets*

Classification and subsequent measurement of financial assets

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

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

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

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

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 “Business Combinations” applies.

A financial asset is held for trading if:

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

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

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instruments** *(continued)*

*Financial assets (continued)*

Classification and subsequent measurement of financial assets *(continued)*

*(i) Amortised cost and interest income*

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

*(ii) Equity instruments designated as at FVTOCI*

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

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

*(iii) Financial assets at FVTPL*

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

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy). The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets (and other items subject to impairment assessment under HKFRS 9)

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables and part of other receivables, restricted bank deposits, bank balances, amounts due from associates/joint ventures/related companies) and other items (contract assets and financial guarantee contracts) which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for trade receivables, contract assets and amounts due from associates/joint ventures/related companies arising from contracts with customers. The ECL on these assets are assessed individually for debtors with significant balances and collectively using a provision matrix with appropriate groupings for the remaining.

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

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instruments** *(continued)*

*Financial assets (continued)*

Impairment of financial assets (and other items subject to impairment assessment under HKFRS 9) *(continued)*

*(i) Significant increase in credit risk*

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

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

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

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

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an external credit rating of "investment grade" as per globally understood definitions.

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

*(ii) Definition of default*

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

Default has been considered occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instruments** *(continued)*

*Financial assets (continued)*

Impairment of financial assets (and other items subject to impairment assessment under HKFRS 9) *(continued)*

*(iii) Credit-impaired financial assets*

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

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

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

(e) the disappearance of an active market for that financial asset because of financial difficulties.

*(iv) Write-off policy*

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

*(v) Measurement and recognition of ECL*

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

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

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the ECL is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtors or any other party.

For ECL on financial guarantee contracts for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Lifetime ECL for trade receivables, contract assets and amounts due from associates/joint ventures/related companies arising from contracts with customers are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instruments** *(continued)*

*Financial assets (continued)*

Impairment of financial assets (and other items subject to impairment assessment under HKFRS 9) *(continued)*

*(v) Measurement and recognition of ECL (continued)*

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

Expect for financial guarantee contracts, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables, contract assets and amounts due from associate/joint ventures/related companies where the corresponding adjustment is recognised through a loss allowance account.

*Financial liabilities and equity instruments*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

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

Financial liabilities

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

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group, are measured in accordance with the specific accounting policies set out below.

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship (see hedge accounting policy). The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the "other gains and losses" line item in profit or loss.

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instruments** *(continued)*

*Financial liabilities and equity instruments (continued)*

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables, amounts due to associates/joint ventures/related companies, bank and other loans, corporate bonds, senior notes and unsecured bonds) that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost, using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group is initially measured at its fair value and if not designated as at FVTPL, are subsequently measured at the higher of: (i) the amount of the loss allowance determined in accordance with HKFRS 9; and (ii) the amount initially recognised less, where appropriate, cumulative amortisation. Amount initially recognised is amortised over the duration of the guarantee using the straight-line method.

*Derivative financial instruments*

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

*Hedge accounting*

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

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

For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable, the Group assumes that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instruments** *(continued)*

*Hedge accounting (continued)*

Assessment of hedging relationship and effectiveness

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

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

The Group designates only the intrinsic value of option contracts as a hedged item, i.e. excluding the time value of the option. The changes in the fair value of the aligned time value of the option are recognised in other comprehensive income and accumulated in the cost of hedging reserve. If the hedged item is transaction-related, the time value is reclassified to profit or loss when the hedged item affects profit or loss. If the hedged item is time period related, the amount accumulated in the cost of hedging reserve is reclassified to profit or loss on a straight-line basis. Those reclassified amounts are recognised in profit or loss in the same line as the hedged item. If the hedged item is a non-financial item, then the amount accumulated in the cost of hedging reserve is removed directly from equity and included in the initial carrying amount of the recognised non-financial item. Furthermore, if the Group expects that some or all of the loss accumulated in cost of hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

In assessing the economic relationship between the hedged item and the hedging instrument, the Group reviews their critical terms.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedge reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

For the purpose of reclassifying the amount of gains and losses accumulated in the cash flow hedge reserve in order to determine whether the hedged future cash flows are expected to occur, the Group assumes the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

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

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instruments** *(continued)*

*Hedge accounting (continued)*

Discontinuation of hedge accounting

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

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

*Derecognition*

The Group derecognises a financial asset only when the rights to receive cash flows from the assets expire or, when it transfers the financial assets and substantially all the risks and rewards of ownership of the assets to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

**Recognition of intangible assets acquired in business acquisition**

The Group accounts for acquisitions of businesses by using the acquisition method, and the consideration transferred for the business acquisition is allocated to the identifiable assets acquired and liabilities assumed based on their respective fair values as at acquisition date, including intangible assets. The Group usually determines the fair value of intangible assets using excess earning method, which requires a set of estimations and determination of key inputs, including the future cash flow, profit margins, revenue growth rates and discount rates. Any changes to these inputs may have significant impact on the fair value of intangible assets, and will consequently have further impact on the goodwill or the profit or loss in the case of a bargain purchase.

**Impairment assessment of goodwill and intangible assets**

Determining whether goodwill and intangible assets are impaired requires the estimation of the recoverable amount of the CGUs to which goodwill and intangible assets have been allocated which is the higher of the fair value less costs of disposal and its value in use. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable inputs, including revenue growth rate, profit margins, capital expenditures, and discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or changes in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss or further impairment loss may arise.

As at 31 December 2020, the carrying amounts of goodwill and intangible assets are RMB2,511 million and RMB4,446 million (2019: RMB2,379 million and RMB4,175 million), respectively. Details of the calculation of the recoverable amounts are set out in Notes 19 and 20.

**Fair value measurement of financial instruments**

Certain of the Group's financial instruments, including unlisted equity securities and derivative financial instruments amounting to RMB3,871 million (2019: RMB4,097 million) as at 31 December 2020 are measured at fair values with fair values being determined based on various valuation techniques and unobserved inputs. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs such as liquidity discount, estimates of future prices, market price volatility and credit risk. Changes in these factors could affect the fair values of these instruments. Further disclosures are set out in Note 53.

**Provision of ECL for trade receivables and contract assets**

The Group uses provision matrix to calculate ECL for the trade receivables and contract assets. The provision rates are based on shared credit risk characteristic as groupings of various debtors that have similar loss patterns. The provision matrix is based on the debtors' historical default rates taking into consideration forward-looking information that is reasonable and supportable without undue costs or effort. At the end of the reporting period, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables and contract assets with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and contract assets are disclosed in Notes 53, 23 and 28 respectively.

**Depreciation of property, plant and equipment**

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimates, such differences from the original estimates will impact the depreciation charges in the year in which the estimates change. As at 31 December 2020, the carrying amount of property, plant and equipment is RMB41,861 million (2019: RMB37,955 million).

## 6. REVENUE

Revenue from contract with customers comprises the following:

| | 2020<br>RMB million | 2019<br>RMB million |
|---|---|---|
| Sales of goods | | |
| Retail gas sales business | **40,510** | 40,049 |
| Integrated energy business | **4,611** | 2,365 |
| Wholesale of gas | **17,936** | 18,465 |
| Valued added business | **1,471** | 1,643 |
| | **64,528** | 62,522 |
| Provision of services | | |
| Construction and installation | **6,444** | 6,932 |
| Integrated energy business | **431** | 384 |
| Valued added business | **214** | 345 |
| | **7,089** | 7,661 |
| | **71,617** | 70,183 |

**Disaggregation of revenue from contracts with customers**

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Sales of goods<br>RMB million | Provision of services<br>RMB million | Total<br>RMB million | Sales of goods<br>RMB million | Provision of services<br>RMB million | Total<br>RMB million |
| **Types of goods or services** | | | | | | |
| Retail gas sales business | **40,510** | **–** | **40,510** | 40,049 | – | 40,049 |
| Integrated energy business | **4,611** | **431** | **5,042** | 2,365 | 384 | 2,749 |
| Wholesale of gas | **17,936** | **–** | **17,936** | 18,465 | – | 18,465 |
| Construction and installation | **–** | **6,444** | **6,444** | – | 6,932 | 6,932 |
| Valued added business | **1,471** | **214** | **1,685** | 1,643 | 345 | 1,988 |
| Total | **64,528** | **7,089** | **71,617** | 62,522 | 7,661 | 70,183 |

The performance obligations of the Group are part of contracts mainly with an original expected duration of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

## 7. SEGMENT INFORMATION

Information reported to the chief executive officer/joint vice chairman/vice chairman of the Company, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and performance assessment among segments focuses specifically on different type of goods and services.

### Segment revenue and results

Segment profit represents the profit earned by each segment without allocation of central administrative costs, distribution and selling expenses, share of results of associates and joint ventures, other income, other gains and losses and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

The following is an analysis of the Group's revenue and results by reportable segments which are also the operating segments for the year:

| **2020** | **Retail gas sales business RMB million** | **Integrated energy business RMB million** | **Wholesale of gas RMB million** | **Construction and installation RMB million** | **Value added business RMB million** | **Total RMB million** |
|---|---|---|---|---|---|---|
| Segment revenue | **57,875** | **5,099** | **38,451** | **7,434** | **6,391** | **115,250** |
| Inter-segment sales | **(17,365)** | **(57)** | **(20,515)** | **(990)** | **(4,706)** | **(43,633)** |
| Revenue from external customers | **40,510** | **5,042** | **17,936** | **6,444** | **1,685** | **71,617** |
| Segment profit before depreciation and amortisation | **7,576** | **1,049** | **366** | **3,616** | **1,315** | **13,922** |
| Depreciation and amortisation | **(1,085)** | **(146)** | **(4)** | **(352)** | **(3)** | **(1,590)** |
| Segment profit | **6,491** | **903** | **362** | **3,264** | **1,312** | **12,332** |

| 2019 | Retail gas sales business RMB million | Integrated energy business RMB million | Wholesale of gas RMB million | Construction and installation RMB million | Value added business RMB million | Total RMB million |
|---|---|---|---|---|---|---|
| Segment revenue | 54,515 | 3,020 | 33,686 | 8,404 | 7,255 | 106,880 |
| Inter-segment sales | (14,466) | (271) | (15,221) | (1,472) | (5,267) | (36,697) |
| Revenue from external customers | 40,049 | 2,749 | 18,465 | 6,932 | 1,988 | 70,183 |
| Segment profit before depreciation and amortisation | 6,669 | 600 | 171 | 3,991 | 1,239 | 12,670 |
| Depreciation and amortisation | (998) | (127) | (5) | (272) | (3) | (1,405) |
| Segment profit | 5,671 | 473 | 166 | 3,719 | 1,236 | 11,265 |

## 7. SEGMENT INFORMATION *(continued)*

### Segment assets and liabilities

An analysis of the Group's total assets and liabilities by segments is as follows:

| **2020** | **Retail gas sales business RMB million** | **Integrated energy business RMB million** | **Wholesale of gas RMB million** | **Construction and installation RMB million** | **Value added business RMB million** | **Total RMB million** |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Segment assets | **34,274** | **7,997** | **2,649** | **9,364** | **2,998** | **57,282** |
| Interests in associates | | | | | | **3,619** |
| Interests in joint ventures | | | | | | **4,141** |
| Unallocated corporate assets | | | | | | **25,001** |
| Consolidated total assets | | | | | | **90,043** |
| Liabilities: | | | | | | |
| Segment liabilities | **11,281** | **3,509** | **577** | **12,246** | **2,048** | **29,661** |
| Bank and other loans | | | | | | **6,668** |
| Corporate bonds | | | | | | **2,097** |
| Senior notes | | | | | | **7,207** |
| Unsecured bonds | | | | | | **3,712** |
| Unallocated corporate liabilities | | | | | | **4,526** |
| Consolidated total liabilities | | | | | | **53,871** |

| 2019 | Retail gas sales business RMB million | Integrated energy business RMB million | Wholesale of gas RMB million | Construction and installation RMB million | Value added business RMB million | Total RMB million |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Segment assets | 32,091 | 5,808 | 1,785 | 7,767 | 2,213 | 49,664 |
| Interests in associates | | | | | | 3,308 |
| Interests in joint ventures | | | | | | 3,841 |
| Unallocated corporate assets | | | | | | 24,432 |
| Consolidated total assets | | | | | | 81,245 |
| Liabilities: | | | | | | |
| Segment liabilities | 9,154 | 2,825 | 471 | 10,512 | 1,694 | 24,656 |
| Bank and other loans | | | | | | 10,343 |
| Corporate bonds | | | | | | 2,094 |
| Senior notes | | | | | | 2,539 |
| Unsecured bonds | | | | | | 4,169 |
| Unallocated corporate liabilities | | | | | | 6,424 |
| Consolidated total liabilities | | | | | | 50,225 |

## 7. SEGMENT INFORMATION *(continued)*

**Segment assets and liabilities** *(continued)*

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than unallocated corporate assets, mainly including unallocated property, plant and equipment, right-of-use assets, intangible assets, goodwill, investment properties, interests in associates, interests in joint ventures, deferred tax assets, certain other receivables, deposits, amounts due from associates, joint ventures and related companies, equity instruments at FVTOCI, financial assets at FVTPL, derivative financial instruments, restricted bank deposits and cash and cash equivalents. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segments; and
- all liabilities are allocated to reportable segments other than unallocated corporate liabilities, mainly including certain other payables, amounts due to associates, joint ventures and related companies, taxation payables, lease liabilities, bank and other loans, corporate bonds, senior notes, derivative financial instruments, unsecured bonds and deferred tax liabilities. Liabilities for which segments are jointly liable are allocated in proportion to segments assets.

For the purposes of presenting segment revenue, results, assets and liabilities, the Group allocates certain property, plant and equipment, intangible assets and right-of-use assets to certain segments with the related depreciation and release of prepaid lease payments to those segments.

**Other segment information**

Amounts included in the measurement of segment profit and segment assets:

| | Retail gas sales business RMB million | Integrated energy business RMB million | Wholesale of gas RMB million | Construction and installation RMB million | Value added business RMB million | Total RMB million |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| Additions to non-current assets (note b) | **4,938** | **1,497** | **105** | **874** | **22** | **7,436** |
| Depreciation and amortisation | **1,085** | **146** | **4** | **352** | **3** | **1,590** |
| Impairment losses on trade receivables recognised in profit or loss | **4** | **11** | **2** | **69** | **16** | **102** |
| Impairment losses on contract assets reversed in profit or loss | **–** | **(1)** | **–** | **(8)** | **–** | **(9)** |
| 2019 | | | | | | |
| Additions to non-current assets (note b) | 7,687 | 1,253 | 105 | 1,364 | 41 | 10,450 |
| Depreciation and amortisation | 998 | 127 | 5 | 272 | 3 | 1,405 |
| Impairment losses on trade receivables (reversed) recognised in profit or loss | (7) | 12 | (2) | 37 | 11 | 51 |
| Impairment losses on contract assets recognised in profit or loss | – | 1 | – | 2 | – | 3 |

## 7. SEGMENT INFORMATION *(continued)*

**Other segment information** *(continued)*

| | **Additions to non-current assets (note b)** | | **Depreciation and amortisation** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **RMB million** | RMB million | **RMB million** | RMB million |
| Segment total | **7,436** | 10,450 | **1,590** | 1,405 |
| Adjustments (note a) | **62** | 91 | **491** | 379 |
| Total | **7,498** | 10,541 | **2,081** | 1,784 |

Notes:

a. Adjustments represent amounts incurred for corporate headquarters and are not allocated to operating segments.

b. Non-current assets include property, plant and equipment, right-of-use assets, goodwill and intangible assets.

There is no single customer contribute more than 10% of the total revenue of the Group.

Substantially all of the Group's revenue and non-current assets are located in the PRC. For the year ended 31 December 2020, the revenues from the PRC and overseas were RMB71,450 million (2019: RMB70,021 million) and RMB167 million (2019: RMB 162 million), respectively. As of 31 December 2020, the non-current assets located in the PRC were RMB66,463 million (2019: RMB61,717 million) and overseas were RMB12 million (2019: RMB 13 million).

## 8. OTHER INCOME

| | **2020** | 2019 |
|---|---|---|
| | **RMB million** | RMB million |
| Other income mainly includes: | | |
| Incentive subsidies (note) | **350** | 213 |
| Dividends income from equity instruments at FVTOCI | **1** | 7 |
| Dividends income from financial assets at FVTPL | **73** | 139 |
| Interest income on bank deposits | **80** | 104 |
| Interest income on loan receivables from joint ventures and associates | **26** | 66 |
| Interest income on loan receivables from third parties | **98** | 30 |
| Rental income from investment properties | **10** | 10 |
| Rental income from equipments | **42** | 40 |

Note: The amount mainly represents refunds of various taxes as incentives and other incentives related to the Group's operation by the government authorities in various cities of the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

## 9. OTHER GAINS AND LOSSES

| | 2020<br>RMB million | 2019<br>RMB million |
|---|---|---|
| Net (loss) gain on disposal of: | | |
| – Property, plant and equipment | **(128)** | (77) |
| – Right-of-use assets | **18** | 29 |
| – Subsidiaries (Note 49) | **(62)** | (2) |
| – Joint ventures | **4** | 3 |
| – Associates | **–** | (16) |
| Bargain purchase gain on acquisition of subsidiaries (Note 47) | **–** | 15 |
| Gain on remeasurement of interests in joint ventures previously held (Note 47) | **–** | 11 |
| (Decrease) increase in fair value of investment properties (Note 18) | **(7)** | 6 |
| Net (loss) gain of: | | |
| – Financial assets at FVTPL (Note 25) | **(45)** | 5 |
| – Derivative financial instruments (Note 24) | **102** | 915 |
| Impairment losses under expected credit loss model, net of reversal | | |
| – Trade and other receivables | **(106)** | (48) |
| – Contract assets | **9** | (3) |
| – Amounts due from associates/joint ventures/related companies | **(32)** | 7 |
| Impairment loss recognised in respect of property, plant and equipment | **(70)** | – |
| Loss on repurchase of unsecured bonds | **(9)** | – |
| Gain (loss) on foreign exchange, net (note) | **608** | (198) |
| Release of exchange reserve to profit or loss upon deregistration of a subsidiary | **–** | (3) |
| | **282** | 644 |

Note: Included in the amount for the year ended 31 December 2020 is an exchange gain of approximately RMB605 million (2019: exchange loss of approximately RMB192 million) arising from the translation of senior notes, unsecured bonds and bank loans denominated in United States dollars ("USD") to RMB.

## 10. FINANCE COSTS

| | 2020<br>RMB million | 2019<br>RMB million |
|---|---|---|
| Interest on: | | |
| Bank and other loans | **288** | 390 |
| Senior notes | **198** | 157 |
| Corporate bonds | **90** | 143 |
| Unsecured bonds | **139** | 153 |
| Lease liabilities | **27** | 34 |
| | **742** | 877 |
| Less: Amount capitalised under construction in progress (note) | **(181)** | (150) |
| | **561** | 727 |
| Fair value loss reclassified from equity on foreign currency derivative designated as cash flow hedges for USD debts | **48** | – |
| | **609** | 727 |

Note: Borrowing costs capitalised during both years were incurred on funds borrowed specifically and generally for the purpose of expenditure on qualifying assets. In respect of funds borrowed generally for the purpose of expenditure on qualifying assets, the amount of borrowing costs capitalised during the year was calculated by applying a capitalisation rate of 3.43% (2019: 3.89%) per annum.

## 11. PROFIT BEFORE TAX

| | **2020**<br>**RMB million** | 2019<br>RMB million |
|---|---|---|
| Profit before tax has been arrived at after charging (crediting): | | |
| Share-based payment expenses, including directors' emoluments (included in administrative expenses) | **70** | 74 |
| Other staff costs, including directors' emoluments | **3,364** | 3,199 |
| Less: Amount of other staff costs capitalised under construction in progress | **(168)** | (165) |
| | **3,266** | 3,108 |
| Depreciation and amortisation: | | |
| Property, plant and equipment | **1,603** | 1,377 |
| Intangible assets | **304** | 238 |
| Right-of-use assets | **174** | 169 |
| Total depreciation and amortisation (note) | **2,081** | 1,784 |
| Auditors' remuneration | **20** | 21 |
| Minimum lease payments under operating leases in respect of premises, equipment and vehicles recognised in profit or loss | **24** | 35 |

Note: The amount of total staff costs and depreciation and amortisation included in cost of sales, distribution and selling expenses and administrative expenses are as follows:

| | **2020**<br>**RMB million** | 2019<br>RMB million |
|---|---|---|
| Staff costs included in: | | |
| Cost of sales | **1,094** | 1,003 |
| Distribution and selling expenses | **656** | 683 |
| Administrative expenses | **1,516** | 1,422 |
| | **3,266** | 3,108 |
| Depreciation and amortisation included in: | | |
| Cost of sales | **1,590** | 1,405 |
| Distribution and selling expenses | **96** | 57 |
| Administrative expenses | **395** | 322 |
| | **2,081** | 1,784 |

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

### a. Directors' emoluments

Emoluments paid and payable to the Directors for the year were as follows:

| | 2020 | | | | | |
|---|---|---|---|---|---|---|
| **Name of director** | **Fee RMB'000** | **Salaries and allowance RMB'000** | **Discretionary performance bonus RMB'000** | **Share-based payment RMB'000** | **Retirement benefit scheme contributions RMB'000** | **Total emoluments RMB'000** |
| **Executive Directors:** (note a) | | | | | | |
| Wang Yusuo | – | 2,850 | – | 2,817 | – | 5,667 |
| Cheung Yip Sang*** | – | 450 | – | 824 | 7 | 1,281 |
| Han Jishen**** | – | 2,409 | – | 1,771 | 106 | 4,286 |
| Wang Dongzhi | – | 1,900 | 1,100 | 1,877 | – | 4,877 |
| Zhang Yuying | – | 1,750 | 4,546 | 1,164 | 105 | 7,565 |
| Zheng Hongtao***** | – | 362 | 1,472 | – | 22 | 1,856 |
| Sub-total | – | 9,721 | 7,118 | 8,453 | 240 | 25,532 |
| **Non-executive Directors:** | | | | | | |
| Wang Zizheng****** | 396 | 368 | – | 2,062 | 16 | 2,842 |
| Jin Yongshang******* | 417 | – | – | 15 | – | 432 |
| Sub-total | 813 | 368 | – | 2,077 | 16 | 3,274 |
| **Independent Non-executive Directors:** (note b) | | | | | | |
| Ma Zhixiang | 483 | – | – | 350 | – | 833 |
| Yuen Po Kwong | 483 | – | – | 350 | – | 833 |
| Law Yee Kwan, Quinn | 483 | – | – | 350 | – | 833 |
| Yien Yu Yu, Catherine | 483 | – | – | 322 | – | 805 |
| Sub-total | 1,932 | – | – | 1,372 | – | 3,304 |
| Total | 2,745 | 10,089 | 7,118 | 11,902 | 256 | 32,110 |

## 12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(continued)*

### a. Directors' emoluments *(continued)*

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| Name of director | Fee<br>RMB'000 | Salaries and allowance<br>RMB'000 | Discretionary performance bonus<br>RMB'000 | Share-based payment<br>RMB'000 | Retirement benefit scheme contributions<br>RMB'000 | Total emoluments<br>RMB'000 |
| **Executive Directors:** (note a) | | | | | | |
| Wang Yusuo | – | 2,601 | – | 2,470 | – | 5,071 |
| Cheung Yip Sang | – | 1,600 | – | 1,923 | 16 | 3,539 |
| Wang Zizheng | – | 1,650 | 56 | 1,582 | 16 | 3,304 |
| Han Jishen | – | 3,150 | 4,419 | 1,843 | 143 | 9,555 |
| Liu Min* | – | 2,704 | 1,596 | 2,103 | 164 | 6,567 |
| Wang Dongzhi | – | 1,650 | 902 | 1,644 | – | 4,196 |
| Zhang Yuying** | – | 217 | – | 82 | 9 | 308 |
| Sub-total | – | 13,572 | 6,973 | 11,647 | 348 | 32,540 |
| **Independent Non-executive Directors:** (note b) | | | | | | |
| Ma Zhixiang | 400 | – | – | 300 | – | 700 |
| Yuen Po Kwong | 400 | – | – | 300 | – | 700 |
| Law Yee Kwan, Quinn | 400 | – | – | 300 | – | 700 |
| Yien Yu Yu, Catherine | 400 | – | – | 388 | – | 788 |
| Sub-total | 1,600 | – | – | 1,288 | – | 2,888 |
| Total | 1,600 | 13,572 | 6,973 | 12,935 | 348 | 35,428 |

* Mr. Liu Min resigned on 4 December 2019.

