ENN 新奧

ENN Energy Holdings Limited

(Stock code: 2688)

ANNUAL REPORT 2019

TOGETHER WE BUILD A
BETTER ECO FUTURE

ENN = ENERGY + INNOVATION

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive director

Wang Yusuo (Chairman)
Cheung Yip Sang
Han Jishen (Chief Executive Officer)
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

Han Jishen*
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
British West Indies

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

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road
P.O. Box 1586
Grand Cayman
KY1-1110
Cayman Islands
British West Indies

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

We will unleash the synergy of integrated energy and natural gas businesses to push forward the Group's sustainable and rapid development. We are confident that through the innovation of business models and augmentation of operational excellence, we can continue enhancing corporate value and delivering sustainable returns to shareholders.

Wang Yusuo
Chairman

Dear Shareholders,

2019 has been an extraordinary year. Thanks to the proactive and innovative efforts of the Group to seize opportunities arising from China's determination to promote environmental protection and the acceleration of energy reform progress, as well as to drive business development based on customer needs, during the year, despite slowing global economic growth and continuous international trade tensions, the Group managed to accomplish all operational and financial guidances and achieved remarkable results!

The Group's revenue in 2019 was RMB70,183 million, increased by 15.6% compared with last year. Profit attributable to owners of the Company recorded RMB5,670 million, increased by 101.2% year-on-year. The significant increase was driven by the growth of retail gas sales volume and integrated energy sales volume, coupled with the rapid development of value added business with higher profitability. Stripping out other gains and losses (excluding net amount realised from commodity derivative contracts) and amortisation of share option expenses, core profit driven by operating activities increased by 18.0% to RMB5,278 million. The strong growth of business led to a significant increase of 40.9% in operating cash flow to RMB11,690 million, and a positive free cash flow of RMB2,694 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

Sales Volume of Integrated Energy

↑137.2%

to 6,847 million kWh

Integrated Energy Solutions Reduced CO_2 Emissions by

1,089,050 tons

through prudent investment was effective. As the Group's cash flow continued to grow steadily, the Board recommended a final dividend of HK$1.67 per ordinary share (equivalent to approximately RMB1.50), representing a significant increase of 40.3% year-on-year.

Business Review

The Group's business continued to grow steadily in 2019. The Chinese government's determination to push forward "coal-to-gas" conversion for pollution control and to promote natural gas as one of the main energy sources remained firm, while the promotion of integrated utilisation of multiple energy sources, and a quality and efficiency-oriented energy supply model by local governments also brought huge business opportunities to the Group. With a strong execution ability, the Group actively developed new natural gas customers, promoted coal-fired boilers replacement and conducted oil or electricity-to-gas conversion for commercial and industrial ("C/I") customers. The Group's retail natural gas sales volume in 2019 increased by 14.7% to 19,924 million cubic meters, and continued to outperform the national consumption growth of 9.4%. In terms of non-gas energy sales, with 36 new 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 137.2% to 6,847 million kWh. As quality projects turn fully operational gradually, they will provide new momentum for the Group's future growth. The integrated energy solutions we provided not only brought sustainable profits to the Group, but also successfully reduced customers' energy consumption by more than 227,437 tons of standard coal and 1,089,050 tons of carbon dioxide emissions, which made great contributions to regional energy conservation and emission reduction.

We continued to seize opportunities arising from industry consolidation and obtained 8 quality gas projects in Anhui Province and Shanghai through the acquisition of Xuanran Natural Gas Co., Ltd during the year. We obtained another 7 projects in Shandong Province, which further strengthened our deployment in this prosperous region with huge gas demand. Through the abovementioned strategic M&A and new operating rights acquisition, a total of 30 new city-gas projects were added during the year. As of 31 December 2019, the Group operated a total of 217 city-gas projects and 98 integrated energy projects in China, spanning over 22 provinces, municipalities and autonomous regions.

Unleash the Huge Value of Customer Network

Our customer base has expanded rapidly with the increasing penetration rate. Currently we provide service to approximately 150,000 C/I customers and 20.92 million residential customers, representing huge business potential to provide value added service within our customer network. Therefore, we strived to improve the overall profitability and customer loyalty within our network by enriching value added services based on customer demand, strengthening staff training to improve marketing performance, and building an ecosystem around employees, business partners and customers, so that we could rapidly develop a wide range of value added services.

In 2019, we actively developed value added business, providing residential and C/I customers with various energy solutions, tailor-made and standardised products, with a view to providing customers with tailored services for different scenarios and becoming their one-stop energy solutions provider. During the year, the Group's revenue from value added business surged by 38.8% to RMB1,988 million year-on-year, becoming our new growth engine. The penetration rate of value added services among the Group's existing customer base is only at 6%, reflecting its huge growth potential.