** Mr. Zhang Yuying was appointed as an executive director of the Company on 4 December 2019.

*** Mr. Cheung Yip Sang retired on 13 May 2020.

**** Mr. Han Jishen resigned on 2 November 2020.

***** Mr. Zheng Hongtao was appointed as an executive director of the Company on 14 September 2020.

****** Mr. Wang Zizheng was re-designated as a non-executive director of the Company from an executive director of the Company since 16 March 2020.

******* Mr. Jin Yongsheng was appointed as a non-executive director of the Company on 16 March 2020.

Notes:

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

b. The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

None of the Directors waived any emoluments during both years.

The discretionary performance bonus is determined by reference to the Group's performance during the year.

## 12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(continued)*

### b. Five highest paid individuals

The five highest paid employees of the Group during the year included two (2019: three) directors, details of whose remuneration are set out in Note 12(a) above. Details of the remuneration for the year of the remaining three (2019: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Salaries and allowance | **5,800** | 4,160 |
| Discretionary performance bonus | **11,433** | 5,826 |
| Share-based payment | **2,878** | 1,413 |
| Retirement benefits scheme | **383** | 239 |
| | **20,494** | 11,638 |

The number of the highest paid employees included the Directors whose remuneration fell within the following bands is as follows:

| | 2020<br>Number of employees | 2019<br>Number of employees |
|---|---|---|
| HK$5,500,001 to HK$6,000,000 | **–** | 1 |
| HK$6,000,001 to HK$6,500,000 | **1** | 1 |
| HK$7,000,001 to HK$7,500,000 | **1** | 2 |
| HK$7,500,001 to HK$8,000,000 | **1** | – |
| HK$8,000,001 to HK$8,500,000 | **1** | – |
| HK$8,500,001 to HK$9,000,000 | **1** | – |
| HK$10,500,001 to HK$11,000,000 | **–** | 1 |
| | **5** | 5 |

## 13. INCOME TAX EXPENSE

| | **2020** **RMB million** | 2019 RMB million |
|---|---|---|
| Current tax | **1,736** | 1,565 |
| (Overprovision) underprovision in prior years | **(10)** | 1 |
| Withholding tax | **63** | 69 |
| Overprovision of withholding tax in prior years | **(71)** | – |
| | **1,718** | 1,635 |
| Deferred tax (Note 32) | **509** | 345 |
| | **2,227** | 1,980 |

The charge substantially represents PRC Enterprise Income Tax for both years.

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

Certain subsidiaries of the Company are qualified as "High and New Tech Enterprises", which are subject to PRC Enterprise Income Tax at the preferential rate of 15% of the estimated assessable profit as determined in accordance with relevant tax rules and regulations in the PRC. This preferential rate could be applied for three years and the subsidiaries are eligible to apply the tax concession again upon expiry of the three-year period.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit.

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

| | **2020** **RMB million** | 2019 RMB million |
|---|---|---|
| Profit before tax | **9,558** | 8,841 |
| Tax at the PRC Enterprise Income Tax rate of 25% (2019: 25%) | **2,390** | 2,210 |
| Tax effects of share of results of associates | **(77)** | (81) |
| Tax effects of share of results of joint ventures | **(119)** | (137) |
| Tax effects of income not taxable for tax purpose | **(44)** | (288) |
| Tax effects of expenses not deductible for tax purpose | **107** | 211 |
| Tax effects of tax losses not recognised | **113** | 173 |
| Utilisation of tax losses previously not recognised | **(80)** | (80) |
| Utilisation of temporary differences not recognised | **(23)** | (16) |
| Tax concession and exemption granted to certain PRC subsidiaries | **(143)** | (121) |
| Effect of different tax rates of subsidiaries operating in Hong Kong | **(30)** | (10) |
| (Overprovision) underprovision in respect of prior years | **(10)** | 1 |
| Withholding tax on undistributed profit of PRC entities | **143** | 118 |
| Income tax charge for the year | **2,227** | 1,980 |

## 14. DIVIDENDS

| | 2020<br>RMB million | 2019<br>RMB million |
|---|---|---|
| Final dividend paid in respect of previous financial year | **1,719** | 1,176 |

Notes:

a. 2019 final dividend of HK$1.67 (equivalent to approximately RMB1.50) per ordinary share or approximately RMB1,719 million in aggregate was paid during the year ended 31 December 2020.

b. The proposed final dividend in respect of 2020 of HK$2.10 (equivalent to approximately RMB1.77) per ordinary share and a special dividend of HK$0.32 (equivalent to approximately RMB0.27) per ordinary share with total amount of HK$2,730 million (2019: HK$1,880 million) has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 15. EARNINGS PER SHARE

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

### Basic earnings per share

Basic earnings per share for the years ended 31 December 2020 and 2019 are calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year.

| | 2020 | 2019 |
|---|---|---|
| Profit for the year attributable to the owners of the Company (RMB million) | **6,278** | 5,670 |
| Weighted average number of ordinary shares | **1,123,467,932** | 1,122,968,436 |
| Basic earnings per share (RMB) | **5.59** | 5.05 |

### Diluted earnings per share

Diluted earnings per share for the years ended 31 December 2020 and 2019 are calculated assuming all dilutive potential ordinary shares were converted.

| | 2020 | 2019 |
|---|---|---|
| **Earnings** | | |
| Earnings for the purpose of diluted earnings per share (RMB million) | **6,278** | 5,670 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,123,467,932** | 1,122,968,436 |
| Effect of dilutive potential ordinary shares: | | |
| – share options | **2,714,693** | 2,626,599 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **1,126,182,625** | 1,125,595,035 |
| Diluted earnings per share (RMB) | **5.57** | 5.04 |

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings<br>RMB million | Pipelines<br>RMB million | Machinery and equipment<br>RMB million | Motor vehicles<br>RMB million | Office equipment<br>RMB million | Properties under construction<br>RMB million | Total<br>RMB million |
|---|---|---|---|---|---|---|---|
| **COST** | | | | | | | |
| At 1 January 2019 | 4,133 | 24,286 | 2,642 | 444 | 1,679 | 4,691 | 37,875 |
| Acquisition of subsidiaries (Notes 47 & 48) | 221 | 586 | 90 | 6 | 2 | 321 | 1,226 |
| Additions | 16 | 351 | 290 | 64 | 304 | 6,325 | 7,350 |
| Transfer from investment properties | 7 | – | – | – | – | – | 7 |
| Reclassification | 355 | 4,364 | 385 | 2 | 51 | (5,157) | – |
| Transfer to investment properties | (1) | – | – | – | – | – | (1) |
| Disposal of subsidiaries | (2) | (1) | (13) | – | – | – | (16) |
| Disposals | (85) | (178) | (133) | (44) | (76) | (5) | (521) |
| At 31 December 2019 | 4,644 | 29,408 | 3,261 | 472 | 1,960 | 6,175 | 45,920 |
| Acquisition of subsidiaries (Notes 47 & 48) | 127 | 317 | 81 | 6 | 1 | 26 | 558 |
| Additions | 37 | 70 | 226 | 75 | 252 | 5,048 | 5,708 |
| Reclassification | 487 | 4,383 | 557 | – | 73 | (5,500) | – |
| Transfer to investment properties | (3) | – | – | – | – | – | (3) |
| Disposal of subsidiaries | (202) | (219) | (165) | (2) | (7) | (4) | (599) |
| Disposals | (140) | (222) | (146) | (86) | (32) | (7) | (633) |
| At 31 December 2020 | 4,950 | 33,737 | 3,814 | 465 | 2,247 | 5,738 | 50,951 |
| **DEPRECIATION AND IMPAIRMENT** | | | | | | | |
| At 1 January 2019 | 653 | 4,288 | 707 | 245 | 909 | – | 6,802 |
| Provided for the year | 143 | 758 | 226 | 67 | 183 | – | 1,377 |
| Disposal of subsidiaries | – | – | (4) | – | – | – | (4) |
| Eliminated on disposals | (13) | (35) | (59) | (39) | (64) | – | (210) |
| At 31 December 2019 | 783 | 5,011 | 870 | 273 | 1,028 | – | 7,965 |
| Provided for the year | 165 | 938 | 261 | 50 | 189 | – | 1,603 |
| Impairment loss | 17 | – | 53 | – | – | – | 70 |
| Disposal of subsidiaries | (61) | (53) | (99) | (2) | (7) | – | (222) |
| Eliminated on disposals | (30) | (114) | (84) | (75) | (23) | – | (326) |
| At 31 December 2020 | 874 | 5,782 | 1,001 | 246 | 1,187 | – | 9,090 |
| **CARRYING VALUES** | | | | | | | |
| At 31 December 2020 | 4,076 | 27,955 | 2,813 | 219 | 1,060 | 5,738 | 41,861 |
| At 31 December 2019 | 3,861 | 24,397 | 2,391 | 199 | 932 | 6,175 | 37,955 |

## 16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The above items of property, plant and equipment, other than properties under construction, are depreciated on a straight-line basis as follows:

| | |
|---|---|
| Leasehold land and buildings | Over the shorter of 30 years or the term of the leases |
| Pipelines | Over the shorter of 30 years or the term of the leases |
| Machinery and equipment | 10 years |
| Motor vehicles | 6 years |
| Office equipment | 6 years |

At the end of the reporting period, except for certain land and buildings with carrying value of RMB35 million (2019: RMB37 million) which are located in Hong Kong, the remaining land and buildings are located in the PRC.

At the end of the reporting period, the Group is in the process of applying for ownership certificates for its buildings in the PRC amounting to approximately RMB421 million (2019: RMB430 million).

## 17. RIGHT-OF-USE ASSETS

| | **Prepaid lease payments** RMB million | **Leasehold land and buildings** RMB million | **Motor vehicles** RMB million | **Equipment** RMB million | **Total** RMB million |
|---|---|---|---|---|---|
| At 1 January 2019 | 1,440 | 580 | 48 | 4 | 2,072 |
| Acquisition of subsidiaries (Note 47) | 124 | – | – | – | 124 |
| Additions | 294 | 40 | – | – | 334 |
| Disposal of subsidiaries (Note 49) | (65) | – | – | – | (65) |
| Disposals | (90) | (21) | – | – | (111) |
| Depreciation | (50) | (98) | (19) | (2) | (169) |
| At 31 December 2019 | 1,653 | 501 | 29 | 2 | 2,185 |
| Acquisition of subsidiaries (Notes 47) | 97 | – | – | – | 97 |
| Additions | 115 | 80 | 1 | 6 | 202 |
| Disposal of subsidiaries (Note 49) | (41) | (105) | – | – | (146) |
| Disposals | (15) | (20) | – | – | (35) |
| Depreciation | (57) | (98) | (17) | (2) | (174) |
| At 31 December 2020 | 1,752 | 358 | 13 | 6 | 2,129 |
| Expense relating to short-term lease and other leases with lease terms ended within 12 months of the date of initial application of HKFRS 16 | | | | | 24 |
| Variable lease payments not included in the measurement of lease liabilities | | | | | 6 |
| Total cash outflow for leases | | | | | 164 |

The Group leases various offices, warehouses, equipment and vehicles for its operations. Lease contracts are entered into for fixed term of 1 month to 50 years, but may have extension and termination options. Lease terms are negotiated on an individual basis and contain different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

At the end of the reporting period, the Group is in the process of applying for the land use right certificates for the land in the PRC amounting to approximately RMB101 million (2019: RMB110 million). In the opinion of the Directors, the Group is not required to incur additional cost in obtaining the land use right certificates.

The Group entered into several short-term leases for various offices, warehouses, equipment and vehicles. As at 31 December 2020, the total outstanding commitments of such leases is RMB8 million.

## 18. INVESTMENT PROPERTIES

| | RMB million |
|---|---|
| **FAIR VALUE** | |
| At 1 January 2019 | 265 |
| Net increase in fair value recognised in profit or loss | 6 |
| Transfers from property, plant and equipment | 4 |
| Transfers to property, plant and equipment | (7) |
| At 31 December 2019 | 268 |
| Exchange realignment | (3) |
| Net decrease in fair value recognised in profit or loss (Note 9) | (7) |
| Transfers from property, plant and equipment | 3 |
| At 31 December 2020 | 261 |

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties. These investment properties include land and buildings which comprise operating leases in respect of properties situated in the PRC and Hong Kong.

The fair value of the Group's investment properties at 31 December 2020 and 2019 has been arrived at on the basis of a valuation carried out on those dates by Knight Frank Petty, a firm of independent valuers. The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. A significant increase in the market rent used would result in a significant increase in fair value, and vice versa. The Group's investment properties were classified in the Level 3 of fair value hierarchy as at 31 December 2020 and 2019.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

## 19. GOODWILL

| | **2020**<br>**RMB million** | 2019<br>RMB million |
|---|---|---|
| **COST** | | |
| At 1 January | **2,430** | 2,299 |
| Acquisition of subsidiaries (Note 47) | **148** | 131 |
| Disposal of subsidiaries (Note 49) | **(16)** | – |
| At 31 December | **2,562** | 2,430 |
| **IMPAIRMENT** | | |
| At 1 January and 31 December | **(51)** | (51) |
| **CARRYING VALUES** | | |
| At 31 December | **2,511** | 2,379 |

Note: The Group tests goodwill for impairment annually, or more frequently if there are indications that goodwill might be impaired.

## 19. GOODWILL *(continued)*

Note: *(continued)*

For the purposes of impairment testing, goodwill has been allocated to the following CGUs. At the end of the reporting period, the carrying value of goodwill mainly represents goodwill arising from the acquisition of:

| | **2020**<br>**RMB million** | 2019<br>RMB million |
|---|---|---|
| Integrated energy business located in the PRC | **2,028** | 1,998 |
| Sale of piped gas business located in Xuancheng, the PRC | **100** | 100 |
| Sale of piped gas business located in Binzhou, the PRC | **–** | 16 |
| Sale of piped gas business located in Linyi, the PRC | **15** | 15 |
| Sale of piped gas business located in Gaofeng, the PRC | **27** | – |
| Sale of piped gas business located in Inner Mongolia, the PRC | **21** | – |
| Sale of piped gas business located in Jiangsu, the PRC | **52** | – |
| Sale of piped gas business located in Shuangcheng, the PRC | **18** | – |
| Other CGUs of sales of piped gas business, the PRC | **250** | 250 |
| | **2,511** | 2,379 |

For the purpose of impairment testing, the recoverable amounts of the CGUs are determined from value in use calculations.

**CGU of integrated energy business in the PRC**

The Group prepares cash flow projection for integrated energy business in the PRC covering a 5-year (2019: 6-year) period and the cash flow beyond the 5-year (2019: 6-year) period was extrapolated using a steady growth rate of 3% (2019: 3%). For the 5-year (2019: 6-year) period, the first three years are based on financial budgets approved by management and based on the pattern consistent with the track record of the respective entity taking into account the stage of the development of the respective integrated energy projects. The revenues beyond the 3-year period but within the fifth (2019: sixth) year were estimated using an annualised growth rates of 8.83% (2019: 17.40%). The growth rates are based on the management's estimation on the respective entities projected market share and do not exceed average long-term growth rate for the relevant industry. The gross profit margin will be assumed the same beyond the 5-year (2019: 6-year) period.

The Directors estimate discount rate using pre-tax rate that reflect current market assessment of the time value of money and the risks specific to the CGU and determined the discount rate to be 15.23% (2019: 15.64%).

**CGUs of sales of piped gas business in the PRC**

For CGUs in the PRC, the Group prepares cash flow projection covering a 10-year period which is shorter than the contractual operating period. The cash flow projections for the first three years are based on financial budgets approved by management. The 3-year period financial budgets are prepared based on the pattern consistent with the track record of the respective entities taking into account the stage of the development of the respective gas projects. The cash flow beyond the 3-year period are extrapolated using an estimated growth pattern at an annualised growth rates of revenue for each CGU ranging from 3.97% to 8.13% (2019: 3.00% to 5.50%) and assuming the gross profit margin will be the same throughout the 10-year period.

The growth rates are based on the management's estimation on the respective entity's projected market share and will not exceed the growth rate of natural gas consumption projected by the relevant government authorities.

The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs and determined the discount rate to be 14.56% to 16.40% (2019: 13.32% to 14.38%).

The Directors believe that any reasonably possible change in any of these assumptions would not cause the carrying amounts of goodwill to exceed the recoverable amount of respective CGUs.

## 20. INTANGIBLE ASSETS

| | Right of operation RMB million | Customer base RMB million | Software RMB million | Technology RMB million | Development cost RMB million | Total RMB million |
|---|---|---|---|---|---|---|
| **COST** | | | | | | |
| At 1 January 2019 | 3,073 | 51 | 126 | 549 | 25 | 3,824 |
| Acquisition of subsidiaries (Notes 47 & 48) | 1,337 | – | – | – | – | 1,337 |
| Additions | – | – | 7 | – | 32 | 39 |
| Reclassification | – | – | 46 | – | (46) | – |
| At 31 December 2019 | 4,410 | 51 | 179 | 549 | 11 | 5,200 |
| Acquisition of subsidiaries (Notes 47 & 48) | 684 | 40 | – | – | – | 724 |
| Additions | 28 | – | 7 | – | 26 | 61 |
| Reclassification | – | – | 13 | – | (13) | – |
| Disposal of subsidiaries (Note 49) | (221) | – | – | – | – | (221) |
| At 31 December 2020 | 4,901 | 91 | 199 | 549 | 24 | 5,764 |
| **AMORTISATION** | | | | | | |
| At 1 January 2019 | 738 | 22 | 8 | 19 | – | 787 |
| Charge for the year | 163 | 2 | 18 | 55 | – | 238 |
| At 31 December 2019 | 901 | 24 | 26 | 74 | – | 1,025 |
| Charge for the year | 223 | 2 | 24 | 55 | – | 304 |
| Disposal of subsidiaries (Note 49) | (11) | – | – | – | – | (11) |
| At 31 December 2020 | 1,113 | 26 | 50 | 129 | – | 1,318 |
| **CARRYING VALUES** | | | | | | |
| At 31 December 2020 | 3,788 | 65 | 149 | 420 | 24 | 4,446 |
| At 31 December 2019 | 3,509 | 27 | 153 | 475 | 11 | 4,175 |

Right of operation and customer base are amortised on a straight-line method over the operation periods ranging from 10 to 50 years and from 15 to 50 years, respectively.

Software and technology is amortised on a straight-line method over the periods ranging from 1 to 10 years.

Development cost mainly represents expenditure incurred during the development phase of the Group's integrated energy service technologies and online LNG data platform.

## 21. INTERESTS IN ASSOCIATES

| | **2020 RMB million** | 2019 RMB million |
|---|---|---|
| Cost of investments | **2,500** | 2,287 |
| Share of post-acquisition profits, net of dividends received | **1,093** | 995 |
| | **3,593** | 3,282 |
| Deemed capital contribution | | |
| Financial guarantee | **26** | 26 |
| | **3,619** | 3,308 |

Included in the interests in associates is goodwill of approximately RMB47 million (2019: RMB47 million) arising on acquisitions.

In the opinion of the Directors, none of the associates principally affected the results or net assets of the Group. To give details of the associates of the Group would, in the opinion of the Directors, result in particulars of excessive length.

The associates are accounted for using the equity method in these consolidated financial statements.

## 21. INTERESTS IN ASSOCIATES *(continued)*

Aggregate information of associates:

| | 2020 RMB million | 2019 RMB million |
|---|---|---|
| Profit and total comprehensive income for the year | **575** | 692 |
| Group's share of profit and total comprehensive income from associates for the year | **306** | 326 |
| Aggregate carrying amount of the Group's interests in these associates | **3,619** | 3,308 |

## 22. INTERESTS IN JOINT VENTURES

| | 2020 RMB million | 2019 RMB million |
|---|---|---|
| Cost of investments | **2,612** | 2,390 |
| Share of post-acquisition profits, net of dividends received | **1,472** | 1,394 |
| | **4,084** | 3,784 |
| Deemed capital contribution | | |
| Financial guarantee | **53** | 53 |
| Fair value adjustments on interest-free advances | **4** | 4 |
| | **57** | 57 |
| | **4,141** | 3,841 |

Included in the interests in joint ventures is goodwill of approximately RMB192 million (2019: RMB192 million) arising on acquisitions.

The joint ventures are accounted for using the equity method in these consolidated financial statements.

Details of the Group's principal joint ventures as at 31 December 2020 and 2019 are as follows:

| Name of company | Form of business structure | Place of establishment/ operation | Proportion of nominal value of registered capital held by the Group 2020 | 2019 | Principal activities |
|---|---|---|---|---|---|
| 東莞新奧燃氣有限公司 ("Dongguan Xinao") (note) | Incorporated | The PRC | **55%** | 55% | Investment in gas pipeline infrastructure and sales of piped gas and gas appliances |
| 煙台新奧燃氣發展有限公司 ("Yantai Xinao") (note) | Incorporated | The PRC | **50%** | 50% | Sales of piped gas, integrated energy and services and provision of construction and installation services |

Note: The Group holds 50% or more than 50% of the registered capital of these entities but it does not have the power to appoint sufficient number of directors to control these entities and the joint venture partners in each entity control jointly on the operational and financial policies of each entity. Accordingly, these entities are classified as joint ventures of the Group.

The table above lists the joint ventures of the Group which, in the opinion of the Directors, principally affected the results or net assets of the Group. To give details of other joint ventures of the Group would, in the opinion of the Directors, result in particulars of excessive length.

## 22. INTERESTS IN JOINT VENTURES *(continued)*

**Summarised financial information of material joint ventures**

Summarised financial information in respect of the Group's material joint ventures is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

*Dongguan Xinao*

| | **2020**<br>**RMB million** | 2019<br>RMB million |
|---|---|---|
| Current assets | **731** | 798 |
| Non-current assets | **3,390** | 3,207 |
| Current liabilities | **2,433** | 2,406 |
| Non-current liabilities | **77** | 81 |
| Non-controlling interests | **183** | 166 |

The above amounts of assets and liabilities include the following:

| | **2020**<br>**RMB million** | 2019<br>RMB million |
|---|---|---|
| Cash and cash equivalents | **361** | 299 |
| Current financial liabilities (excluding trade and other payables) | **233** | 627 |

| | **2020**<br>**RMB million** | 2019<br>RMB million |
|---|---|---|
| Revenue | **4,295** | 4,182 |
| Profit and total comprehensive income for the year | **218** | 157 |
| Dividends received from Dongguan Xinao during the year | **78** | 154 |

The above profit for the year includes the following:

| | **2020**<br>**RMB million** | 2019<br>RMB million |
|---|---|---|
| Depreciation and amortisation | **143** | 138 |
| Interest income | **34** | 41 |
| Interest expense | **38** | 52 |
| Income tax expense | **87** | 74 |

Reconciliation of the above summarised financial information to the carrying amount of the interest in Dongguan Xinao is recognised in the consolidated financial statements:

| | **2020**<br>**RMB million** | 2019<br>RMB million |
|---|---|---|
| Net assets of Dongguan Xinao | **1,428** | 1,352 |
| Proportion of the Group's ownership interest in Dongguan Xinao | **785** | 743 |
| Goodwill | **31** | 31 |
| Carrying amount of the Group's interest in Dongguan Xinao | **816** | 774 |

## 22. INTERESTS IN JOINT VENTURES *(continued)*

**Summarised financial information of material joint ventures** *(continued)*

*Yantai Xinao*

| | 2020<br>RMB million | 2019<br>RMB million |
|---|---|---|
| Current assets | **613** | 569 |
| Non-current assets | **1,190** | 1,173 |
| Current liabilities | **840** | 876 |
| Non-current liabilities | **24** | 19 |
| Non-controlling interests | **2** | 2 |

The above amounts of assets and liabilities include the following:

| | 2020<br>RMB million | 2019<br>RMB million |
|---|---|---|
| Cash and cash equivalents | **357** | 265 |
| Current financial liabilities (excluding trade and other payables) | **160** | 260 |

| | 2020<br>RMB million | 2019<br>RMB million |
|---|---|---|
| Revenue | **1,603** | 1,723 |
| Profit and total comprehensive income for the year | **171** | 163 |
| Dividends received from Yantai Xinao during the year | **40** | 35 |

The above profit for the year includes the following:

| | 2020<br>RMB million | 2019<br>RMB million |
|---|---|---|
| Depreciation and amortisation | **58** | 51 |
| Interest income | **6** | 2 |
| Interest expense | **10** | 15 |
| Income tax expense | **61** | 57 |

Reconciliation of the above summarised financial information to the carrying amount of the interest in Yantai Xinao is recognised in the consolidated financial statements:

| | 2020<br>RMB million | 2019<br>RMB million |
|---|---|---|
| Net assets of Yantai Xinao | **937** | 845 |
| Proportion of the Group's ownership interest in Yantai Xinao | **469** | 423 |
| Goodwill | **7** | 7 |
| Capitalisation of financial guarantee | **1** | 1 |
| Carrying amount of the Group's interest in Yantai Xinao | **477** | 431 |

Aggregate information of joint ventures that are not individually material:

| | 2020<br>RMB million | 2019<br>RMB million |
|---|---|---|
| Profit and total comprehensive income for the year | **488** | 727 |
| Group's share of profit and total income from joint ventures for the year | **270** | 378 |
| Aggregate carrying amount of the Group's interests in these joint ventures | **2,848** | 2,636 |

## 23. TRADE AND OTHER RECEIVABLES

| | **2020**<br>**RMB million** | 2019<br>RMB million |
|---|---|---|
| Trade receivables | **2,519** | 2,595 |
| Less: Allowance for credit losses | **(335)** | (233) |
| | **2,184** | 2,362 |
| Bills receivable (note) | **1,441** | 1,413 |
| Other receivables | **702** | 472 |
| Loan receivables | **379** | 191 |
| | **2,522** | 2,076 |
| Less: Allowance for credit losses | **(22)** | (18) |
| | **2,500** | 2,058 |
| Deductible input value added tax and prepayment of other taxes and charges | **1,499** | 1,589 |
| Advances to suppliers and prepayments | **2,943** | 1,531 |
| Total trade and other receivables | **9,126** | 7,540 |
| Analysed for reporting purpose as: | | |
| Current portion | **9,053** | 7,492 |
| Non-current portion | **73** | 48 |

Note: The bills receivable were endorsed by PRC banks for guarantee payments and the default risk is considered to be minimal.

The following is an aged analysis of trade receivables, net of allowance for credit losses presented based on invoice date at the end of the reporting period:

| | **2020**<br>**RMB million** | 2019<br>RMB million |
|---|---|---|
| 0 to 3 months | **1,418** | 1,792 |
| 4 to 6 months | **301** | 76 |
| 7 to 9 months | **181** | 192 |
| 10 to 12 months | **16** | 55 |
| More than one year | **268** | 247 |
| | **2,184** | 2,362 |

As at 31 December 2020, total bills receivable amounting to RMB1,441 million (2019:RMB1,413 million) are with a maturity period of less than one year.

As at 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB779 million (2019: RMB719 million) which are past due at the end of the reporting period and is not considered as in default because the Group has assessed the historical payment pattern of the debtors and the credit quality of these customers.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2020 are set out in Note 53.

## 24. DERIVATIVE FINANCIAL INSTRUMENTS

| | 2020<br>RMB million | 2019<br>RMB million |
|---|---|---|
| **Derivative financial assets** | | |
| Derivatives designated as cash flow hedges: | | |
| Foreign currency derivative contracts (note a) | 2 | – |
| Derivatives not designated in hedge accounting: | | |
| Foreign currency derivative contracts (note a) | – | 100 |
| Commodity derivative contracts (note b) | 626 | 573 |
| | 628 | 673 |
| **Derivative financial liabilities** | | |
| Derivatives designated as cash flow hedges: | | |
| Foreign currency derivative contracts (note a) | 135 | – |
| Commodity derivative contracts (note b) | 62 | – |
| Derivatives not designated in hedge accounting: | | |
| Commodity derivative contracts (note b) | 730 | 746 |
| | 927 | 746 |
| Analysed for reporting purpose as: | | |
| Assets | | |
| Current portion | 336 | 345 |
| Non-current portion | 292 | 328 |
| Liabilities | | |
| Current portion | 401 | 416 |
| Non-current portion | 526 | 330 |

**For the year ended 31 December 2020**

| | Commodity Derivatives RMB million | Foreign Currency Derivatives RMB million | Total RMB million |
|---|---|---|---|
| Net unrealised gain (loss) included in other gains and losses | | | |
| Derivatives designated as cash flow hedges | | | |
| – ineffective portion | (13) | – | (13) |
| Derivatives not designated in hedge accounting | 45 | 6 | 51 |
| | 32 | 6 | 38 |
| Net realised gain (loss) included in other gains and losses | | | |
| Derivatives designated as cash flow hedges | | | |
| – ineffective portion | – | (55) | (55) |
| Derivatives not designated in hedge accounting | 171 | (52) | 119 |
| | 171 | (107) | 64 |
| | 203 | (101) | 102 |

## 24. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

For the year ended 31 December 2019

| | Commodity Derivatives RMB million | Foreign Currency Derivatives RMB million | Total RMB million |
|---|---|---|---|
| Net unrealised gain included in other gains and losses | | | |
| Derivatives at FVTPL | 633 | 161 | 794 |
| Net realised gain (loss) included in other gains and losses | | | |
| Derivatives at FVTPL | 178 | (57) | 121 |
| | 811 | 104 | 915 |

Notes:

a. The Group is exposed to exchange rate risk mainly arising from various bonds and bank loans denominated in USD. To manage and mitigate the foreign exchange exposure, the Group entered into various foreign currency derivative contracts (the "Foreign Currency Derivatives") with certain financial institutions. As at 31 December 2020, the Foreign Currency Derivatives have a total notional amount of USD750 million (2019: USD785 million), of which the maturity dates match to the maturity dates of certain debts denominated in USD. The Foreign Currency Derivatives will enable the Group to buy USD at the predetermined RMB/USD exchange rates on maturity dates. The Foreign Currency Derivatives are designated as hedging instruments and accounted for under hedge accounting from 1 January 2020.

b. Since the year ended 31 December 2016, the Group has commitments to acquire LNG from certain suppliers. The delivery of LNG under such arrangements commenced in 2018 and last for 5 to 10 years. The Group is obliged to make "take-or-pay" payment to suppliers for the quantity contracted but not delivered.

   In the opinion of the Directors, such LNG purchase arrangements are entered into and continued to be held for the purpose of the receipt of a non-financial item in accordance with the Group's expected purchase, sale and usage.

   In order to manage and mitigate the commodity price risk, the Group entered into various commodity derivative contracts (the "Commodity Derivatives") against the underlying LNG contracts with certain financial institutions in order to stabilise its future LNG purchase costs. Certain Commodity Derivatives are designated as hedging instruments under hedge accounting from 1 January 2020.

c. The derivative financial instruments were included in the "financial assets/liabilities at FVTPL" line items as at 31 December 2019 and re-presented as "derivative financial instruments" as at 31 December 2020.

## 25. FINANCIAL ASSETS AT FVTPL

| | 2020 RMB million | 2019 RMB million |
|---|---|---|
| Financial assets at FVTPL | | |
| Listed equity interest in Shanghai Dazhong Public Utilities (Group) Co., Ltd ("Shanghai Utilities") (note a) | **244** | 287 |
| 1.13% equity interest in Sinopec Marketing Co., Ltd (note b) | **4,170** | 4,170 |
| Unlisted equity securities (note c) | **346** | 384 |
| Unlisted wealth management products | **70** | 16 |
| | **4,830** | 4,857 |
| Analysed for reporting purpose as: | | |
| Assets | | |
| Current portion | **70** | 16 |
| Non-current portion | **4,760** | 4,841 |

| | 2020 RMB million | 2019 RMB million |
|---|---|---|
| Net unrealised (loss) gain included in other gains and losses | | |
| Listed equity interest in Shanghai Utilities (note a) | **(43)** | (22) |
| 1.13% equity interest in Sinopec Marketing Co., Ltd (note b) | **–** | (7) |
| Unlisted equity securities (note c) | **(2)** | 34 |
| | **(45)** | 5 |

Notes:

a. The above listed investment represents 4.38% of the total issued share capital of Shanghai Utilities (1635.HK). During the year ended 31 December 2020, the Group received dividend income of approximately RMB7 million (2019: RMB7 million) from Shanghai Utilities.

b. The above investment represents 1.13% unlisted equity interest in Sinopec Marketing Co., Ltd ("Sinopec Marketing"). During the year ended 31 December 2020, the Group received dividend income of approximately RMB66 million (2019: RMB128 million) from Sinopec Marketing.

c. The unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC.

## 26. EQUITY INSTRUMENTS AT FVTOCI

| | 2020 RMB million | 2019 RMB million |
|---|---|---|
| Listed equity securities | **62** | – |
| Unlisted equity securities | **149** | 123 |
| | **211** | 123 |

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. The Directors have elected to designate these investments as equity instruments at FVTOCI as they believe that the Group will hold these investments for strategic cooperation purpose and has no intention to dispose of these investments in the foreseeable future.

## 27. TRANSFER OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2020 and 2019 that were transferred to banks or suppliers by discounting, pledging to banks or endorsing those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and the corresponding liabilities included in secured borrowings or trade payables respectively. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

**At 31 December 2020**

| | **Bills receivable discounted or pledged to banks RMB million** | **Bills receivable endorsed to suppliers RMB million** | **Total RMB million** |
|---|---|---|---|
| Carrying amount of transferred assets | **112** | **523** | **635** |
| Carrying amount of associated liabilities | **(112)** | **(523)** | **(635)** |
| | **–** | **–** | **–** |

**At 31 December 2019**

| | Bills receivable discounted or pledged to banks RMB million | Bills receivable endorsed to suppliers RMB million | Total RMB million |
|---|---|---|---|
| Carrying amount of transferred assets | 49 | 675 | 724 |
| Carrying amount of associated liabilities | (49) | (675) | (724) |
| | – | – | – |

## 28. CONTRACT ASSETS

| | **2020 RMB million** | 2019 RMB million |
|---|---|---|
| Gas pipeline installation | **650** | 643 |
| Integrated energy construction contracts | **82** | 114 |
| | **732** | 757 |

## 29. AMOUNTS DUE FROM/TO ASSOCIATES

| | **2020 RMB million** | 2019 RMB million |
|---|---|---|
| Amounts due from associates: | | |
| Current portion | **892** | 575 |
| Non-current portion | **6** | 345 |
| | **898** | 920 |
| Amounts due to associates: | | |
| Current portion | **319** | 189 |

Included in the amounts due from/to associates are trade receivables amounting to approximately RMB531 million (2019: RMB473 million) and trade payables amounting to approximately RMB71 million (2019: RMB84 million).

The aged analysis presented based on the invoice date at the end of the reporting period is as follows:

| | **2020 RMB million** | 2019 RMB million |
|---|---|---|
| **Trade receivables due from associates** | | |
| 0 to 3 months | **229** | 189 |
| 4 to 6 months | **130** | 94 |
| 7 to 9 months | **64** | 88 |
| 10 to 12 months | **14** | 26 |
| More than one year | **94** | 76 |
| | **531** | 473 |

There is no formal credit period applied and the balance was repayable on demand. Owing to the strategic relationship with the associates, the Directors are of the view that the balance is not considered as in default.

The amounts due from/to associates are unsecured, interest-free and repayable on demand except for the amounts due from/to associates detailed in the following table.

**At 31 December 2020**

| | **Maturity date** | **Effective interest rate per annum** | **2020 RMB million** |
|---|---|---|---|
| **Loan receivables from associates** | | | |
| Unsecured | 28/03/2021–16/01/2023 | 4.35%–8.00% | **191** |
| **Loan payables to associates** | | | |
| Savings in ENN Finance | | 0.35% | **144** |
| Unsecured | 20/12/2021 | 4.35% | **35** |
| | | | **179** |

## 29. AMOUNTS DUE FROM/TO ASSOCIATES *(continued)*

**At 31 December 2019**

| | Maturity date | Effective interest rate per annum | 2019 RMB million |
|---|---|---|---|
| **Loan receivables from associates** | | | |
| Unsecured | 17/01/2020–22/05/2022 | 4.35%–8.00% | 277 |
| **Loan payables to associates** | | | |
| Savings in ENN Finance | | 0.35% | 66 |
| Unsecured | 20/12/2020 | 4.35% | 35 |
| | | | 101 |

Details of impairment assessment of amounts due from associates are set out in Note 53.

## 30. AMOUNTS DUE FROM/TO JOINT VENTURES

| | **2020 RMB million** | 2019 RMB million |
|---|---|---|
| Amounts due from joint ventures: | | |
| Current portion | **2,106** | 1,058 |
| Non-current portion | **10** | 12 |
| | **2,116** | 1,070 |
| Amounts due to joint ventures: | | |
| Current portion | **976** | 785 |
| Non-current portion | **585** | 735 |
| | **1,561** | 1,520 |

Included in the amounts due from joint ventures was approximately RMB245 million (2019: RMB194 million) arising from the deposits placed for purchases of gas by the Group from the joint ventures. The balance approximates its fair value and is repayable on demand.

Included in the amounts due from/to joint ventures are trade receivables amounting to approximately RMB735 million (2019: RMB653 million) and trade payables amounting to approximately RMB786 million (2019: RMB585 million) and the aged analysis presented based on invoice date is as follows:

| | **2020 RMB million** | 2019 RMB million |
|---|---|---|
| **Trade receivables due from joint ventures** | | |
| 0 to 3 months | **533** | 430 |
| 4 to 6 months | **40** | 35 |
| 7 to 9 months | **24** | 60 |
| 10 to 12 months | **7** | 31 |
| More than one year | **131** | 97 |
| | **735** | 653 |

## 30. AMOUNTS DUE FROM/TO JOINT VENTURES *(continued)*

| | 2020 RMB million | 2019 RMB million |
|---|---|---|
| **Trade payables due to joint ventures** | | |
| 0 to 3 months | **566** | 500 |
| 4 to 6 months | **102** | 35 |
| 7 to 9 months | **51** | 6 |
| 10 to 12 months | **26** | 3 |
| More than one year | **41** | 41 |
| | **786** | 585 |

There is no formal credit period applied and the balance was repayable on demand. Owing to the strategic relationship with the joint ventures, the Directors are of the view that the balance is not considered as in default.

The amounts due from/to joint ventures are unsecured, interest-free and repayable on demand except for the amounts due from/to joint ventures detailed in the following table:

**At 31 December 2020**

| | Maturity date | Effective interest rate per annum | 2020 RMB million |
|---|---|---|---|
| **Loan receivables from joint ventures** | | | |
| Unsecured | 15/06/2021–26/09/2022 | 4.35%–6.00% | **532** |
| **Loan payables to joint ventures** | | | |
| Unsecured | 12/02/2021–29/12/2022 | 0.35%–5.00% | **623** |
| Savings in ENN Finance | | 0.35% | **57** |
| | | | **680** |

**At 31 December 2019**

| | Maturity date | Effective interest rate per annum | 2019 RMB million |
|---|---|---|---|
| **Loan receivables from joint ventures** | | | |
| Unsecured | 05/06/2020–26/09/2022 | 4.35%–6.00% | 179 |
| **Loan payables to joint ventures** | | | |
| Unsecured | 07/01/2020–30/06/2021 | 0.35%–5.00% | 830 |
| Savings in ENN Finance | | 0.35% | 79 |
| | | | 909 |

Details of impairment assessment of amounts due from joint ventures are set out in Note 53.

## 31. AMOUNTS DUE FROM/TO RELATED COMPANIES

| | 2020<br>RMB million | 2019<br>RMB million |
|---|---|---|
| Amounts due from companies controlled by a director and shareholder with significant influence | 348 | 164 |
| Amounts due to companies controlled by a director and shareholder with significant influence | 925 | 1,060 |

The related companies are controlled by Mr. Wang Yusuo ("Mr. Wang") who is a director and shareholder of the Company with significant influence. The maximum amount outstanding during the year in respect of the amounts due from companies controlled by Mr. Wang is RMB510 million (2019: RMB646 million).

Included in the amounts due from/to related companies are trade receivables amounting to approximately RMB209 million (2019: RMB160 million) and trade payables amounting to approximately RMB861 million (2019: RMB1,026 million) and the aged analysis presented based on invoice date at the end of the reporting period is as follow:

| | 2020<br>RMB million | 2019<br>RMB million |
|---|---|---|
| **Trade receivables due from related companies** | | |
| 0 to 3 months | 51 | 38 |
| 4 to 6 months | 24 | 16 |
| 7 to 9 months | 32 | 13 |
| 10 to 12 months | 9 | 26 |
| More than one year | 93 | 67 |
| | 209 | 160 |

| | 2020<br>RMB million | 2019<br>RMB million |
|---|---|---|
| **Trade payables due to related companies** | | |
| 0 to 3 months | 577 | 674 |
| 4 to 6 months | 98 | 137 |
| 7 to 9 months | 53 | 62 |
| 10 to 12 months | 34 | 36 |
| More than one year | 99 | 117 |
| | 861 | 1,026 |

There is no formal credit period applied and the balance was repayable on demand. Owing to the strategic relationship with the related companies, the Directors are of the view that the balance is not considered as in default.

Details of impairment assessment of amounts due from related companies are set out in Note 53.