Industry Reform

2019 marked the year of China's continuous progress and further implementation of natural gas market reform, bringing both opportunities and challenges to us. The establishment of National Oil & Gas Pipeline Network Group Co. on 9 December, signified the separation of upstream pipeline transmission, production and sales, and the open-up of third-party access is coming true. This will promote 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 of end-users.

In addition, the national power market reform has entered into a stage of material progress. Jiangsu Province has issued favourable policy to support market-oriented transactions of distributed power generation, and allow small-medium scale power generation facilities which are energy-efficient and safe, integrate multi-energy sources, able to connect to distribution power grid, as well as the capability to be consumed locally, to negotiate with nearby users on the pricing and volume of power supply. We believe similar policies to liberalise the power market will be implemented in other provinces going forward, facilitating the Group's integrated energy business's rapid development.

Development Roadmap under the Changing Market

Market reform brings about an influx of opportunities, but at the same time, creates more market competition. Under the energy system reform and the era of digitalisation, users gain access to more transparent information as well as more options, traditional energy supply that relies heavily on resources and concession rights is now facing challenges, and is moving towards a demand side driven system. As a pioneer in the energy industry, we have implemented a number of measures during the year to build core capabilities, enhance employee innovation and value creation abilities, which will benefit the Group's development in the long-run.

Building an Ecosystem

Creating value for customers has always been at the heart of the Group's philosophy. We advocate a "customer-centric" business strategy, providing tailored services that focus on creating values for customers based on their various needs, so as to quickly respond to and meet the personalised and changing needs of customers. During the year, a number of internal "self-driven" and "empowerment" ecosystem organisations have been set up to increase employees' participation. Externally, we have leveraged our advantages in scale and technologies to acquire business partners into our ecosystem for resources sharing and value creations for fruitful returns.

Our member company Langfang ENN Gas Company Limited is one of the pilot projects of ecosystem organisation development. During the year, it has reorganised its value creation targets and established a number of self-driven organisations based on different business scenarios. At the same time, a customer-centric integrated system incorporating customer cognition and value creation sharing was established, which significantly enhanced employees' enthusiasm for value creation and the vitality of the organisation. A better customer relationship will also facilitate our frontline staff cater to their potential needs. The Group will continue to expand its ecosystem organisations, and strive to build an ecosystem for the clean energy industry.

Improving Intelligent Operation

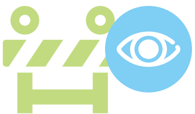
With the rapid development of science and technology, it is inevitable for energy industry to integrate digital and Internet technology. The Group has invested in all critical procedures throughout its daily operation to improve the level of digital and intelligent management.

In terms of energy supply, we have gradually increased the Internet of Things ("IoT") access coverage of the operating pipeline networks, energy supply equipment and meters, and obtained comprehensive data of various business segments under different scenarios, while establishing algorithms with big data technology to provide an accurate basis for business decision-making, energy consumption prediction and resource matching, so as to drive the Group's business development.

For construction and operation safety, we have also integrated digital and visual technology to increase management radius, improve construction quality, reduce engineering cost, and manage hidden risks in a timely manner. With the deployment of BeiDou Navigation Satellite System, we can visualise our pipeline network in real-time, and improve the timeliness and accuracy of data collection. During the year, 88.1% of construction projects adopted visualisation management tools and achieved on improved project deliver quality.

The Group also integrated Artificial Intelligence (AI) into call centres, information technology services, financial management and other business scenarios to improve work efficiency and reduce operating costs. The Group has

Proportion of Visualised Construction Projects



88.1%

incorporated voice interaction system into customer service since the second half of 2019, and the daily average amount of customer enquiries processed by this AI responding system was equivalent to 40 customer service officers, which not only helped optimise our human resources allocation, but also increased our service capacity by more than 13%. We will continue to keep up with the latest market trends, and make full use of big data and Internet technology to facilitate the Group's transformation into an intelligent enterprise.