## 32. DEFERRED TAXATION

| | 2020 RMB million | 2019 RMB million |
|---|---|---|
| Deferred tax assets | 1,370 | 1,292 |
| Deferred tax liabilities | (2,562) | (1,820) |
| | (1,192) | (528) |

The following are the major deferred tax assets and liabilities recognised and movements thereon during the years ended 31 December 2020 and 2019:

| | Intangible assets RMB million | Capitalisation of interest in property, plant and equipment RMB million | Undistributed retained profits of PRC entities from 1 January 2008 RMB million (note) | Deferred income RMB million | Unrealised profits RMB million | Equipment for one time deduction from 1 January 2018 RMB million | Others RMB million | Total RMB million |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2019 | 552 | 182 | 133 | (1,016) | (245) | 252 | (16) | (158) |
| Acquisition of subsidiaries (Note 47) | 341 | – | – | – | – | – | – | 341 |
| (Credit) charge to profit or loss | (45) | 30 | 49 | (54) | (100) | 475 | (10) | 345 |
| At 31 December 2019 | 848 | 212 | 182 | (1,070) | (345) | 727 | (26) | 528 |
| Acquisition of subsidiaries (Note 47) | 209 | – | – | – | – | – | – | 209 |
| (Credit) charge to profit or loss | (60) | 36 | 151 | 9 | (78) | 483 | (32) | 509 |
| Charge to other comprehensive income | – | – | – | – | – | – | 2 | 2 |
| Disposal of subsidiaries (Note 49) | (56) | – | – | – | – | – | – | (56) |
| At 31 December 2020 | 941 | 248 | 333 | (1,061) | (423) | 1,210 | (56) | 1,192 |

Note: The amount represents deferred taxation in respect of the temporary differences attributable to the undistributed retained profits earned after 1 January 2008 by the group entities registered in the PRC. The amount has been provided based on the amount of undistributed retained profit of certain PRC entities from 1 January 2008 attributable to non-PRC parent entities at a withholding tax rate of 10% or 5% as the Directors consider the amount will be probably reversed in the foreseeable future upon distribution of profit by the respective group entities.

Deferred taxation of approximately RMB930 million (2019: RMB809 million) has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed retained profit of certain PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 32. DEFERRED TAXATION *(continued)*

As at 31 December 2020, the Group has unused tax losses of approximately RMB1,774 million (2019: RMB1,651 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the uncertainty of future profit streams. The unrecognised tax losses will be expired in the following years ending 31 December:

| | **2020**<br>**RMB million** | 2019<br>RMB million |
|---|---|---|
| 2020 | **–** | 120 |
| 2021 | **80** | 158 |
| 2022 | **96** | 147 |
| 2023 | **446** | 534 |
| 2024 | **698** | 692 |
| 2025 | **454** | – |
| | **1,774** | 1,651 |

As at 31 December 2020, the Group has other deductible temporary differences of approximately RMB403 million (2019: RMB496 million), which are mainly arising from impairment of trade and other receivables and unrealised profits within the Group. No deferred tax asset has been recognised in relation to such other deductible temporary differences as it is not probable that taxable profit will be available for offsetting against which the deductible temporary differences can be utilised.

## 33. INVENTORIES

| | **2020**<br>**RMB million** | 2019<br>RMB million |
|---|---|---|
| Construction materials | **787** | 648 |
| Gas appliances | **178** | 218 |
| Natural gas | **233** | 214 |
| Other energy inventories | **34** | 30 |
| Spare parts and consumables | **6** | 4 |
| Integrated energy appliances | **47** | 55 |
| | **1,285** | 1,169 |

The cost of inventories recognised as an expense during the year was approximately RMB55,280 million (2019: RMB54,976 million).

## 34. CASH AND CASH EQUIVALENTS/RESTRICTED BANK DEPOSITS

| | 2020 RMB million | 2019 RMB million |
|---|---|---|
| Cash and cash equivalents | **8,630** | 7,373 |
| Restricted bank deposits | | |
| Current portion | **116** | 566 |
| Non-current portion | **650** | 446 |
| | **766** | 1,012 |
| Bank deposits secured for: | | |
| Letter of credit | **15** | 45 |
| Right of operation | **59** | 30 |
| Mandatory reserves in the People's Bank of China ("PBOC") | **465** | 384 |
| Energy supplies | **76** | 83 |
| Bills payable | **151** | 370 |
| Structured deposit | **–** | 100 |
| | **766** | 1,012 |

Cash and cash equivalents include bank balances with original maturities less than three months carrying interest at market rates which range from 0.03% to 4.18% (2019: 0.3% to 3.71%) per annum as at 31 December 2020. The bank balances denominated in RMB are deposited with banks in the PRC.

At the end of the reporting period, the cash and cash equivalents denominated in foreign currencies other than the functional currency of respective group entities is RMB684 million (2019: RMB152 million), of which approximately RMB583 million (2019: RMB129 million) and approximately RMB101 million (2019: RMB23 million) are denominated in USD and HK$ respectively.

As at 31 December 2020, the restricted bank deposits carry fixed interest rate ranging from 0.03% to 3.71% (2019: from 0.3% to 3.71%) per annum. Except for the amount of mandatory reserves in the PBOC, other restricted bank deposits will be released upon the settlement of bank loans, the expiry of purchase contracts or right of operation. The mandatory reserves in the PBOC classified as non-current assets are deposits placed by ENN Finance and the reserves amount is subject to change with respect to the savings accepted by ENN Finance and the PBOC reserve rate is adjusted from time to time.

## 35. LEASE LIABILITIES

| | 2020 RMB million | 2019 RMB million |
|---|---|---|
| Lease liabilities payables: | | |
| Within one year | **89** | 100 |
| More than one year, but not more than two years | **66** | 80 |
| More than two years, but not more than five years | **116** | 143 |
| More than five years | **128** | 227 |
| | **399** | 550 |
| Less: Amounts due within one year shown under current liabilities | **(89)** | (100) |
| Amounts shown under non-current liabilities | **310** | 450 |

The weighted average incremental borrowing rates applied to lease liabilities range from 3.04% to 5.23% (2019: from 4.43% to 5.23%).

## 36. TRADE AND OTHER PAYABLES

| | 2020 RMB million | 2019 RMB million |
|---|---|---|
| Trade payables | 6,186 | 5,698 |
| Accrued charges and other payables | 2,116 | 1,937 |
| | 8,302 | 7,635 |

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

| | 2020 RMB million | 2019 RMB million |
|---|---|---|
| 0 to 3 months | 3,472 | 3,559 |
| 4 to 6 months | 1,094 | 1,135 |
| 7 to 9 months | 535 | 238 |
| 10 to 12 months | 236 | 161 |
| More than one year | 849 | 605 |
| | 6,186 | 5,698 |

The average credit period on purchases of goods is 30 to 90 days.

## 37. CONTRACT LIABILITIES

| | 2020 RMB million | 2019 RMB million |
|---|---|---|
| Deposit for gas charges and other sales (note a) | 7,082 | 6,597 |
| Deposit for construction and installation contracts (note b) | 6,893 | 5,721 |
| Deferred income (note c) | 3,479 | 3,597 |
| | 17,454 | 15,915 |
| Analysed for reporting purpose as: | | |
| Current | 14,242 | 12,613 |
| Non-current | 3,212 | 3,302 |
| | 17,454 | 15,915 |

Contract liabilities are classified as current and non-current based on the Group's earliest obligation to transfer goods or services to the customers.

The amount recognised in the current year relates to carried-forward contract liabilities were RMB10,431 million (2019: RMB8,910 million).

Notes:

a. The Group requires the customers to deposit gas charges into magnetic cards which connected to the gas meters. When the customers consume the natural gas, corresponding value of deposits will be recognised as revenue in line with the volume of gas consumed at pre-determined unit price. The deposit would be typically consumed within one year.

b. For construction and installation contracts, the Group normally receives a deposit before construction work commences. The Group continues to recognise revenue over time and apply output method in estimating the performance obligations satisfied throughout the construction and the installation period.

c. The deferred income represents fees received from certain customers for maintaining the ongoing deliverability to supply gas at the discretion of the customers. The period to supply gas would be consistent with the operating period as stated in the right of operation.

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## 38. DEFERRED INCOME

| | Government grants RMB million |
|---|---|
| **GROSS** | |
| At 1 January 2019 | 594 |
| Additions | 164 |
| At 31 December 2019 | 758 |
| Additions | 123 |
| Disposal of subsidiaries | (11) |
| At 31 December 2020 | 870 |
| **RECOGNITION** | |
| At 1 January 2019 | 49 |
| Release to profit or loss | 26 |
| At 31 December 2019 | 75 |
| Release to profit or loss | 32 |
| Disposal of subsidiaries | (4) |
| At 31 December 2020 | 103 |
| **CARRYING VALUES** | |
| At 31 December 2020 | 767 |
| At 31 December 2019 | 683 |

| | **2020 RMB million** | 2019 RMB million |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Current liabilities | **38** | 33 |
| Non-current liabilities | **729** | 650 |
| | **767** | 683 |

## 39. SHARE CAPITAL

| | **2020 Number of shares** | 2019 Number of shares | **2020 HK$ million** | 2019 HK$ million |
|---|---|---|---|---|
| Shares of HK$0.10 each | | | | |
| Authorised: | | | | |
| At beginning and end of the year | **3,000,000,000** | 3,000,000,000 | **300** | 300 |
| Issued and fully paid: | | | | |
| At beginning of the year | **1,125,477,108** | 1,124,002,858 | **112** | 112 |
| Issue of shares on exercise of share options (note) | **2,888,000** | 1,474,250 | **1** | – |
| At end of the year | **1,128,365,108** | 1,125,477,108 | **113** | 112 |

## 39. SHARE CAPITAL *(continued)*

| | **2020** **RMB million** | 2019 RMB million |
|---|---|---|
| Presented in consolidated financial statements as: | | |
| At beginning of the year | **116** | 116 |
| Issue of shares on exercise of share options | **1** | – |
| At end of the year | **117** | 116 |

Note: During the year ended 31 December 2020, 200,000 shares were issued at the exercise price of HK$16.26 per ordinary share under Scheme 2002, 2,212,800 shares (2019: 1,474,250 shares) and 475,200 shares were issued at the exercise price of HK$40.34 and HK$76.36 per ordinary share under Scheme 2012, respectively, in relation to the exercise of outstanding share options. These shares rank pari passu with the then existing shares in all respects as set out in Note 45.

Save as disclosed above and in Note 45, none of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities up to 31 December 2020.

## 40. BANK AND OTHER LOANS

| | **2020** **RMB million** | 2019 RMB million |
|---|---|---|
| Bank loans | | |
| Secured | **456** | 187 |
| Unsecured | **6,099** | 10,015 |
| | **6,555** | 10,202 |
| Other loans | | |
| Secured | **16** | 36 |
| Unsecured | **97** | 105 |
| | **113** | 141 |
| | **6,668** | 10,343 |
| The bank and other loans are repayable: | | |
| On demand or within one year | **4,590** | 7,495 |
| More than one year, but not exceeding two years | **64** | 2,131 |
| More than two years, but not exceeding five years | **753** | 242 |
| More than five years | **1,261** | 475 |
| | **6,668** | 10,343 |
| Less: Amounts due within one year shown under current liabilities | **(4,590)** | (7,495) |
| Amounts shown under non-current liabilities | **2,078** | 2,848 |

As at 31 December 2020, all the bank and other loans are denominated in the functional currency of respective group entities except for approximately RMB1,631 million (2019: RMB4,994 million) and nil (2019: RMB1,380 million) which are denominated in USD and HK$ respectively.

The secured bank and other loans are secured by property, plant and equipment, rights to receive fee income of certain subsidiaries and joint ventures as set out in Note 52 and guarantees provided by related parties as set out in Note 55.

## 40. BANK AND OTHER LOANS *(continued)*

Details of the terms of the Group's borrowings are set out below:

**At 31 December 2020**

| | Maturity date | Effective interest rate per annum | Carrying amount RMB million |
|---|---|---|---|
| **Fixed-rate borrowings** | | | |
| Unsecured RMB bank loans | 12/02/2021–21/12/2029 | 1.70%–4.80% | **3,494** |
| Unsecured RMB other loans | 31/12/2021 | 3.79% | **97** |
| Secured RMB bank loan | 23/02/2021–25/12/2024 | 3.40%–4.41% | **456** |
| Secured RMB other loan | 23/08/2022 | 4.35% | **16** |
| Unsecured USD bank loans | 22/01/2021–05/02/2021 | 2.40%–2.53% | **652** |
| Total fixed-rate borrowings | | | **4,715** |
| **Floating-rate borrowings** | | | |
| Unsecured RMB bank loans at PBOC base rate | 30/01/2021–07/11/2032 | 4.30%–5.39% | **974** |
| Unsecured USD bank loan at London Interbank Offered Rate ("LIBOR") | 30/11/2021 | 1.23% | **979** |
| Total floating-rate borrowings | | | **1,953** |
| Total borrowings | | | **6,668** |

**At 31 December 2019**

| | Maturity date | Effective interest rate per annum | Carrying amount RMB million |
|---|---|---|---|
| **Fixed-rate borrowings** | | | |
| Unsecured RMB bank loans | 15/01/2020–25/12/2020 | 3.92%–7.50% | 2,755 |
| Unsecured RMB other loans | 12/06/2020–31/12/2020 | 3.79%–4.35% | 105 |
| Secured RMB bank loan | 31/07/2022 | 4.75% | 100 |
| Secured RMB other loan | 31/12/2020 | 4.35% | 36 |
| Unsecured HK$ bank loans | 06/01/2020–08/05/2020 | 2.43%–3.05% | 1,380 |
| Unsecured USD bank loans | 06/01/2020–29/03/2020 | 2.32%–3.57% | 2,901 |
| Total fixed-rate borrowings | | | 7,277 |
| **Floating-rate borrowings** | | | |
| Secured RMB bank loans at PBOC base rate | 30/03/2020–01/05/2027 | 4.56%–7.35% | 87 |
| Unsecured RMB bank loans at PBOC base rate | 30/01/2020–07/11/2032 | 4.35%–5.39% | 886 |
| Unsecured USD bank loan at LIBOR | 30/11/2021 | 2.99%–3.26% | 2,093 |
| Total floating-rate borrowings | | | 3,066 |
| Total borrowings | | | 10,343 |

## 41. CORPORATE BONDS

Details of the terms of the three tranches' corporate bonds issued by Xinao (China) Gas Investment Company Limited ("Xinao (China)") are set out below:

| | | | |
|---|---|---|---|
| Date of issuance | **22 January 2019** | **8 March 2019** | **11 November 2019** |
| Principal amount | **RMB500 million** | **RMB1,000 million** | **RMB600 million** |
| Interest rate | **4.19%** | **4.20%** | **3.98%** |
| Maturity date | **22 January 2022** | **8 March 2022** | **12 November 2022** |
| Net proceeds after deducting transaction costs | **RMB498 million** | **RMB996 million** | **RMB599 million** |
| Date of listing on the Shanghai Stock Exchange | **20 February 2019** | **29 March 2019** | **22 November 2019** |
| Effective interest rate after the adjustment for transaction costs | **4.36%** | **4.36%** | **4.04%** |

The corporate bonds recognised in the consolidated statement of financial position are calculated cumulatively as follows:

| | **2020**<br>**RMB million** | 2019<br>RMB million |
|---|---|---|
| Nominal value of corporate bonds | **2,100** | 2,100 |
| Issue costs | **(7)** | (7) |
| Fair value at date of issuance | **2,093** | 2,093 |
| Cumulative effective interest recognised | **148** | 58 |
| Cumulative interest paid/payable | **(144)** | (57) |
| Carrying amount at 31 December | **2,097** | 2,094 |

## 42. SENIOR NOTES

### a. 2021 Senior Notes

On 13 May 2011, the Company issued 6% senior notes with an aggregated nominal value of USD750 million (equivalent to approximately RMB4,863 million) (the "2021 Senior Notes") at face value. The net proceeds, after deducting the issuance costs, amounted to USD735 million (equivalent to approximately RMB4,765 million). The 2021 Senior Notes will be matured on 13 May 2021. The 2021 Senior Notes are listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST") and dealt in over-the-counter market though a financial institution as the principal agent.

According to the terms and conditions of the 2021 Senior Notes, at any time or from time to time prior to the maturity date, the Company may at its option to redeem the notes at a redemption price equaled to 100% of the principal amount thereof plus applicable premium and accrued and unpaid interest to such redemption date. The applicable premiums are the greater of (1) 1.0% of the principal amount and (2) the excess of (A) the present value at such redemption date of 100% of the principal amount, plus all required remaining scheduled interest payments due on the 2021 Senior Notes through the maturity date (but excluding accrued and unpaid interest to redemption date), computed using a discount rate equaled to the United States treasury rate plus 25 basis points, over (B) the principal amount on redemption date.

The fair value of the early redemption right is insignificant at initial recognition and at the end of the reporting periods. The effective interest rate is approximately 6.28% per annum after the adjustment for transaction costs.

## 42. SENIOR NOTES *(continued)*

### a. 2021 Senior Notes *(continued)*

The 2021 Senior Notes recognised in the consolidated statement of financial position are calculated cumulatively as follows:

| | **2020 RMB million** | 2019 RMB million |
|---|---|---|
| Nominal value of 2021 Senior Notes | **4,863** | 4,863 |
| Issue costs | **(98)** | (98) |
| Fair value at date of issuance | **4,765** | 4,765 |
| Repurchased (note) | **(2,603)** | (2,603) |
| Cumulative effective interest recognised | **2,241** | 2,083 |
| Cumulative interest paid/payable | **(2,175)** | (2,023) |
| Exchange loss | **152** | 317 |
| Carrying amount at 31 December | **2,380** | 2,539 |

Note: In September 2015 and December 2016, the Company repurchased in aggregate of principal amount of USD35,000,000 and USD349,457,000 (equivalent to approximately RMB222 million and RMB2,410 million) in the open market. The principal amount of USD366 million was outstanding as at 31 December 2020 and 2019.

### b. Green Senior Notes

On 17 September 2020, the Company issued 2.63% green senior notes with an aggregated nominal value of USD750 million (equivalent to approximately RMB5,137 million) (the "Green Senior Notes") at face value. The net proceeds, after deducting the issuance costs, amounted to USD739 million (equivalent to approximately RMB5,065 million). The Green Senior Notes will be matured on 17 September 2030. The Green Senior Notes are listed on the Stock Exchange and dealt in over-the-counter market through a financial institution as the principal agent.

According to the terms of the Green Senior Notes, the Company may, at any time and from time to time redeem the Green Senior Notes. The applicable Green Senior Notes will be redeemable at: (A) prior to 17 June 2030, the greater of (1) 100% of the principal amount of the applicable Green Senior Notes to be redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the applicable Green Senior Notes to be redeemed, discounted to the date of redemption on a semi-annual basis at the Adjusted Treasury Rate (as defined in the offering memorandum dated 10 September 2020) plus 50 basis points, plus accrued and unpaid interest on the applicable Green Senior Notes to be redeemed; or (B) on or after 17 June 2030, 100% of the principal amount of the Green Senior Notes to be redeemed, plus accrued and unpaid interest, if any.

The fair value of the early redemption right is insignificant at initial recognition and at the end of the reporting periods. The effective interest rate is approximately 2.81% per annum after the adjustment for transaction costs.

The Green Senior Notes recognised in the consolidated statement of financial position are calculated cumulatively as follows:

| | **2020 RMB million** |
|---|---|
| Nominal value of Green Senior Notes | **5,137** |
| Discount cost | **(43)** |
| Issue costs | **(29)** |
| Fair value at date of issuance | **5,065** |
| Cumulative effective interest recognised | **40** |
| Cumulative interest paid/payable | **(38)** |
| Exchange gain | **(240)** |
| Carrying amount at 31 December | **4,827** |

## 43. UNSECURED BONDS

On 23 October 2014, the Company issued 3.25% unsecured bonds with an aggregate nominal value of USD400 million (equivalent to approximately RMB2,460 million) (the "2019 Unsecured Bonds"). The net proceeds after discounting and deducting the issuance costs amounted to USD395 million (equivalent to approximately RMB2,429 million). The remaining balance of the 2019 Unsecured Bonds was fully repaid on 23 October 2019.

On 24 July 2017, the Company issued 3.25% unsecured bonds with an aggregate nominal value of USD600 million (equivalent to approximately RMB4,066 million) (the "2022 Unsecured Bonds"). The net proceeds after discounting and deducting the issuance costs amounted to USD596 million (equivalent to approximately RMB4,037 million). The 2022 Unsecured Bonds will mature on 24 July 2022. The 2022 Unsecured Bonds are listed on the Stock Exchange and dealt in over-the-counter market through a financial institution as the principal agent.

According to the terms and conditions of the 2019 Unsecured Bonds and 2022 Unsecured Bonds (the "Unsecured Bonds"), the Company may at any time and from time to time, on giving not less than 30 nor more than 60 days' notice to the holders of the Unsecured Bonds, redeem the Unsecured Bonds, in whole but not in part, at a make whole price as of, with an accrued and unpaid interest, if any, to (but excluding), the redemption date. The make whole price means, with respect to a bond at the option redemption date, the amount calculated by the quotation agent that is the greater of (1) the present value of the principal amount of the Unsecured Bonds, assuming a scheduled repayment thereof on the maturity date plus all required remaining scheduled interest repayments due on such bond through the maturity date (but excluding accrued and unpaid interest to the option redemption date), computed using a discount rate equalled to the adjusted treasury rate plus 50 basis points, and (2) the principal amount of such bonds.

The estimated fair value of the early redemption right is insignificant at initial recognition and at the end of the reporting periods. The effective interest rate is approximately 3.44% per annum after deducting the adjustment for transaction costs for 2022 Unsecured Bonds.

The Unsecured Bonds recognised in the consolidated statement of financial position are calculated cumulatively as follows:

| | **2020**<br>**RMB million** | 2019<br>RMB million |
|---|---|---|
| Nominal value of Unsecured Bonds | **4,066** | 6,526 |
| Discount cost | **(5)** | (17) |
| Issue costs | **(24)** | (43) |
| Fair value at date of issuance | **4,037** | 6,466 |
| Repurchased and cancelled in 2015 | **–** | (2,107) |
| Repurchased and cancelled in 2020 (note) | **(199)** | – |
| Cumulative effective interest recognised | **474** | 481 |
| Cumulative interest paid/payable | **(455)** | (458) |
| Repayment | **–** | (459) |
| Exchange (gain) loss | **(145)** | 246 |
| Carrying amount at 31 December | **3,712** | 4,169 |

Note: In October and November 2020, the Company repurchased in aggregate of principal amount of USD19,564,000 and USD10,100,000 (equivalent to approximately RMB132 million and RMB67 million) in the open market. The principal amount of USD570 million was outstanding as at 31 December 2020.

## 44. HEDGING RESERVE

The hedging reserve includes cash flow hedge reserve and cost of hedging reserve. The following table provides a reconciliation of the hedging reserve in respect of foreign exchange risk and commodity risk during the year.

| | Foreign exchange risk RMB million | Commodity risk RMB million | Total RMB million |
|---|---|---|---|
| **Cash flow hedge reserve** | | | |
| At 1 January 2020 | – | – | – |
| Loss arising on changes in fair value of hedging instruments | (299) | (122) | (421) |
| Gain reclassified to profit or loss – hedged item has affected profit or loss | 323 | – | 323 |
| Loss reclassified to profit or loss – forecast transaction no longer expected to occur | (5) | – | (5) |
| Cumulative loss transferred to initial carrying amount of hedged items | – | 71 | 71 |
| Income tax relating to items that may be reclassified subsequently | – | 8 | 8 |
| At 31 December 2020 | 19 | (43) | (24) |
| Of which: | | | |
| Balance related to continuing cash flow hedges | (24) | | |
| Balance related to discontinued cash flow hedges | – | | |

| | Foreign exchange risk RMB million | Commodity risk RMB million | Total RMB million |
|---|---|---|---|
| **Cost of hedging reserve** | | | |
| At 1 January 2020 | – | – | – |
| Changes in fair value of time value/foreign currency basis component of time period related hedged items | 45 | – | 45 |
| Changes in fair value of time value of transaction related hedged items | – | (36) | (36) |
| Amortisation to profit or loss of changes in fair value in relation to time period related hedged items | (26) | – | (26) |
| Gain arising on changes in fair value in relation to reclassified to profit or loss – forecast transaction no longer expected to occur | (2) | – | (2) |
| Income tax relating to items that may be reclassified subsequently | – | 6 | 6 |
| At 31 December 2020 | 17 | (30) | (13) |
| | 36 | (73) | (37) |

The changes in fair value of the time value of options and foreign currency basis spread of hedging instruments are accumulated in the cost of hedging reserve and will be reclassified to profit or loss only when the hedged transaction affects profit or loss, or included as a basis adjustment to the non-financial hedged item.

## 45. SHARE BASED PAYMENT TRANSACTIONS

The Company has adopted a share award scheme pursuant to the board resolution of the Company dated 30 November 2018 (the "Share Award Scheme").

The Company has adopted share option schemes pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 21 May 2002 (the "Scheme 2002") and an annual general meeting of the Company held on 26 June 2012 (the "Scheme 2012").

### a. Share Award Scheme

Pursuant to the Share Award Scheme, the Company had contracted with a trustee to establish a trust (the "Trust") on 12 March 2019. The board of directors (the "Board") may from time to time during the effective period of the Share Award Scheme (a term of 10 years commencing on the adoption of this scheme or early terminated) contribute funds to the Trust and instruct the trustee to purchase shares of the Company on the Stock Exchange or in off-market transactions. Shares purchased and held by the Trust are non-transferrable and have no voting rights. Shares will be granted to selected employees of any members of the Group pursuant to the terms and trust deed of the Share Award Scheme. Vesting of the shares granted to selected employees is conditional upon the fulfilment of service and/or performance as specified by the Board.

During the year ended 31 December 2020, the trustee purchased a total of 270,000 shares (2019: 2,415,100 shares). The cost of the shares purchased was recognised in equity as treasury stocks. During the year ended 31 December 2020, 62,000 shares had been nominally granted to two outperformed employees with awarded price being HK$76.36 and will be settled by cash upon vesting of shares. Vesting of the notional gain from these awarded shares is conditional upon the fulfilment of respective performance target. 2,685,100 shares including the granted shares (2019: 2,415,100 shares) were held by the trustee as at 31 December 2020.

### b. Scheme 2012

On 9 December 2015, the Company granted share options to the Directors and certain employees (the "2015 Grantees") to subscribe for a total of 12,000,000 ordinary shares of the Company under the Scheme 2012. Among the share options granted, 2,659,000 share options were granted to the Directors and the remaining were granted to certain employees of the Group. Vesting of the share options is conditional upon the fulfilment of certain vesting conditions as set out in the respective offer letters of the 2015 Grantees, which may involve fulfilment of performance rating.

On 28 March 2019, the Company granted share options to Directors and certain employees of the Company, and business consultants who contribute to the success of the Company (the "2019 Grantees") to subscribe for a total of 12,328,000 ordinary shares of the Company under the Scheme 2012. Among the share options granted above, 2,480,000 share options were granted to the Directors and the remaining were granted to certain employees of the Group and business consultants. Vesting of the share options is conditional upon the fulfilment of certain vesting conditions as set out in the respective offer letters of the 2019 Grantees, which may involve fulfilment of performance rating.

2015 Grantees and 2019 Grantees should continue in office and achieve the designated vesting conditions from the date of grant till the exercisable date. Thus, the vesting period of the share options is from the date of the grant until the commencement of the exercise period.

## 45. SHARE BASED PAYMENT TRANSACTIONS *(continued)*

### b. Scheme 2012 *(continued)*

The following tables disclose details of the Company's share options held by the grantees and movements in such holdings under the share option scheme during the current year:

| | | Date of grant | Exercise period | Exercise price (HK$) | Number of options: Outstanding at 1.1.2020 | Exercised during the year | Forfeited during the year | Reclassified during the year | Outstanding at 31.12.2020 |
|---|---|---|---|---|---|---|---|---|---|
| **Scheme 2012- batch 1** | | | | | | | | | |
| Directors | Tranche 1 | 9.12.2015 | 1.4.2017 to 8.12.2025 | 40.34 | 230,500 | (106,000) | – | 35,500 | 160,000 |
| | Tranche 2 | 9.12.2015 | 1.4.2018 to 8.12.2025 | 40.34 | 442,575 | (167,700) | – | (114,875) | 160,000 |
| | Tranche 3 | 9.12.2015 | 1.4.2019 to 8.12.2025 | 40.34 | 538,775 | (176,025) | – | (202,750) | 160,000 |
| | Tranche 4 | 9.12.2015 | 1.4.2020 to 8.12.2025 | 40.34 | 581,250 | (217,975) | (96,575) | (106,175) | 160,525 |
| Employees | Tranche 1 | 9.12.2015 | 1.4.2017 to 8.12.2025 | 40.34 | 205,250 | (38,650) | – | (35,500) | 131,100 |
| | Tranche 2 | 9.12.2015 | 1.4.2018 to 8.12.2025 | 40.34 | 366,261 | (329,212) | – | 114,875 | 151,924 |
| | Tranche 3 | 9.12.2015 | 1.4.2019 to 8.12.2025 | 40.34 | 560,474 | (514,924) | (17,750) | 202,750 | 230,550 |
| | Tranche 4 | 9.12.2015 | 1.4.2020 to 8.12.2025 | 40.34 | 1,425,000 | (662,314) | (426,950) | 106,175 | 441,911 |
| Subtotal | | | | | 4,350,085 | (2,212,800) | (541,275) | – | 1,596,010 |
| Exercisable at the end of the year | | | | | | | | | 1,596,010 |
| Weighted average exercise price | | | | | | | | | HK$40.34 |

| | | Date of grant | Exercise period | Exercise price (HK$) | Number of options: Outstanding at 1.1.2020 | Exercised during the year | Forfeited during the year | Reclassified during the year | Outstanding at 31.12.2020 |
|---|---|---|---|---|---|---|---|---|---|
| **Scheme 2012- batch 2** | | | | | | | | | |
| Directors | Tranche 1 | 28.3.2019 | 1.4.2020 to 27.3.2029 | 76.36 | 15,000 | – | – | – | 15,000 |
| | Tranche 2 | 28.3.2019 | 1.4.2021 to 27.3.2029 | 76.36 | 768,200 | – | – | (240,000) | 528,200 |
| | Tranche 3 | 28.3.2019 | 1.4.2022 to 27.3.2029 | 76.36 | 768,400 | – | – | (240,000) | 528,400 |
| | Tranche 4 | 28.3.2019 | 1.4.2023 to 27.3.2029 | 76.36 | 768,400 | – | – | (240,000) | 528,400 |
| Employees | Tranche 1 | 28.3.2019 | 1.4.2020 to 27.3.2029 | 76.36 | 1,061,300 | (365,700) | (246,000) | – | 449,600 |
| | Tranche 2 | 28.3.2019 | 1.4.2021 to 27.3.2029 | 76.36 | 2,539,900 | – | (31,500) | 240,000 | 2,748,400 |
| | Tranche 3 | 28.3.2019 | 1.4.2022 to 27.3.2029 | 76.36 | 2,541,400 | – | (31,500) | 240,000 | 2,749,900 |
| | Tranche 4 | 28.3.2019 | 1.4.2023 to 27.3.2029 | 76.36 | 2,541,400 | – | (31,500) | 240,000 | 2,749,900 |
| Business Consultants | Tranche 1 | 28.3.2019 | 1.4.2020 to 27.3.2029 | 76.36 | 201,000 | (109,500) | – | – | 91,500 |
| | Tranche 2 | 28.3.2019 | 1.4.2021 to 27.3.2029 | 76.36 | 201,000 | – | (22,500) | – | 178,500 |
| | Tranche 3 | 28.3.2019 | 1.4.2022 to 27.3.2029 | 76.36 | 201,000 | – | (22,500) | – | 178,500 |
| | Tranche 4 | 28.3.2019 | 1.4.2023 to 27.3.2029 | 76.36 | 201,000 | – | (22,500) | – | 178,500 |
| Subtotal | | | | | 11,808,000 | (475,200) | (408,000) | – | 10,924,800 |
| Exercisable at the end of the year | | | | | | | | | 556,100 |
| Weighted average exercise price | | | | | | | | | HK$76.36 |
| Total | | | | | 16,158,085 | (2,688,000) | (949,275) | – | 12,520,810 |

## 45. SHARE BASED PAYMENT TRANSACTIONS *(continued)*

### b. Scheme 2012 *(continued)*

The following tables disclose details of the Company's share options held by the grantees and movements in such holdings under the share option scheme during the prior year:

| | | | | | | Number of options | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Date of grant | Exercise period | Exercise price (HK$) | Outstanding at 1.1.2019 | Granted during the year | Exercised during the year | Forfeited during the year | Reclassified during the year | Outstanding at 31.12.2019 |
| **Scheme 2012- batch 1** | | | | | | | | | | |
| Directors | Tranche 1 | 9.12.2015 | 1.4.2017 to 8.12.2025 | 40.34 | 230,750 | – | (250) | – | – | 230,500 |
| | Tranche 2 | 9.12.2015 | 1.4.2018 to 8.12.2025 | 40.34 | 538,750 | – | (73,550) | (22,625) | – | 442,575 |
| | Tranche 3 | 9.12.2015 | 1.4.2019 to 8.12.2025 | 40.34 | 538,750 | – | – | – | 25 | 538,775 |
| | Tranche 4 | 9.12.2015 | 1.4.2020 to 8.12.2025 | 40.34 | 538,750 | – | – | – | 42,500 | 581,250 |
| Employees | Tranche 1 | 9.12.2015 | 1.4.2017 to 8.12.2025 | 40.34 | 406,900 | – | (201,650) | – | – | 205,250 |
| | Tranche 2 | 9.12.2015 | 1.4.2018 to 8.12.2025 | 40.34 | 1,030,850 | – | (539,287) | (125,302) | – | 366,261 |
| | Tranche 3 | 9.12.2015 | 1.4.2019 to 8.12.2025 | 40.34 | 1,727,750 | – | (659,513) | (507,738) | (25) | 560,474 |
| | Tranche 4 | 9.12.2015 | 1.4.2020 to 8.12.2025 | 40.34 | 1,727,750 | – | – | (260,250) | (42,500) | 1,425,000 |
| Subtotal | | | | | 6,740,250 | – | (1,474,250) | (915,915) | – | 4,350,085 |
| Exercisable at the end of the year | | | | | | | | | | 2,343,835 |
| Weighted average exercise price | | | | | | | | | | HK$40.34 |

| | | | | | | Number of options | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Date of grant | Exercise period | Exercise price (HK$) | Outstanding at 1.1.2019 | Granted during the year | Exercised during the year | Forfeited during the year | Reclassified during the year | Outstanding at 31.12.2019 |
| **Scheme 2012- batch 2** | | | | | | | | | | |
| Directors | Tranche 1 | 28.3.2019 | 1.4.2020 to 27.3.2029 | 76.36 | – | 105,000 | – | (90,000) | – | 15,000 |
| | Tranche 2 | 28.3.2019 | 1.4.2021 to 27.3.2029 | 76.36 | – | 791,600 | – | (90,000) | 66,600 | 768,200 |
| | Tranche 3 | 28.3.2019 | 1.4.2022 to 27.3.2029 | 76.36 | – | 791,700 | – | (90,000) | 66,700 | 768,400 |
| | Tranche 4 | 28.3.2019 | 1.4.2023 to 27.3.2029 | 76.36 | – | 791,700 | – | (90,000) | 66,700 | 768,400 |
| Employees | Tranche 1 | 28.3.2019 | 1.4.2020 to 27.3.2029 | 76.36 | – | 1,061,300 | – | – | – | 1,061,300 |
| | Tranche 2 | 28.3.2019 | 1.4.2021 to 27.3.2029 | 76.36 | – | 2,606,500 | – | – | (66,600) | 2,539,900 |
| | Tranche 3 | 28.3.2019 | 1.4.2022 to 27.3.2029 | 76.36 | – | 2,608,100 | – | – | (66,700) | 2,541,400 |
| | Tranche 4 | 28.3.2019 | 1.4.2023 to 27.3.2029 | 76.36 | – | 2,608,100 | – | – | (66,700) | 2,541,400 |
| Business Consultants | Tranche 1 | 28.3.2019 | 1.4.2020 to 27.3.2029 | 76.36 | – | 241,000 | – | (40,000) | – | 201,000 |
| | Tranche 2 | 28.3.2019 | 1.4.2021 to 27.3.2029 | 76.36 | – | 241,000 | – | (40,000) | – | 201,000 |
| | Tranche 3 | 28.3.2019 | 1.4.2022 to 27.3.2029 | 76.36 | – | 241,000 | – | (40,000) | – | 201,000 |
| | Tranche 4 | 28.3.2019 | 1.4.2023 to 27.3.2029 | 76.36 | – | 241,000 | – | (40,000) | – | 201,000 |
| Subtotal | | | | | – | 12,328,000 | – | (520,000) | – | 11,808,000 |
| Exercisable at the end of the year | | | | | | | | | | – |
| Weighted average exercise price | | | | | | | | | | HK$76.36 |
| Total | | | | | 6,740,250 | 12,328,000 | (1,474,250) | (1,435,915) | – | 16,158,085 |

## 45. SHARE BASED PAYMENT TRANSACTIONS *(continued)*

### b. Scheme 2012 *(continued)*

Exercise price of the share options granted on 9 December 2015 is HK$40.34 per share, which represents the highest of (i) the closing price of HK$39.00 per share as stated in the daily quotations sheet of the Stock Exchange on 9 December 2015, being the date of grant; (ii) the average closing price of HK$40.34 per share as stated in the daily quotations sheets of the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the share.

The total fair value of the options granted on 9 December 2015 calculated by using the binomial model was HK$194 million.

Exercise price of the share options granted on 28 March 2019 is HK$76.36 per share, which represents the highest of (i) the closing price of HK$74.10 per share as stated in the daily quotations sheet of the Stock Exchange on 28 March 2019, being the date of grant; (ii) the average closing price of HK$76.36 per share as stated in the daily quotations sheets of the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the share.

The total fair value of the options granted on 28 March 2019 calculated by using the binomial model was HK$336 million.

During the year ended 31 December 2020, no (2019: 12,328,000) share options were granted, 2,688,000 (2019: 1,474,250) share options were exercised and 949,275 (2019: 1,435,915) share options were forfeited. As at 31 December 2020, the number of outstanding share options is 12,520,810 (2019: 16,158,085). During the year, the Group recognised share-based payment expenses of RMB70 million (2019: RMB74 million) and RMB51 million (2019: RMB24 million) was transferred from share options reserve to share premium upon exercise of share options.

### c. Scheme 2002

On 14 June 2010, the Company granted share options to the Directors and certain employees ("Grantees") to subscribe for a total of 33,490,000 ordinary shares of HK$0.1 each in the share capital of the Company under the share option scheme adopted by the Company on 21 May 2002, subject to acceptance by the Grantees.

Among the share options granted above, 14,810,000 share options were granted to the Directors to subscribe for a total of 14,810,000 shares of the Company and 18,680,000 share options were granted to certain employees of the Group to subscribe for 18,680,000 shares of the Company.

As at 31 December 2020, no share option granted was outstanding (2019: 200,000).

During the current and prior year, the Group recognised no share-based payment expenses as all the share options have been fully vested.

## 46. RETIREMENT BENEFITS SCHEME

| | **2020**<br>**RMB million** | 2019<br>RMB million |
|---|---|---|
| Retirement benefit scheme contribution made during the year | **27** | 220 |

According to the relevant laws and regulations in the PRC, the PRC subsidiaries within the Group are required to contribute a certain percentage of the payrolls of their employees to the retirement benefits scheme to fund the retirement benefits of their employees. The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the MPF Scheme, contribution of which is matched by employees. The maximum monthly amount of contribution is limited to HK$1,500 per employee.

## 47. ACQUISITION OF BUSINESSES THROUGH ACQUISITIONS OF SUBSIDIARIES

### a. Acquisition of businesses during the year ended 31 December 2020

| **Acquisition date** | **Company acquired** | **Registered capital acquired** | **Consideration**<br>RMB million | **Nature of business** |
|---|---|---|---|---|
| 26 March 2020 | 浙江省浦江高峰管道燃氣有限公司 ("Gaofeng") | 90.00% | 155 | Retail gas sales business |
| 31 March 2020 | 內蒙古華億能源股份有限公司 ("Huayi") | 100.00% | 180 | Retail gas sales business |
| 10 August 2020 | 興化東方燃氣有限公司 ("Xinghua") | 65.00% | 29 | Retail gas sales business |
| 17 August 2020 | 江蘇能源控股有限公司 ("Jiangsu") | 70.00% | 284 | Retail gas sales business |
| 29 December 2020 | 雙城中慶燃氣有限公司 ("Shuangcheng") | 100.00% | 121 | Retail gas sales business |
| 29 December 2020 | 上海中芬熱電有限公司 ("Zhongfen") | 51.00% | 85 | Sales of integrated energy and services |

Gaofeng, Huayi, Xinghua, Jiangsu, Shuangcheng and Zhongfen were acquired (collectively referred to as "2020 Companies Acquired") with the objective of expansion in market coverage of the Group's business.

## 47. ACQUISITION OF BUSINESSES THROUGH ACQUISITIONS OF SUBSIDIARIES *(continued)*

### a. Acquisition of businesses during the year ended 31 December 2020 *(continued)*

The amounts of fair value of the assets and liabilities at the date of acquisition are as follows:

| | Gaofeng<br>RMB million | Huayi<br>RMB million | Jiangsu<br>RMB million | Others<br>RMB million | Total<br>RMB million |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 67 | 124 | 162 | 192 | 545 |
| Intangible assets | 163 | 54 | 335 | 161 | 713 |
| Right-of-use assets | 13 | 22 | 1 | 61 | 97 |
| **Current assets** | | | | | |
| Inventories | 4 | 3 | – | 7 | 14 |
| Trade and other receivables | 38 | 37 | 69 | 43 | 187 |
| Contract assets | 2 | – | – | – | 2 |
| Cash and cash equivalents | 38 | 1 | 7 | 34 | 80 |
| **Current liabilities** | | | | | |
| Trade and other payables | (87) | (34) | (95) | (123) | (339) |
| Contract liabilities | (10) | (25) | (5) | (36) | (76) |
| Bank and other loans – due within one year | (50) | (2) | (23) | (15) | (90) |
| **Non-current liabilities** | | | | | |
| Deferred tax liabilities | (41) | (21) | (89) | (58) | (209) |
| Bank and other loans – due after one year | – | – | (30) | (41) | (71) |
| **Net assets acquired** | 137 | 159 | 332 | 225 | 853 |
| Capital injection by the Group | – | – | – | 29 | 29 |
| **Net assets acquired including capital injection by the Group** | 137 | 159 | 332 | 254 | 882 |
| **Goodwill arising on acquisition** | | | | | |
| Total consideration | 155 | 180 | 284 | 235 | 854 |
| Add: Non-controlling interests | 9 | – | 100 | 67 | 176 |
| Less: Fair value of identified net assets acquired including capital injection by the Group | (137) | (159) | (332) | (254) | (882) |
| Goodwill arising on acquisition (determined on a provisional basis) | 27 | 21 | 52 | 48 | 148 |
| **Total consideration satisfied by:** | | | | | |
| Cash | 153 | 152 | 284 | – | 589 |
| Consideration payables | 2 | 28 | – | 206 | 236 |
| Capital injection by the Group | – | – | – | 29 | 29 |
| | 155 | 180 | 284 | 235 | 854 |
| **Net cash (outflow) inflow arising on acquisition:** | | | | | |
| Cash consideration paid | (153) | (152) | (284) | – | (589) |
| Less: Cash and cash equivalents acquired | 38 | 1 | 7 | 34 | 80 |
| | (115) | (151) | (277) | 34 | (509) |

## 47. ACQUISITION OF BUSINESSES THROUGH ACQUISITIONS OF SUBSIDIARIES *(continued)*

### a. Acquisition of businesses during the year ended 31 December 2020 *(continued)*

The fair value of property, plant and equipment and intangible assets at the date of acquisition was provisional and pending for the valuation carried out by an independent firm of professional valuer.

Included in the profit for the year ended 31 December 2020 was RMB7 million of profit attributable to the additional businesses generated by 2020 Companies Acquired. Revenue for the year ended 31 December 2020 includes RMB312 million generated from 2020 Companies Acquired.

Had the acquisitions of 2020 Companies Acquired been completed on 1 January 2020, the revenue of the Group for the year ended 31 December 2020 would have been approximately RMB72,111 million, and the profit for the year would have been approximately RMB7,281 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1 January 2020, nor is intended to be a projection of future results.