Promoting Technological Innovation

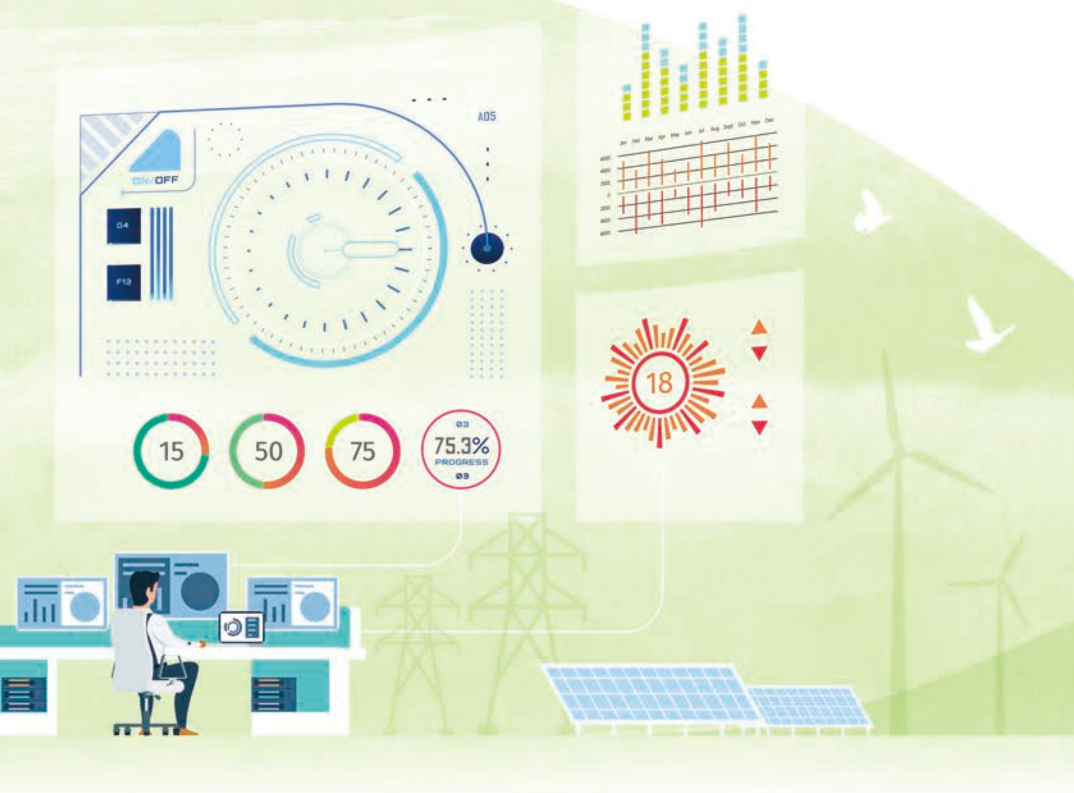
The sustainable development of enterprises depends on technological innovation. The Group is an energy enterprise driven by innovation. In the past year, we have established a technological innovation ecosystem for our self-driven organisations to create value through technological innovation, which successfully created an atmosphere of innovation among all employees, and constantly brought forth new achievements. During the year, the Group's employees actively submitted 389 innovative projects focusing on intelligent operation, measurement, customer-side energy-saving technology, biomass application, etc. for review, many of them were gradually implemented, continuously strengthening the Group's core competitiveness and customer development ability.

During the year, our member company Quanzhou City Gas Company Limited fully embodied the concept of technological innovation and self-driven by providing technical modification services for local ceramic producers. By using gas-fired hot air oven, they redesigned the burning process for customers and improved the ignition efficiency. This technology is applicable to the discontinuous operation of ceramic drying tower, and is conducive to the evenly mixing of high-temperature flue gas and cold air, so as to enhance the efficiency and accuracy of temperature control and the quality of ceramic materials, which has successfully saved 40% of energy consumption for customers. This case will serve as a "coal-to-gas" demonstrative project for other member companies. It is expected that 158 similar "coal-to-gas" projects can be conducted with this method, bring about an incremental gas sales volume of more than 400 million cubic meters to the Group every year.

Our technological innovation team has also been visiting various projects to empower local project teams. During the year, after in-depth communication and excavation on the construction site of residential customer projects, we discovered that work efficiency can be greatly improved by 50% by modifying the connection process, and the engineering installation cost per household can be reduced by more than 10%. This innovation will be applied to more projects in 2020, and the benefits will be gradually expanded.

Corporate Social Responsibility

The 2020 Lunar New Year was grim. The outbreak of the new coronavirus has caused shortage of materials in the severely affected areas of Hubei Province. The Group actively raised epidemic prevention materials and delivered them to a number of hospitals in the epidemic area at the shortest time possible, and donated RMB10 million to support the local front-line medical staff to fight the epidemic. The Group believes that only by actively giving back to the society and contributing to the prosperity and stability of the society, can the Group be more conducive to its successful development. Therefore, the Group has integrated the three elements of environment, society and governance ("ESG") into its own development strategy and escalated it to the Board level for supervision. On 21 March 2019, the Group established an ESG Committee, which



comprises of Chief Executive Officer, an Executive Director, a Non Executive Director and an Independent Non-Executive Director, to support the Board in formulating ESG strategy of the Group and supervise the implementation of ESG initiatives. At the same time, an ESG working group was set up, including the Chief Financial Officer, the Company Secretary, the head of investor relations department, the Quality, Health, Safety and Environment ("QHSE") department and the human resources department, to ensure that all aspects of ESG are properly managed and implemented.