In determining the "pro-forma" revenue and profit of the Group, had 2020 Companies Acquired been acquired on 1 January 2020, the Directors have calculated the depreciation and amortisation of property, plant and equipment and intangible assets acquired on the basis of the fair values rather than the carrying amounts recognised in the pre-acquisition financial statements.

### b. Acquisition of businesses during the year ended 31 December 2019

| Acquisition date | Company acquired | Registered Capital acquired | Consideration<br>RMB million | Nature of business |
|---|---|---|---|---|
| 12 February 2019 | 福建省閩昇燃氣有限公司 ("Minsheng") | 80.00% | 40 | Retail gas sales business |
| 18 March 2019 | 滄州市南大港管理區盛德燃氣有公司 ("Nandagang") (note a) | 65.00% | 38 | Retail gas sales business |
| 29 March 2019 | 萊蕪金鴻管道天然氣有限公司, 寧陽金鴻天然氣有限公司, 壽光樂義華璽天然氣利用有限公司 and 綏化市中油金鴻燃氣供應管理有限公司 (collectively referred to as "Jinhong") | 100.00% | 258 | Retail gas sales business |
| 2 April 2019 | 孟村回族自治縣盛德燃氣有限公司 ("Mengcun") (note b) | 65.00% | 71 | Retail gas sales business |
| 18 April 2019 | 臨沂華油眾德燃氣有限公司 ("Linyi") | 70.00% | 66 | Retail gas sales business |
| 8 May 2019 | 龍游中機新奧智慧能源有限公司 ("Longyou") (note c) | 55.00% | 31 | Sales of integrated energy and services |
| 21 August 2019 | 隆昌中歐油氣能源有限公司 ("Longchang") | 60.00% | 69 | Retail gas sales business |
| 3 September 2019 | 文安縣昱通燃氣有限公司 ("Wenan") | 100.00% | 24 | Retail gas sales business |
| 19 September 2019 | 宣燃天然氣股份有限公司 ("Xuanran") | 97.67% | 988 | Retail gas sales business |
| 21 October 2019 | 蚌埠眾德燃氣有限公司 ("Bengbu") | 100.00% | 29 | Retail gas sales business |
| 28 October 2019 | 臨城國源燃氣有限公司 ("Lincheng") | 80.00% | 47 | Retail gas sales business |
| 28 November 2019 | 台玻安徽能源有限公司 ("Taibo") | 80.00% | 14 | Retail gas sales business |
| 4 December 2019 | 唐山市蘭天燃氣有限公司 ("Tangshan") | 100.00% | 45 | Retail gas sales business |
| 26 December 2019 | 山東新燃供氣有限公司 ("Xinran") | 70.00% | 97 | Retail gas sales business |
| 1 January 2019 | 合肥新奧中汽能源發展有限公司 ("Hefeizhongqi") (note d) | N/A | N/A | Retail gas sales business |

## 47. ACQUISITION OF BUSINESSES THROUGH ACQUISITIONS OF SUBSIDIARIES *(continued)*

### b. Acquisition of businesses during the year ended 31 December 2019 *(continued)*

Notes:

a. The Group acquired Nandagang by contributing capital to Nandagang, which was contingent on the net profit of Nandagang for the next three years and estimated to be approximately RMB38 million.

b. The Group acquired Mengcun by contributing capital to Mengcun, which was contingent on the net profit of Mengcun for the next three years and estimated to be approximately RMB71 million.

c. The Group acquired further 55% of the registered capital of Longyou, which then became a wholly owned subsidiary of the Group from a joint venture.

d. A joint venture of the Group, Hefeizhongqi amended its articles of association, which then became a subsidiary of the Group from a joint venture with no consideration.

Minsheng, Jinhong, Nandagang, Mengcun, Linyi, Longyou, Longchang, Wenan, Xuanran, Bengbu, Lincheng, Taibo, Tangshan, Xinran and Hefeizhongqi were acquired with the objective of expansion in market coverage of the Group's business.

The amounts of fair value of the assets and liabilities at the date of acquisition are as follows:

| | Jinhong<br>RMB million | Mengcun & Nandagang<br>RMB million | Xuanran<br>RMB million | Others<br>RMB million | Total<br>RMB million |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 313 | 56 | 367 | 268 | 1,004 |
| Intangible assets – right of operation | 58 | 80 | 678 | 467 | 1,283 |
| Right-of-use assets | 18 | 7 | 23 | 30 | 78 |
| Interest in joint ventures | – | – | 33 | 20 | 53 |
| Long term receivables | – | – | – | 1 | 1 |
| **Current assets** | | | | | |
| Inventories | 2 | 5 | 37 | 10 | 54 |
| Trade and other receivables | 236 | 29 | 23 | 133 | 421 |
| Cash and cash equivalents | 50 | 2 | 163 | 17 | 232 |
| **Current liabilities** | | | | | |
| Trade and other payables | (372) | (99) | (65) | (108) | (644) |
| Contract liabilities | – | – | (140) | (57) | (197) |
| Bank and other loans – due within one year | (17) | (2) | (25) | (87) | (131) |
| **Non-current liabilities** | | | | | |
| Deferred tax liabilities | (15) | (20) | (185) | (121) | (341) |
| **Net assets acquired** | 273 | 58 | 909 | 573 | 1,813 |
| Capital injection by the Group (contingent value) | – | 109 | – | 50 | 159 |
| **Net assets acquired including capital injection by the Group** | 273 | 167 | 909 | 623 | 1,972 |

## 47. ACQUISITION OF BUSINESSES THROUGH ACQUISITIONS OF SUBSIDIARIES *(continued)*

### b. Acquisition of businesses during the year ended 31 December 2019 *(continued)*

| | Jinhong RMB million | Mengcun & Nandagang RMB million | Xuanran RMB million | Others RMB million | Total RMB million |
|---|---|---|---|---|---|
| **Goodwill (bargain purchase gain) arising on acquisition** | | | | | |
| Total consideration | 258 | 109 | 988 | 462 | 1,817 |
| Add: Non-controlling interests | – | 58 | 21 | 147 | 226 |
| Add: Fair value of previously held interest | – | – | – | 45 | 45 |
| Less: Fair value of identified net assets acquired including capital injection by the Group | (273) | (167) | (909) | (623) | (1,972) |
| | (15) | – | 100 | 31 | 116 |
| **Gain on remeasurement of the investments in joint ventures previously held by the Group** | | | | | |
| Fair value of previously held interest | – | – | – | 45 | 45 |
| Less: Carrying amount of the equity interest | – | – | – | (34) | (34) |
| | – | – | – | 11 | 11 |
| **Total consideration satisfied by:** | | | | | |
| Cash | 258 | – | 904 | 277 | 1,439 |
| Consideration payables | – | – | 84 | 135 | 219 |
| Capital injection by the Group | – | 109 | – | 50 | 159 |
| | 258 | 109 | 988 | 462 | 1,817 |
| **Net cash (outflow) inflow arising on acquisition:** | | | | | |
| Cash consideration paid | (258) | – | (904) | (277) | (1,439) |
| Less: Deposit paid in the prior year | 133 | – | – | 9 | 142 |
| Less: Cash and cash equivalents acquired | 50 | 2 | 163 | 17 | 232 |
| | (75) | 2 | (741) | (251) | (1,065) |

## 48. ACQUISITION OF ASSETS THROUGH ACQUISITIONS OF SUBSIDIARIES

### a. Acquisition of assets through acquisitions of subsidiaries during the year ended 31 December 2020

To facilitate the Group's expansion, the Group will from time to time liaise with the local PRC governments and potential vendors to acquire the local rights of operation, gas assets and integrated energy related assets through acquisition of subsidiaries. During the year ended 31 December 2020, the Group has acquired assets through the acquisitions of the following subsidiary:

| Acquisition date | Company acquired | Registered capital acquired | Consideration RMB million |
|---|---|---|---|
| 7 January 2020 | 澄城縣華興燃氣有限公司 | 80.00% | 6 |
| 26 August 2020 | 雲南新奧售電有限公司 (note a) | 51.00% | 14 |
| 4 November 2020 | 常山新奧燃氣有限公司 (note b) | 51.00% | 2 |

Notes:

a. The Group acquired the remaining 51.00% of the equity interest of 雲南新奧售電有限公司, which then became a 100% owned subsidiary of the Group from a joint venture.

b. The Group acquired the remaining 51.00% of the equity interest of 常山新奧燃氣有限公司, which then became a 100% owned subsidiary of the Group from a joint venture.

The transaction was accounted for as acquisition of asset through acquisitions of subsidiaries and the fair value of the consideration allocated to the assets and liabilities acquired are as follows:

| | RMB million |
|---|---|
| **Non-current assets** | |
| Property, plant and equipment | 13 |
| Intangible assets | 11 |
| **Current assets** | |
| Trade and other receivables | 26 |
| Cash and cash equivalents | 5 |
| **Current liabilities** | |
| Trade and other payables | (15) |
| Contract liabilities | (1) |
| **Net assets acquired** | 39 |
| Less: Non-controlling interests | (2) |
| Less: Fair value of previously held interest | (15) |
| **Total consideration** | 22 |

## 48. ACQUISITION OF ASSETS THROUGH ACQUISITIONS OF SUBSIDIARIES *(continued)*

### a. Acquisition of assets through acquisitions of subsidiaries during the year ended 31 December 2020 *(continued)*

| | RMB million |
|---|---|
| **Total consideration satisfied by:** | |
| Cash | 21 |
| Consideration payables | 1 |
| | 22 |
| **Net cash outflow arising acquisition:** | |
| Cash consideration paid | (21) |
| Less: Deposit paid in the prior year | 14 |
| Less: Cash and cash equivalents acquired | 5 |
| | (2) |

### b. Acquisition of assets through acquisitions of subsidiaries during the year ended 31 December 2019

To facilitate the Group's expansion, the Group will from time to time liaise with the local PRC governments and potential vendors to acquire the local rights of operation, gas assets and integrated energy related assets through acquisition of subsidiaries. During the year ended 31 December 2019, the Group has acquired assets through the acquisitions of the following subsidiaries:

| Acquisition date | Company acquired | Registered capital acquired | Consideration RMB million |
|---|---|---|---|
| 2 January 2019 | 安徽池州瑞恩能源有限公司 | 90.00% | 43 |
| 8 January 2019 | 南豐縣中氣天然氣有限公司 | 100.00% | 10 |
| 10 January 2019 | 日照中能燃氣有限公司 | 100.00% | 26 |
| 18 January 2019 | 壽寧縣中氣新能源有限公司 | 100.00% | 5 |
| 22 January 2019 | 霞浦縣中氣新能源有限公司 | 100.00% | 10 |
| 22 January 2019 | 古田縣中氣新能源有限公司 | 100.00% | 15 |
| 15 April 2019 | 大慶高新博源熱電有限公司 (note) | 18.15% | 22 |
| 8 November 2019 | 內蒙古德昱生物質能熱電有限公司 | 51.00% | 31 |
| 15 November 2019 | 安慶市濱江能源有限公司 | 82.55% | 18 |

Note: The Group acquired further 18.15% of the equity interest of 大慶高新博源熱電有限公司, which then became a 51% owned subsidiary of the Group from an associate.

## 48. ACQUISITION OF ASSETS THROUGH ACQUISITIONS OF SUBSIDIARIES *(continued)*

### b. Acquisition of assets through acquisitions of subsidiaries during the year ended 31 December 2019 *(continued)*

The transactions were accounted for as acquisition of assets through acquisitions of subsidiaries and the fair value of the considerations allocated to the assets and liabilities acquired are as follows:

| | RMB million |
|---|---|
| **Non-current assets** | |
| Property, plant and equipment | 222 |
| Intangible assets | 54 |
| Right-of-use assets | 46 |
| **Current assets** | |
| Trade and other receivables | 85 |
| Cash and cash equivalents | 33 |
| **Current liabilities** | |
| Trade and other payables | (67) |
| Bank and other loans – due within one year | (84) |
| **Net assets acquired** | 289 |
| Capital injection by the Group | 31 |
| **Net assets acquired including capital injection by the Group** | 320 |
| Less: Non-controlling interests | (88) |
| Less: Fair value of previously held interest | (52) |
| **Total consideration** | 180 |
| **Total consideration satisfied by:** | |
| Cash | 107 |
| Consideration payables | 42 |
| Capital injection by the Group | 31 |
| | 180 |
| **Net cash outflow arising on acquisition:** | |
| Cash consideration paid | (107) |
| Less: Deposit paid in the prior year | 37 |
| Less: Cash and cash equivalents acquired | 33 |
| | (37) |

## 49. DISPOSAL OF SUBSIDIARIES

### a. Disposal of subsidiaries during the year ended 31 December 2020

| Disposal date | Company disposed | Registered capital acquired | Consideration<br>RMB million |
|---|---|---:|---:|
| 30 April 2020 | 溫縣新奧交通清潔能源有限公司 | 100.00% | 2 |
| 5 June 2020 | 東莞市新奧車用燃氣發展有限公司 | 55.00% | 55 |
| 10 June 2020 | 邢台新奧車用燃氣有限公司 | 98.18% | 13 |
| 8 September 2020 | 合肥新奧中汽能源發展有限公司 | 51.00% | 20 |
| 24 September 2020 | 巢湖市安燃燃氣發展有限公司 | 100.00% | 9 |
| 29 September 2020 | 沁陽新奧交通清潔能源有限公司 | 100.00% | 3 |
| 15 October 2020 | 山東新燃供氣有限公司 | 70.00% | 10 |
| 26 October 2020 | 保定新奧新能源有限公司 | 100.00% | 1 |
| 26 October 2020 | 元氏縣新奧車用燃氣有限公司 | 100.00% | 1 |
| 5 November 2020 | 武陟新奧交通清潔能源有限公司 | 100.00% | 18 |
| 20 November 2020 | 懷仁新奧燃氣有限公司 | 90.00% | 164 |
| 9 December 2020 | 安陽新奧清潔能源有限公司 | 100.00% | 3 |
| 16 December 2020 | 濟源新奧交通清潔能源有限公司 | 100.00% | 2 |
| 16 December 2020 | 河北新奧清潔能源有限公司 | 100.00% | 4 |
| 31 December 2020 | 淄博新奧燃氣有限公司 | 60.00% | 1 |

## 49. DISPOSAL OF SUBSIDIARIES *(continued)*

### a. Disposal of subsidiaries during the year ended 31 December 2020 *(continued)*

The net assets at the dates of disposal were as follow:

| | RMB million |
|---|---|
| **Non-current assets** | |
| Property, plant & equipment | 377 |
| Right-of-use assets | 146 |
| Intangible assets | 210 |
| Interest in a joint venture | 33 |
| **Current assets** | |
| Inventories | 15 |
| Trade and other receivables | 56 |
| Cash and cash equivalents | 31 |
| **Current liabilities** | |
| Trade and other payables | (79) |
| Bank and other loans – due within one year | (7) |
| Contract liabilities | (18) |
| Lease liabilities | (9) |
| **Non-current liabilities** | |
| Deferred tax liabilities | (56) |
| Deferred income | (7) |
| Lease liabilities | (101) |
| **Net assets** | 591 |
| Less: Non-controlling interests | (152) |
| **Net assets attributable to the owners of the Company disposed of** | 439 |

The loss on disposal of subsidiaries recognised in profit or loss was calculated as below:

| | RMB million |
|---|---|
| Consideration received | 277 |
| Consideration receivable | 29 |
| Consideration payables derecognised | 87 |
| Less: Goodwill derecognised | (16) |
| Less: Net assets attributable to owners of the Company derecognised | (439) |
| **Loss on disposal of subsidiaries** | (62) |
| **Net cash inflow arising from the disposal:** | |
| Cash consideration received | 277 |
| Less: Cash and bank balance disposed of | (31) |
| | 246 |

## 49. DISPOSAL OF SUBSIDIARIES *(continued)*

### b. Disposal of subsidiaries during the year ended 31 December 2019

On 15 March 2019, a subsidiary of the Group, 長沙新奧金滿地清潔能源有限公司 amended its articles of association, which then became a 48.42% owned joint venture of the Group.

On 22 March 2019, the Group disposed of 70% equity interest in 惠州新鑫新能源有限公司 at a cash consideration of RMB45 million.

On 22 November 2019, the Group disposed of 80% equity interest in 三河市新奧天龍車用燃氣有限公司 at a cash consideration of RMB3 million.

The net assets at the dates of disposal were as follow:

| | RMB million |
|---|---|
| **Non-current assets** | |
| Property, plant and equipment | 12 |
| Right-of-use assets | 65 |
| **Current assets** | |
| Cash and cash equivalents | 3 |
| **Current liabilities** | |
| Trade and other payables | (8) |
| **Net assets** | 72 |
| Less: Non-controlling interests | (2) |
| **Net assets attributable to the owners of the Company disposed of** | 70 |

The loss on disposal of subsidiaries recognised in profit or loss was calculated as below:

| | RMB million |
|---|---|
| **Fair value of the residual interests** | 20 |
| Consideration received | 45 |
| Consideration receivable | 3 |
| Less: Net assets attributable to owners of the Company derecognised | (70) |
| **Loss on disposal of subsidiaries** | (2) |
| **Net cash inflow arising from the disposal:** | |
| Cash consideration received | 45 |
| Less: Cash and cash equivalents disposed of | (3) |
| | 42 |

## 50. COMMITMENTS

### a. Capital commitments

| | **2020 RMB million** | 2019 RMB million |
|---|---|---|
| Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | **899** | 1,021 |
| Capital commitments in respect of | | |
| – investments in joint ventures | **518** | 495 |
| – investments in associates | **469** | 518 |
| – other equity investments | **2** | 259 |

## 50. COMMITMENTS *(continued)*

### b. Other commitments

The Group has commitments to acquire LNG from certain suppliers. The delivery of LNG under such arrangements last for 5 to 10 years. The Group is obliged to make "take-or-pay" payment to suppliers for the quantity contracted but not delivered.

In the opinion of the Directors, these LNG will be utilised to satisfy the demand of domestic natural gas consumption from both the Group's piped gas customers and wholesale customers. The Directors determined that such LNG purchase arrangements are entered into and continued to be held for the purpose of the receipt of a non-financial item in accordance with the Group's expected purchase, sale and usage. Accordingly, the LNG purchase arrangements are not considered as derivatives financial instruments within the scope of HKFRS 9 since the initial recognition.

The relevant purchase prices of these arrangements will be determined by reference to certain variables, such as petroleum price indexes prevailing at the market, and are denominated in USD. The Directors assessed the economic characteristics and risks of the embedded derivatives and concluded that they are closely related to the economic risks and characteristics of the relevant host contracts. Accordingly, the embedded derivatives are not separated from the LNG purchase arrangements as derivative financial instruments recognised in the consolidated financial statements.

## 51. OPERATING LEASING ARRANGEMENTS

### The Group as lessor

The Group's investment properties are held for rental purposes. Property rental income earned during the year was RMB10 million (2019: RMB10 million). All of the properties held have committed tenants for terms ranging from one to twenty years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

| | **2020**<br>**RMB million** | 2019<br>RMB million |
|---|---|---|
| Within one year | **16** | 17 |
| In the second to fifth year inclusive | **29** | 37 |
| Over five years | **34** | 34 |
| | **79** | 88 |

## 52. PLEDGE OF ASSETS

At the end of the reporting period, the Group pledged certain assets as securities for bank and other loans, bill facilities and contracts granted to the Group, associates and joint ventures as follows:

| | **2020**<br>**RMB million** | 2019<br>RMB million |
|---|---|---|
| Carrying amount of: | | |
| Property, plant and equipment | **87** | 106 |
| Restricted bank deposits | **301** | 628 |
| Right-of-use assets | **4** | 7 |
| Bills receivable | **112** | 49 |
| Intangible assets | **52** | – |

In addition to the above, the Group has also pledged its rights to receive construction and installation and gas supply fee income of certain subsidiaries in favour of banks to secure banking facilities amounting to RMB400 million (2019: RMB868 million) granted to the Group, of which RMB400 million (2019: RMB187 million) has been utilised up to 31 December 2020.

## 53. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS

### a. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern, to maintain the confidence of creditors, to sustain future development of the entities and to maximise the return to the equity holders of the Company. The capital structure of the Group consists of net debt (borrowings disclosed in Notes 40, 41, 42 and 43, net of cash and cash equivalents) and total equity of the Group.

The Group manages its capital base through net gearing ratio. The Directors review the capital structure on a semi-annual basis. The Group has a target of net gearing ratio below 100% and will maintain the ratio within target by issue of new debts, repayment of debts, issue of new shares, repurchase of shares or payment of dividends. The Group's overall strategy remains unchanged from prior year. The Group repurchased certain senior notes in order to better manage its net gearing ratio. The net gearing ratio at the end of the reporting period was as follows:

| | **2020<br>RMB million** | 2019<br>RMB million |
|---|---|---|
| Bank and other loans | **6,668** | 10,343 |
| Corporate bonds | **2,097** | 2,094 |
| Senior notes | **7,207** | 2,539 |
| Unsecured bonds | **3,712** | 4,169 |
| | **19,684** | 19,145 |
| Less: Cash and cash equivalents | **(8,630)** | (7,373) |
| Net debt | **11,054** | 11,772 |
| Total equity | **36,172** | 31,020 |

| | **2020<br>%** | 2019<br>% |
|---|---|---|
| Net debt to total equity ratio | **30.6** | 37.9 |

### b. Categories of financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities at the end of the reporting period are set out as follows:

| | **2020<br>RMB million** | 2019<br>RMB million |
|---|---|---|
| Financial assets | | |
| Financial assets at FVTPL | **4,830** | 4,857 |
| Derivative financial instruments | **628** | 673 |
| Equity instruments at FVTOCI | **211** | 123 |
| Financial assets at amortised cost | **17,094** | 14,954 |
| Financial liabilities | | |
| Derivative financial instruments | **927** | 746 |
| Financial liabilities at amortised cost | **30,791** | 29,548 |

## 53. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

### c. Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risks, and price risk), credit risk and liquidity risk.

The Group's treasury department identifies, evaluates and monitors financial risks in close co-operation with the Group's operating units, focusing on the unpredictability of financial markets. The Group seeks to minimise the effects of financial risks by using different derivative financial instruments to manage these exposures. All derivative financial instruments are used for the financial risk management and not for speculative purposes.

The Board provides written principal for overall risk management. The Group has written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, the use of derivative financial instruments and non-derivatives financial instruments and cash management. Exposure to foreign exchange rates, interest rates and prices risk movements are regularly reviewed and positions are amended in compliance with internal guidelines and limits.

The Group treasury department reports regularly or on demand basis to the Financial Risk Management Working Group, an independent body that monitor risks and policies implemented to mitigate risk exposures.

*Foreign currency risk management*

The functional currency of the Group's most entities is RMB in which most of the transactions are denominated. However, certain loans, senior notes and unsecured bonds issued by the Group, receivables and payables and certain bank balances kept by the Group are denominated in foreign currencies.

To mitigate the foreign exchange exposure, the Group entered into various Foreign Currency Derivatives with certain financial institutions during the current and prior years as set out in Note 24. The management of the Group monitors foreign exchange exposure and designates all derivatives as hedging instruments for cash flow hedges. The foreign exchange forward contracts must be in the same currency as the hedged item. On this basis, the Group has entered into such forward contracts in relation to the foreign currency denominated monetary assets and monetary liabilities amounting to USD750 million, equivalent to RMB4,894 million. It is the Group's policy to negotiate the terms of the hedge derivatives, to the extent possible, to match or approximate the terms of the hedged items to maximise hedge effectiveness (see Note 24 and Note 44 for details).

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

| | **Assets** | | **Liabilities** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **RMB million** | RMB million | **RMB million** | RMB million |
| Foreign currency: | | | | |
| USD | **578** | 129 | **12,549** | 11,702 |
| HK$ | **101** | 23 | **–** | 1,380 |

The following table details the Group's sensitivity to a reasonable possible change in exchange rate of each foreign currency against RMB, while all other variables are held constant. The sensitivity adjusts their translations at the end of the reporting period for a change in foreign currency exchange rate as set out below:

| | **USD** | | **HK$** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **%** | % | **%** | % |
| Possible change in foreign exchange rate | **5** | 5 | **5** | 5 |

## 53. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

### c. Financial risk management objectives and policies *(continued)*

*Foreign currency risk management (continued)*

| | **2020 RMB million** | 2019 RMB million | **2020 RMB million** | 2019 RMB million |
|---|---|---|---|---|
| (Decrease) increase in profit after taxation for the year: | | | | |
| – if RMB weakens against foreign currencies | **(431)** | (580) | **5** | (68) |
| – if RMB strengthens against foreign currencies | **457** | 580 | **(5)** | 68 |
| (Decrease) increase in other comprehensive income | | | | |
| – if RMB weakens against foreign currencies | **(2)** | – | **–** | – |
| – if RMB strengthens against foreign currencies | **(4)** | – | **–** | – |

In the opinion of the Directors, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure and does not reflect the exposure during the year, and some of the Group's foreign currency exposure has been reduced due to the offsetting effect of the Foreign Currency Derivatives.

Hedges of foreign currency risk

The Group designates cross currency swaps and foreign currency options as hedging instruments in cash flow hedges and does not separate the forward and spot element of a currency forward contract but instead designates the currency forward contract in its entirety in a hedging relationship. Correspondingly, the hedged item is measured based on the forward exchange rate. Foreign currency basis spread of financial instruments may be separated and excluded from the designated hedging instruments. As at 31 December 2020, the notional profile of USD200 million is less than 1 year, and the remaining USD550 million is between 2 to 5 years.

The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the foreign currency borrowings and Foreign Currency Derivatives based on their currency types, currency amounts and the timing of their respective cash flows.

The following table summarise the effect of the hedge accounting on financial position and performance of the Group for the reporting period:

| | | | | | Favourable/(Unfavourable) changes in fair value used for measuring ineffectiveness | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Average exchange rate | Notional value USD USD million | Notional value RMB RMB million | Carrying amount of the hedging instruments RMB million | Hedging instruments RMB million | Hedged items RMB million | Hedging losses recognised in cash flow hedge reserve RMB million | Hedge ineffectiveness recognised in profit or loss RMB million | Cost of hedging recognised in OCI RMB million | From cash flow hedge reserve due to hedged item affecting profit or loss RMB million | Amount reclassified from cost of hedging reserve to profit or loss RMB million | Line item in profit or loss in which hedge ineffectiveness is included | Line items in profit or loss affected by the reclassification | Balance in cash flow hedge reserve for continuing hedge |
| **Cash flow hedges** | | | | | | | | | | | | | | |
| Cross currency swaps | 6.83 | 400 | 2,731 | (127) | (234) | 236 | 234 | (3) | (33) | (259) | 26 | Other gains and losses | Other gains | (26) |
| Foreign currency options* | 6.71 | 350 | 2,349 | (6) | (83) | 11 | 11 | 54 | (2) | (4) | (8) | and losses | and losses & Finance costs | 7 |

*Note: The foreign currency options contain an average capped exchange rate at 7.26.

## 53. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

### c. Financial risk management objectives and policies *(continued)*

*Interest rate risk management*

The Group does not have any specific interest rate hedging policy except that the Group would regularly review the market interest rates to capture the potential opportunities to reduce the cost of borrowings. Accordingly, the Group will enter into interest rate swap arrangement to mitigate the interest rate risk if appropriate.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to non-current amounts due from associates and joint ventures, amounts due to associates and joint ventures, and fixed-rate bank and other loans, corporate bonds, senior notes and unsecured bonds (see Notes 29, 30, 40, 41, 42 and 43 for details of these amounts, loans, bonds and notes respectively).

The fair value interest rate risk on bank balance and deposits is insignificant as the terms of the fixed deposits are relatively short.

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to floating-rate bank loans (see Note 40 for details of these amounts). The Directors consider that the Group is not exposed to significant cash flow interest rate risk relating to bank deposits, which are primarily short term in nature and basically carried at stable market interest rates.

The Group's sensitivity to cash flow interest rate risk has been determined based on the exposure to interest rates for the floating-rate bank loans. The analysis is prepared assuming that the amount of liabilities outstanding at the end of the reporting period was outstanding for the whole year and excluding the interest expected to be capitalised.

| | **2020** | 2019 |
|---|---|---|
| | **%** | % |
| Possible change in interest rate | **50 basis points** | 50 basis points |

| | **2020** | 2019 |
|---|---|---|
| | **RMB million** | RMB million |
| (Decrease) increase in profit after taxation for the year | | |
| – as a result of increase in interest rate | **(9)** | (14) |
| – as a result of decrease in interest rate | **9** | 14 |

The possible change in the interest rate does not affect the equity of the Group in both years.

*Commodity price risk*

In the normal course of business, the Group imported LNG to satisfy the demands of downstream customers under long-term "take-or-pay" purchase agreements as set out in Note 50. Accordingly, the Group is exposed to fluctuations in prevalent crude oil/gas market prices, which are used for the determination of the price of LNG. This exposure is managed with the use of derivative financial instruments by the Group. The profit or loss generated from these derivatives is dependent on the combination of contracts which generate payoffs in any particular range of commodity prices.

Derivative financial instruments are used solely for financial risk management purposes and the Group does not hold or issue derivative financial statements for speculation purposes. The management of the Group monitors commodity price risk exposure regularly and designates certain derivatives as cash flow hedge of highly probable purchases.

## 53. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

### c. Financial risk management objectives and policies *(continued)*

*Commodity price risk (continued)*

The following table summarises the commodity options designated as cash flow hedges outstanding at the end of the reporting period, which expires through December 2023, as well as the effect on financial position and performance of the Group for the reporting period. Commodity options are presented in the line 'Derivative financial instruments' within the consolidated statement of financial position (see Note 24 for further details):

| | | | | Favourable/(Unfavourable) changes in fair value used for measuring ineffectiveness | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Strike price range | Remaining quantity | Carrying amount of the hedging instruments | Hedging instruments | Hedged items | Hedging losses recognised in cash flow hedge reserve | Hedge ineffectiveness recognised in profit or loss | Cost of hedging recognised in OCI | Line item in profit or loss in which hedge ineffectiveness is included | Amount from cash flow hedge reserve transferred to inventory |
| | | bbl | RMB million | RMB million | RMB million | RMB million | RMB million | RMB million | | RMB million |
| Cash flow hedges | | | | | | | | | | |
| Collar for Brent Oil | 47.9 – 69 | 1,920,000 | (62) | (122) | 193 | 122 | 13 | 36 | Other gains and losses | 71 |

A decrease of 10% (2019: 5%) in relevant commodity prices at the end of the year ended 31 December 2020 would have affected profit or loss for the years by amount shown below. As a result of the expected volatile oil market in 2021, the management adjusted the sensitivity rate from 5% to 10% for the purpose of assessing commodity price risk. These amounts represent the change in fair value of commodity derivative contracts at the reporting date.

| | **2020 RMB million** | 2019 RMB million |
|---|---|---|
| Decrease in profit before taxation for the year | **(40)** | (7) |
| Decrease in other comprehensive income | **(35)** | – |

*Other price risk*

The Group is mainly exposed to price risk through equity instrument measured at FVTPL and FVTOCI. The Directors do not implement specific measurements to mitigate the price risk.

If the market price of equity instrument measured at FVTPL and FVTOCI increased or decreased by 5%, the Group would recognise additional gains or losses of RMB249 million (2019: RMB 248 million) respectively.

*Credit risk and impairment assessment*

Other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of financial guarantees provided by the Group. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the credit risks associated with loan receivables is mitigated because they are secured over equipment, receivables and certain entities' equities and settlement of certain trade receivables are backed by bills issued by reputable financial institutions.

Trade receivables and contract assets arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 on trade balances based on provision matrix.

## 53. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

### c. Financial risk management objectives and policies *(continued)*

*Credit risk and impairment assessment (continued)*

Other receivables, amounts due from associates/joint ventures/related companies and bank balances

In order to minimise the credit risk, the Group performs impairment assessment under ECL model upon application of HKFRS 9 on other receivables, amounts due from associates/joint ventures/related companies individually. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts.

The credit risks on bank balances are limited because the counterparties are reputable international and PRC banks and other financial institutions with high credit ratings assigned by international credit-rating agencies regulated by the PRC government.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk.

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

| | Notes | External credit rating | Internal credit rating | 12-month or lifetime ECL | Gross carrying amount 2020 RMB million | Gross carrying amount 2019 RMB million |
|---|---|---|---|---|---|---|
| **Financial assets at amortised cost** | | | | | | |
| Amounts due from associates* | 29 | N/A | (note a) | 12-month ECL | **394** | 455 |
| | | | | Lifetime ECL (not credit impaired) | **540** | 483 |
| | | | | | **934** | 938 |
| Amounts due from joint ventures* | 30 | N/A | (note a) | 12-month ECL | **1,400** | 427 |
| | | | | Lifetime ECL (not credit impaired) | **746** | 662 |
| | | | | | **2,146** | 1,089 |
| Amounts due from related companies* | 31 | N/A | (note a) | 12-month ECL | **142** | 4 |
| | | | | Lifetime ECL (not credit impaired) | **213** | 164 |
| | | | | | **355** | 168 |
| Restricted bank deposits | 34 | AA | N/A | 12-month ECL | **766** | 1,012 |
| Bank balances | 34 | AA+ | N/A | 12-month ECL | **8,630** | 7,373 |
| Other receivables | 23 | N/A | (note a) | 12-month ECL | **702** | 472 |
| Loan receivables | 23 | N/A | (note a) | 12-month ECL | **379** | 191 |
| Trade receivables | 23 | N/A | (note b) | Lifetime ECL (provision matrix) | **2,350** | 2,456 |
| | | | | Lifetime ECL (not credit impaired) | **30** | 30 |
| | | | | Credit-impaired | **139** | 109 |
| | | | | | **2,519** | 2,595 |
| Bills receivable | 23 | N/A | (note a) | 12-month ECL | **1,441** | 1,413 |
| Contract assets | 28 | N/A | (note b) | Lifetime ECL (provision matrix) | **751** | 785 |
| | | | | Credit-impaired | **1** | 1 |
| | | | | | **752** | 786 |

* The gross carrying amounts disclosed above include both trade nature receivables and non-trade nature receivables. All trade nature receivables are applying lifetime ECL.

## 53. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

### c. Financial risk management objectives and policies *(continued)*

*Credit risk and impairment assessment (continued)*

Other receivables, amounts due from associates/joint ventures/related companies and bank balances *(continued)*

Notes:

a. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

**2020**

| | Past due RMB million | Not past due/ No fixed terms of repayment RMB million | Total RMB million |
|---|---|---|---|
| Amounts due from associates | – | 934 | 934 |
| Amounts due from joint ventures | – | 2,146 | 2,146 |
| Amounts due from related companies | – | 355 | 355 |
| Bills receivable | – | 1,441 | 1,441 |
| Other receivables | – | 702 | 702 |
| Loan receivables | – | 379 | 379 |

2019

| | Past due RMB million | Not past due/ No fixed terms of repayment RMB million | Total RMB million |
|---|---|---|---|
| Amounts due from associates | – | 938 | 938 |
| Amounts due from joint ventures | – | 1,089 | 1,089 |
| Amounts due from related companies | – | 168 | 168 |
| Bills receivable | – | 1,413 | 1,413 |
| Other receivables | – | 472 | 472 |
| Loan receivables | – | 191 | 191 |

b. For trade receivables and contract assets, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances, the Group determines the expected credit losses on these items by using a provision matrix, grouped by past due status.

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables and contract assets which are assessed based on provision matrix as at 31 December 2020 within lifetime ECL. A full provision was made for debtors that were credit-impaired.

## 53. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

### c. Financial risk management objectives and policies *(continued)*

*Credit risk and impairment assessment (continued)*

Gross carrying amount

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Average loss rate** | **Trade receivables and contract assets RMB million** | Average loss rate | Trade receivables and contract assets RMB million |
| 0 to 3 months | **0.40%** | **2,012** | 0.38% | 2,344 |
| 4 to 6 months | **7.06%** | **414** | 6.08% | 188 |
| 7 to 9 months | **9.30%** | **237** | 7.80% | 283 |
| 10 to 12 months | **12.11%** | **42** | 9.03% | 98 |
| 1 to 2 years | **28.59%** | **297** | 22.58% | 273 |
| 2 to 3 years | **39.44%** | **99** | 39.11% | 55 |
| | | **3,101** | | 3,241 |

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

As at 31 December 2020, the Group provided RMB170 million (2019: RMB105 million) and RMB19 million (2019: RMB28 million) impairment allowance for trade receivables and contract assets respectively, based on the provision matrix. Impairment allowance of RMB165 million (2019: RMB128 million) and RMB1 million (2019: RMB1 million) were made for trade receivables and contract assets respectively, based on debtors that were credit impaired.

The following table shows reconciliation of loss allowances that have been recognised for trade receivables, contract assets, bills receivables, other receivables, amounts due from associates, joint ventures, related companies.

| | **12-month ECL** RMB million | **Lifetime ECL (not credit-impaired)** RMB million | **Lifetime ECL (credit-impaired)** RMB million | **Total** RMB million |
|---|---|---|---|---|
| As at 1 January 2019 | 39 | 64 | 174 | 277 |
| Changes due to financial instruments recognised | | | | |
| – Transfer to credit-impaired | (2) | (39) | 41 | – |
| – Impairment losses recognised | 28 | 55 | 65 | 148 |
| – Impairment losses reversed | (45) | (57) | (2) | (104) |
| As at 31 December 2019 | 20 | 23 | 278 | 321 |
| Changes due to financial instruments recognised | | | | |
| – Transfer to credit-impaired | (2) | (26) | 28 | – |
| – Impairment losses recognised | 62 | 100 | 32 | 194 |
| – Impairment losses reversed | (28) | (36) | (1) | (65) |
| As at 31 December 2020 | 52 | 61 | 337 | 450 |

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

## 53. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

### c. Financial risk management objectives and policies *(continued)*

*Liquidity risk management*

To manage the liquidity risk, the Group reviews the level of cash and cash equivalents to ensure their adequacy to finance the Group's operations, capital expansion plans and mitigate the effects of fluctuation in cash flows. The Group also reviews the utilisation of borrowings and ensures the compliance of loan covenants.

The Group relies on various bonds and bank and other loans as a significant source of liquidity, detail of which are set out in Notes 40, 41, 42 and 43. Except for the unutilised issuance quota of the green bonds amounting to RMB5,000 million by China Securities Regulatory Commission and National Development and Reform Commission, the Group has unutilised credit facilities of approximately RMB12,001 million as at 31 December 2020, which are subject to renewal within twelve months from the end of the reporting period as set out in Note 2.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are carried at floating rate, the undiscounted amount is derived from interest rate existed at the end of the reporting period.

| | Weighted average interest rate % | Repayable on demand or within one year RMB million | Within the second year RMB million | Within the third year RMB million | Within the fourth year RMB million | Within the fifth year RMB million | Over five years RMB million | Total undiscounted cash flow RMB million | Carrying amount at end of the reporting period RMB million |
|---|---|---|---|---|---|---|---|---|---|
| **At 31 December 2020** | | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | | |
| Trade and other payables | | 8,302 | – | – | – | – | – | 8,302 | 8,302 |
| Amounts due to associates | 0.64 | 320 | – | – | – | – | – | 320 | 319 |
| Amounts due to joint ventures | 0.11 | 977 | 585 | – | – | – | – | 1,562 | 1,561 |
| Amounts due to related companies | | 925 | – | – | – | – | – | 925 | 925 |
| Bank and other loans | | | | | | | | | |
| – fixed rate | 3.28 | 3,678 | 49 | 529 | 55 | 12 | 582 | 4,905 | 4,715 |
| – variable rate | 3.16 | 1,043 | 91 | 41 | 251 | 36 | 768 | 2,230 | 1,953 |
| Lease liabilities | 5.02 | 109 | 81 | 60 | 48 | 37 | 154 | 489 | 399 |
| Corporate bonds | 4.13 | 91 | 2,131 | – | – | – | – | 2,222 | 2,097 |
| Senior notes | 3.74 | 2,573 | 128 | 128 | 128 | 128 | 5,504 | 8,589 | 7,207 |
| Unsecured bonds | 3.25 | 121 | 3,792 | – | – | – | – | 3,913 | 3,712 |
| Financial guarantee contracts | | 775 | – | – | – | – | – | 775 | – |
| | | 18,914 | 6,857 | 758 | 482 | 213 | 7,008 | 34,232 | 31,190 |
| **Derivatives** | | | | | | | | | |
| – inflow | | (2,114) | (3,984) | (40) | – | – | – | (6,138) | |
| – outflow | | 2,285 | 4,113 | 73 | – | – | – | 6,471 | |

## 53. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

### c. Financial risk management objectives and policies *(continued)*

*Liquidity risk management (continued)*

| | Weighted average interest rate % | Repayable on demand or within one year RMB million | Within the second year RMB million | Within the third year RMB million | Within the fourth year RMB million | Within the fifth year RMB million | Over five years RMB million | Total undiscounted cash flow RMB million | Carrying amount at end of the reporting period RMB million |
|---|---|---|---|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | | |
| Trade and other payables | | 7,635 | – | – | – | – | – | 7,635 | 7,635 |
| Amounts due to associates | 0.93 | 190 | – | – | – | – | – | 190 | 189 |
| Amounts due to joint ventures | 0.23 | 786 | 735 | – | – | – | – | 1,521 | 1,520 |
| Amounts due to related companies | | 1,060 | – | – | – | – | – | 1,060 | 1,060 |
| Bank and other loans | | | | | | | | | |
| – fixed rate | 3.03 | 7,256 | 5 | 103 | – | – | – | 7,364 | 7,277 |
| – variable rate | 3.59 | 410 | 2,223 | 104 | 61 | 48 | 539 | 3,385 | 3,066 |
| Lease liabilities | 5.20 | 129 | 104 | 76 | 63 | 53 | 275 | 700 | 550 |
| Corporate bonds | 4.13 | 91 | 87 | 2,136 | – | – | – | 2,314 | 2,094 |
| Senior notes | 6.00 | 153 | 2,627 | – | – | – | – | 2,780 | 2,539 |
| Unsecured bonds | 3.25 | 136 | 136 | 4,322 | – | – | – | 4,594 | 4,169 |
| Financial guarantee contracts | | 726 | – | – | – | – | – | 726 | – |
| | | 18,572 | 5,917 | 6,741 | 124 | 101 | 814 | 32,269 | 30,099 |
| **Derivatives** | | | | | | | | | |
| – inflow | | (599) | (1,613) | (4,431) | (22) | – | – | (6,665) | |
| – outflow | | 669 | 1,631 | 4,343 | 36 | – | – | 6,679 | |

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on the expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, these estimates are subject to change depending on the probability of the counterparties claiming under the guarantee in case that the financial receivables held by the counterparty suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

The contractual expiry periods of financial guarantee contracts at the end of the reporting period are as follows:

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **RMB million** | **Expiry period** | RMB million | Expiry period |
| Guarantees issued to banks to secure loan facilities granted to an associate and joint ventures | **775** | **2029** | 726 | 2025 |

## 53. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

### d. Fair value measurement of financial instruments

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

The Group measures its following financial instruments at fair value at the end of the reporting period on a recurring basis:

| | Fair value as at 31 December | | Fair value hierarchy | Valuation technique and key input |
|---|---|---|---|---|
| | **2020 RMB million** | 2019 RMB million | | |
| **Financial assets** | | | | |
| Derivative financial instruments | **628** | 673 | Level 2 | Discounted cash flow for swap<br>Future cash flows are estimated based on forward commodity price and forward exchange rates at settlement date, contracted strike rate, cap rate and premium payment, discounted at the swap curves expected by various counterparties<br><br>Black-Scholes Model for option<br>Fair value estimated based on strike price, commodity price, time to expiration, volatility and risk-free interest rate |
| Listed equity securities, equity interest in Shanghai Utilities | **244** | 287 | Level 1 | Fair values are derived from quoted bid prices in an active market |
| Unlisted wealth management products | **70** | 16 | Level 3 | Discounted cash flow<br>Future cash flows are estimated based on the recoverable amount expected, discounted at a rate that reflects the credit risk of the counterparty |
| 1.13% equity interest in Sinopec Marketing | **4,170** | 4,170 | Level 3 | Estimated based on the P/B ratio of comparable listed companies and a liquidity discount |
| Other unlisted equity securities – FVTPL | **346** | 384 | Level 3 | Fair value is derived from price multiples of similar assets that have been traded in the market |
| Unlisted equity securities – FVTOCI | **149** | 123 | Level 3 | Fair values are derived from the fair value of the underlying assets and liabilities held by the investee |
| Listed equity securities – FVTOCI | **62** | – | Level 1 | Fair values are derived from quoted bid prices in an active market |
| **Financial liabilities** | | | | |
| Derivative financial instruments | **927** | 746 | Level 2 | Discounted cash flow for swap<br>Future cash flows are estimated based on forward commodity price and forward exchange rates at settlement date, contracted strike rate, cap rate and premium payment, discounted at the swap curves expected by various counterparties<br><br>Black-Scholes Model for option<br>Fair value estimated based on strike price, commodity price, time to expiration, volatility and risk-free interest rate |

## 53. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

### d. Fair value measurement of financial instruments *(continued)*

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

The Group's 1.13% equity interest in Sinopec Marketing which is classified as financial assets at FVTPL under Level 3 hierarchy amounted to RMB4,170 million as at 31 December 2020 under HKFRS 9. The significant unobservable input is the liquidity discount rate. The higher liquidity discount rate, the lower fair value of the financial assets at fair value will be. A 5% increase/decrease in the liquidity discount rate, holding all other variables constant, the fair value of the investments would decrease/increase by RMB32 million as at 31 December 2020.

*(ii) Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis*

Except as detailed in the following table, the Directors consider that the carrying amounts of financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their fair values:

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Carrying amount RMB million** | **Fair value RMB million** | Carrying amount RMB million | Fair value RMB million |
| Fixed-rate bank and other loans | **4,715** | **4,518** | 7,277 | 7,079 |
| Senior notes | **7,207** | **7,345** | 2,539 | 2,655 |
| Unsecured bonds | **3,712** | **3,823** | 4,169 | 4,216 |
| Corporate bonds | **2,097** | **2,115** | 2,094 | 2,105 |

In the above table, other than the fair values of bank loans disclosed which are under the fair value hierarchy of Level 3, the rest of the fair values disclosed are under the fair value hierarchy of Level 2. The fair values of the senior notes and unsecured bonds are derived from the quoted prices in an over-the-counter market, and the fair values of corporate bonds are derived from the inactive quoted prices in the Shanghai Stock Exchange. The fair values of the rest of the financial liabilities at amortised cost are derived from discount cash flow technique by reference to the market interest rate of the loans with comparable maturity and credit risk of the respective group entities at the end of the reporting period.

## 54. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

| | Bank and other loans RMB million (Note 40) | Lease liabilities RMB million | Corporate bonds RMB million (Note 41) | Unsecured bonds RMB million (Note 43) | Senior notes RMB million (Note 42) | Others RMB million (note) | Total RMB million |
|---|---|---|---|---|---|---|---|
| At 1 January 2020 | **10,343** | **550** | **2,094** | **4,169** | **2,539** | **1,222** | **20,917** |
| Financing cash flows | **(3,645)** | **(107)** | **–** | **(208)** | **5,065** | **(2,663)** | **(1,558)** |
| Loss on repurchase of unsecured bonds | **–** | **–** | **–** | **9** | **–** | **–** | **9** |
| Acquisition of subsidiaries | **161** | **–** | **–** | **–** | **–** | **–** | **161** |
| Disposal of subsidiaries | **(7)** | **(110)** | **–** | **–** | **–** | **–** | **(117)** |
| Foreign exchange translation | **(184)** | **–** | **–** | **(265)** | **(405)** | **249** | **(605)** |
| New leases entered | **–** | **66** | **–** | **–** | **–** | **–** | **66** |
| Dividends paid to shareholders | **–** | **–** | **–** | **–** | **–** | **1,719** | **1,719** |
| Interest expense | **–** | **–** | **3** | **7** | **8** | **724** | **742** |
| At 31 December 2020 | **6,668** | **399** | **2,097** | **3,712** | **7,207** | **1,251** | **21,334** |

| | Bank and other loans RMB million (Note 40) | Lease liabilities RMB million | Corporate bonds RMB million (Note 41) | Unsecured bonds RMB million (Note 43) | Senior notes RMB million (Note 42) | Others RMB million (note) | Total RMB million |
|---|---|---|---|---|---|---|---|
| At 1 January 2019 | 10,722 | – | 2,497 | 4,539 | 2,491 | 876 | 21,125 |
| Initial application of HKFRS16 | – | 632 | – | – | – | – | 632 |
| Financing cash flows | (661) | (101) | (407) | (459) | – | (1,691) | (3,319) |
| Acquisition of subsidiaries | 215 | – | – | – | – | – | 215 |
| Foreign exchange translation | 67 | – | – | 83 | 42 | – | 192 |
| New leases entered | – | 19 | – | – | – | – | 19 |
| Dividends paid to shareholders | – | – | – | – | – | 1,176 | 1,176 |
| Interest expense | – | – | 4 | 6 | 6 | 861 | 877 |
| At 31 December 2019 | 10,343 | 550 | 2,094 | 4,169 | 2,539 | 1,222 | 20,917 |

Note: The amounts include the interest payables, non-trade payables due to joint ventures, associates and related companies.

## 55. RELATED PARTY TRANSACTIONS

Apart from the related party balances as stated in Notes 29, 30 and 31 and the equity transactions as stated in Notes 47 and 48, the Group had the following transactions with certain related parties:

| | 2020 RMB million | 2019 RMB million |
|---|---|---|
| **Nature of transaction** | | |
| Associates: | | |
| – Sales of gas to | **928** | 576 |
| – Sales of materials to | **310** | 284 |
| – Purchase of gas from | **384** | 282 |
| – Purchase of equipment from | **3** | 3 |
| – Loan interest received from | **14** | 24 |
| – Provision of gas transportation services to | **1** | 1 |
| – Provision of gas transportation services from | **55** | 28 |
| – Deposit interest paid to | **2** | 2 |
| – Provision of supporting services to | **9** | 8 |
| – Provision of supporting services from | **1** | – |
| – Provision of construction and installation service to | **5** | 32 |
| – Purchase of equity interest from | **–** | 52 |
| Joint ventures: | | |
| – Sales of gas to | **2,537** | 1,546 |
| – Sales of materials to | **274** | 281 |
| – Purchase of gas from | **3,419** | 3,961 |
| – Provision of gas transportation services to | **373** | 388 |
| – Loan interest received from | **12** | 42 |
| – Loan interest paid to | **3** | 4 |
| – Provision of supporting services to | **45** | 21 |
| – Purchase of equipment from | **5** | 23 |
| – Deposit interest paid to | **2** | 13 |
| – Provision of construction services by | **25** | 23 |
| – Provision of supporting services by | **5** | 2 |
| – Lease of vehicles to | **3** | 2 |
| – Provision of energy efficiency technology services to | **–** | 2 |
| – Provision of technology service by | **6** | 7 |
| – Provision of construction and installation services to | **12** | – |
| – Provision of gas transportation services from | **19** | – |

## 55. RELATED PARTY TRANSACTIONS *(continued)*

| | 2020<br>RMB million | 2019<br>RMB million |
|---|---|---|
| **Nature of transaction – continued** | | |
| Companies controlled by Mr. Wang: | | |
| Transactions exempt from shareholders' approval under Chapter 14A of the Listing Rules: | | |
| – Purchase of equipment from | **128** | 52 |
| – Provision of construction services by | **974** | 1,263 |
| – Provision of information technology services by | **195** | 139 |
| – Purchase of LNG from | **136** | 1,313 |
| – Provision of LNG terminal usage services by | **644** | 131 |
| – Purchase of equity interest from (note) | **–** | 100 |
| Transactions fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules: | | |
| – Sales of gas, gasoline and diesel to | **64** | 13 |
| – Sales of materials to | **59** | 43 |
| – Provision of construction and installation services to | **14** | 7 |
| – Provision of property management services by | **16** | 17 |
| – Provision of property management services to | **4** | 1 |
| – Lease of premises to | **8** | 4 |
| – Lease of premises from | **3** | 7 |
| – Provision of supporting services by | **54** | 51 |
| – Provision of supporting services to | **62** | 54 |
| – Provision of outsourcing services by | **63** | 55 |
| – Provision of electronic business services by | **9** | 4 |
| – Provision of technology services to | **63** | 52 |
| – Provision of research and development service to | **–** | 10 |
| – Provision of energy efficiency technology services to | **12** | 6 |
| – Loan interest received from | **3** | – |

Note: During the year ended 31 December 2019, the Group completed the acquisition of the additional 4.5% equity interest in ENN Finance from a related company controlled by Mr. Wang. The consideration for the acquisition amounted to approximately RMB100 million.

The Company issued senior notes on 13 May 2011 and 17 September 2020, unsecured bonds on 24 July 2017 and entered into a club loan agreement with various banks on 23 November 2018. The terms and conditions of these debts require Mr. Wang and any affiliate of him to retain certain percentage of shareholding over the Company, failing which the Company would be required to repay or repurchase all outstanding debts at predetermined prices.

**Compensation of key management personnel**

The remuneration of the Directors who are also the members of key management personnel during the years ended 31 December 2020 and 2019 was disclosed in Note 12.

**Financial guarantee contracts**

As at 31 December 2020, the guaranteed facilities amount utilised by the joint ventures were RMB775 million (2019: RMB 726 million). In the opinion of the Directors, the fair values of the financial guarantee contracts of the Group issued during the year ended 31 December 2020 and 31 December 2019 were insignificant at the date of issue of the financial guarantee and no provision is necessary. In addition, the Directors do not consider it probable that a claim will be made against the Group under any of these guarantees.

As at 31 December 2020, no related company has provided guarantees to the Group.

As at 31 December 2019, a related company has provided guarantees to the Group to the extent of RMB140 million, the guaranteed facilities amount utilised by the Group were RMB120 million.

## 56. PARTICULAR OF PRINCIPAL SUBSIDIARIES

| Name of Company | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of ownership interest/voting power held by the Group 2020 | 2019 | Principal activities |
|---|---|---|---|---|---|
| ENN Gas Investment Group Limited ("ENN Gas") | British Virgin Island | USD1,000 | **100.00%** | 100.00% | Investment holding |
| 北京新奧華鼎貿易有限公司 Beijing Xinao Huading Trading Company Limited* | PRC | USD23,800,000 | **100.00%** | 100.00% | Retail of gas pipelines, related materials and equipment |
| 長沙新奧燃氣有限公司 Changsha Xinao Gas Company Limited* | PRC | RMB120,000,000 | **55.00%** | 55.00% | Investment in gas pipeline infrastructure and sales of piped gas |
| 常州新奧燃氣發展有限公司 Changzhou Xinao Gas Development Company Limited* | PRC | USD600,000 | **60.00%** | 60.00% | Sales of piped gas |
| 常州新奧燃氣工程有限公司 Changzhou Xinao Gas Engineering Company Limited* | PRC | USD5,000,000 | **60.00%** | 60.00% | Investment in gas pipeline infrastructure |
| 滁州新奧燃氣有限公司 Chuzhou Xinao Gas Company Limited* | PRC | USD7,100,000 | **90.00%** | 90.00% | Sales of piped gas |
| 泉州市燃氣有限公司 Quanzhou City Gas Company Limited ("Quanzhou City Gas") | PRC | RMB450,000,000 | **60.00%** | 60.00% | Investment in gas pipeline infrastructure and sales of piped gas |
| 晉江新奧燃氣有限公司 Jinjiang Xinao Gas Company Limited | PRC | RMB60,000,000 | **60.00%** | 60.00% | Investment in gas pipeline infrastructure and sales of piped gas |
| 洛陽新奧華油燃氣有限公司 Luoyang Xinao Huayou Gas Company Limited* | PRC | RMB160,000,000 | **70.00%** | 70.00% | Investment in gas pipeline infrastructure and sales of piped gas |
| 石家莊新奧燃氣有限公司 Shijiazhuang Xinao Gas Company Limited* ("Shijiazhuang Xinao") | PRC | RMB300,000,000 | **60.00%** | 60.00% | Investment in gas pipeline infrastructure and sales of piped gas |
| 肇慶新奧燃氣有限公司 Zhaoqing Xinao Gas Company Limited* | PRC | RMB52,700,000 | **100.00%** | 100.00% | Investment in gas pipeline infrastructure and sales of piped gas |
| 株洲新奧燃氣有限公司Zhuzhou Xinao Gas Company Limited* | PRC | RMB135,000,000 | **55.00%** | 55.00% | Investment in gas pipeline infrastructure |
| 蚌埠新奧燃氣有限公司 Bengbu Xinao Gas Company Limited* | PRC | RMB110,000,000 | **70.00%** | 70.00% | Investment in gas pipeline infrastructure |
| 蚌埠新奧燃氣發展有限公司 Bengbu Xinao Gas Development Company Limited* | PRC | USD600,000 | **70.00%** | 70.00% | Sales of piped gas |
| 葫蘆島新奧燃氣發展有限公司 Huludao Xinao Gas Development Company Limited* | PRC | USD1,200,000 | **90.00%** | 90.00% | Investment in gas pipeline infrastructure |

## 56. PARTICULAR OF PRINCIPAL SUBSIDIARIES *(continued)*

| Name of Company | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of ownership interest/voting power held by the Group 2020 | 2019 | Principal activities |
|---|---|---|---|---|---|
| 青島新奧新城燃氣有限公司 Qingdao Xinao Xincheng Gas Company Limited* | PRC | USD839,000,000 | **90.00%** | 90.00% | Sales of piped gas |
| 浙江新奧智能裝備貿易有限公司 Zhejiang Xinao Intelligent Equipment Trading Company Limited | PRC | RMB10,000,000 | **100.00%** | 100.00% | Retail of gas pipelines and intelligent equipments |
| 新奧泛能網絡科技有限公司 ENN Ubiquitous Energy Network Technology Company Limited* | PRC | RMB103,000,000 | **100.00%** | 100.00% | Solutions and operating services of integrated energy |
| 新奧能源物流有限公司 Xinao Energy Logistics Company Limited* | PRC | USD22,230,000 | **100.00%** | 100.00% | Transportation of oil products and gas |
| 新奧能源貿易有限公司 Xinao Energy Sales Company Limited* | PRC | USD30,200,000 | **100.00%** | 100.00% | Wholesale and retail of LNG and CNG, piped gas facilities, gas equipment, appliances and others |
| 新奧液化天然氣貿易有限公司 ENN LNG Trading Company Limited | Hong Kong | HK$1,000 | **100.00%** | 100.00% | Sourcing and sales of LNG |
| 新奧財務有限責任公司 ENN Finance | PRC | RMB2,000,000,000 | **100.00%** | 100.00% | Provision of financial services |
| 新奧燃氣發展有限公司 Xinao Gas Development Company Limited* | PRC | USD23,000,000 | **100.00%** | 100.00% | Sourcing of compressed pipeline gas and investment in gas pipeline infrastructure and sales of piped gas |
| 新奧新能源工程技術有限公司 Xinao New Energy Engineering Technology Company Limited* | PRC | USD7,000,000 | **100.00%** | 100.00% | Investment in gas pipeline infrastructure |
| 新奧（中國） Xinao (China)* | PRC | USD231,778,124 | **100.00%** | 100.00% | Investment holding |
| 廊坊新奧燃氣有限公司 Langfang Xinao Gas Company Limited | PRC | USD9,333,900 | **100.00%** | 100.00% | Investment in gas pipeline infrastructure and sales of piped gas |
| 淮安新奧燃氣有限公司 Huaian Xinao Gas Company Limited | PRC | RMB35,000,000 | **100.00%** | 100.00% | Investment in gas pipeline infrastructure and sales of piped gas |
| 寧波城際能源貿易有限公司 Ningbo Chengji Energy Trading Company Limited | PRC | RMB5,000,000 | **100.00%** | 100.00% | Sourcing and sales of LNG |

* Foreign-invested enterprises

## 56. PARTICULAR OF PRINCIPAL SUBSIDIARIES *(continued)*

All of the above subsidiaries, except for ENN Gas and Xinao (China), are indirectly held by the Company.

All of the above subsidiaries operate principally in the places of their incorporation/establishment respectively, except that ENN Gas operates principally in Hong Kong. The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or net assets of the Group. Giving the details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries issued any debt securities as at 31 December 2020 or at any time during the year except for Xinao (China) which has issued the following debt securities.

| | **2020**<br>**RMB million** | 2019<br>RMB million |
|---|---|---|
| Corporate bonds | **2,097** | 2,094 |

The table below shows details of non-wholly owned subsidiaries of the Company that have material non-controlling interests:

| Name of subsidiary | Incorporation/ establishment/ registration and operation | Proportion ownership interest held by non-controlling interests | | Profit allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | **2020**<br>**%** | 2019<br>% | **2020**<br>**RMB million** | 2019<br>RMB million | **2020**<br>**RMB million** | 2019<br>RMB million |
| Quanzhou City Gas* | PRC | **40** | 40 | **137** | 112 | **350** | 300 |
| Shijiazhuang Xinao* | PRC | **40** | 40 | **65** | 82 | **279** | 289 |
| Individually immaterial subsidiaries with non-controlling interests | | | | | | **4,982** | 4,563 |

* excluding non-controlling interests of Quanzhou City Gas's and Shijiazhuang Xinao's subsidiaries.

Summarised financial information in respect of each of the Company's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

| **Quanzhou City Gas** | **2020**<br>**RMB million** | 2019<br>RMB million |
|---|---|---|
| Non-current assets | **1,318** | 1,201 |
| Current assets | **447** | 611 |
| Current liabilities | **891** | 1,062 |
| Revenue | **4,055** | 4,560 |
| Profit and total comprehensive income for the year (note) | **343** | 279 |
| Dividends paid to non-controlling interests | **88** | 90 |
| Net cash inflow from operating activities | **269** | 267 |
| Net cash outflow from investing activities | **(155)** | (176) |
| Net cash outflow from financing activities | **(285)** | (158) |
| Net cash outflow | **(171)** | (67) |

Note: Included in the amount for the year ended 31 December 2020 is dividends income from Quanzhou City Gas's subsidiaries and joint venture of RMB259 million (2019: RMB177 million).

## 56. PARTICULAR OF PRINCIPAL SUBSIDIARIES *(continued)*

| Shijiazhuang Xinao | 2020 RMB million | 2019 RMB million |
|---|---|---|
| Non-current assets | 1,975 | 1,930 |
| Current assets | 1,188 | 655 |
| Non-current liabilities | 515 | 155 |
| Current liabilities | 1,951 | 1,706 |
| Revenue | 2,078 | 2,114 |
| Profit and total comprehensive income for the year | 162 | 206 |
| Dividends paid to non-controlling interests | 75 | 52 |
| Net cash (outflow) inflow from operating activities | (291) | 476 |
| Net cash outflow from investing activities | (103) | (167) |
| Net cash inflow (outflow) from financing activities | 430 | (367) |
| Net cash inflow (outflow) | 36 | (58) |

## 57. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2020 RMB million | 2019 RMB million |
|---|---|---|
| **Non-current Assets** | | |
| Investments in subsidiaries | 9,664 | 8,183 |
| Investment in an associate | 39 | 39 |
| Financial assets at FVTPL | 287 | 379 |
| Amounts due from subsidiaries | 4,444 | 4,315 |
| | 14,434 | 12,916 |
| **Current Assets** | | |
| Derivative financial instruments | 2 | – |
| Amounts due from subsidiaries | 3,923 | 5,779 |
| Cash and cash equivalents | 152 | 76 |
| | 4,077 | 5,855 |
| **Current Liabilities** | | |
| Other payables | 131 | 132 |
| Taxation payables | 112 | 238 |
| Amounts due to subsidiaries | 1,377 | 1,613 |
| Bank loans – due within one year | 652 | 4,281 |
| Senior notes | 2,380 | – |
| Derivative financial instruments | 92 | – |
| | 4,744 | 6,264 |
| **Net Current Liabilities** | (667) | (409) |
| **Total Assets less Current Liabilities** | 13,767 | 12,507 |
| **Capital and Reserves** | | |
| Share capital | 117 | 116 |
| Reserves | 3,945 | 3,550 |
| **Total Equity** | 4,062 | 3,666 |
| **Non-current Liabilities** | | |
| Bank loans – due after one year | 979 | 2,093 |
| Senior notes | 4,827 | 2,539 |
| Unsecured bonds | 3,712 | 4,169 |
| Derivative financial instruments | 43 | – |
| Deferred tax liabilities | 144 | 40 |
| | 9,705 | 8,841 |
| | 13,767 | 12,507 |

## 57. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

The statement of changes in equity is as follow:

| | Share capital RMB million | Treasury stocks RMB million | Share premium RMB million | Hedging reserve RMB million | Share options reserve RMB million | Retained earnings RMB million | Total RMB million |
|---|---|---|---|---|---|---|---|
| At 1 January 2019 | 116 | – | 2,614 | – | 78 | 1,381 | 4,189 |
| Profit and total comprehensive income for the year | – | – | – | – | – | 678 | 678 |
| Recognition of equity-settled share-based payment (Note 45) | – | – | – | – | 74 | – | 74 |
| Purchase of shares under Share Award Scheme | – | (151) | – | – | – | – | (151) |
| Issue of ordinary shares upon exercise of share options (Notes 39 & 45) | – | – | 76 | – | (24) | – | 52 |
| Dividends appropriation (Note 14) | – | – | – | – | – | (1,176) | (1,176) |
| At 31 December 2019 and 1 January 2020 | 116 | (151) | 2,690 | – | 128 | 883 | 3,666 |
| Profit and total comprehensive income for the year | – | – | – | 36 | – | 1,913 | 1,949 |
| Recognition of equity-settled share-based payment (Note 45) | – | – | – | – | 70 | – | 70 |
| Purchase of shares under Share Award Scheme | – | (17) | – | – | – | – | (17) |
| Issue of ordinary shares upon exercise of share options (Notes 39 & 45) | 1 | – | 163 | – | (51) | – | 113 |
| Dividends appropriation (Note 14) | – | – | (1,719) | – | – | – | (1,719) |
| At 31 December 2020 | 117 | (168) | 1,134 | 36 | 147 | 2,796 | 4,062 |

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