We understand that apart from financial performance, contribution to the environment and society is also a mission for us. Therefore, the Group has linked management compensation with relevant ESG metrics in order to optimise the Group's ESG management ability. This will help increase our advantages and competency to ensure the sustainable development of the Group.

As at the end of 2019, 6 member companies have respectively obtained the environmental and occupational health and safety management system (environmental certification: ISO14001, occupational health and safety certification: OHSAS18001/ISO45001) certificates. Among which, Langfang ENN Gas Company Limited, Shanghai ENN Energy Technology Company Limited and Luoyang Xinao Huayou Gas Company Limited have obtained relevant ISO certifications. Going forward, the Group will continue to encourage all member companies to actively establish an enterprise environment and occupational health and safety management system in accordance with ISO standards, and move towards fulfilling international standards, so as to ensure that the excellent occupational safety and health and environmental protection culture of the Group can be inherited. We also engaged a consulting company at the end of last year to provide professional advice on ESG management system, policy, data disclosure, performance, 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 the establishment of an ecosystem.

6 Member Companies Obtained

ISO14001
OHSAS18001
ISO45001

Certificates

Employee Health and Safety

We attach much weight to occupational safety and health of our employees in the course of business operation. We are committed to building an excellent safety management system, reducing and containing risks, encouraging organisations to perform daily monitoring and report 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.

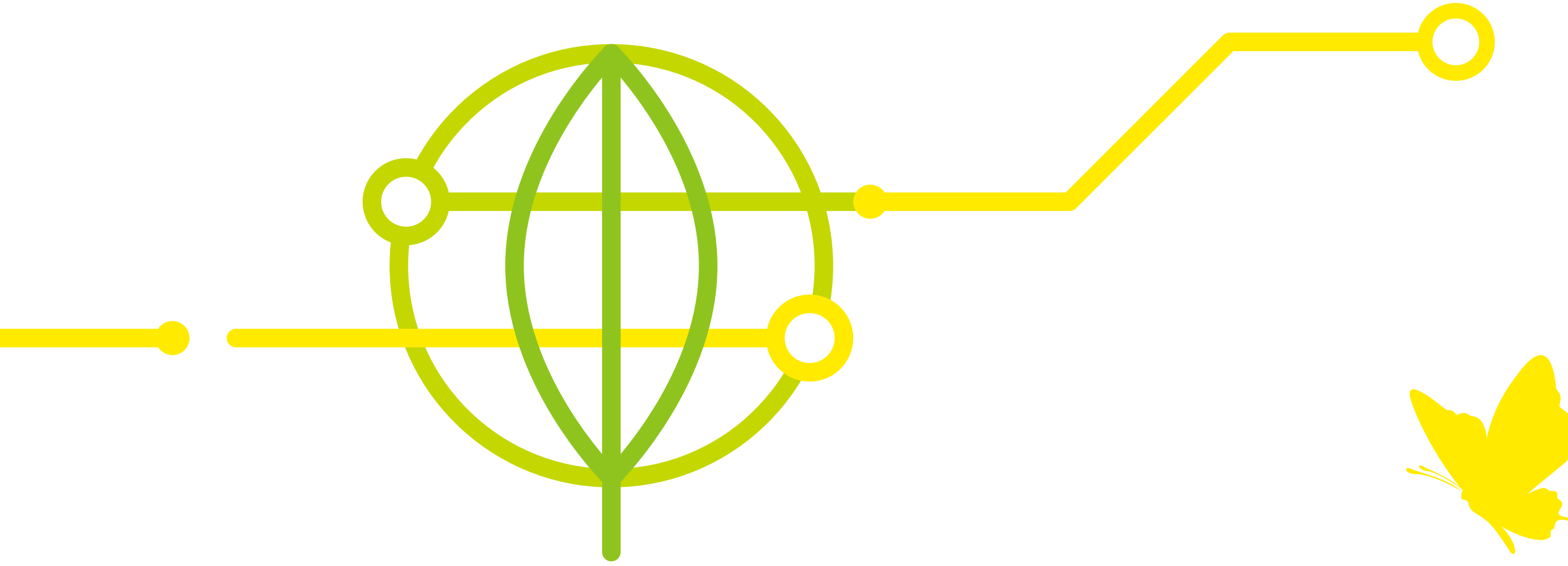
In order to raise the awareness of safety operation of all employees, I specially visited 4 projects during the year for safety supervision and reiterated our five requirements for safety management: first, establishing a system for safety; second, improving capabilities to ensure safety; third, innovating new technology to enhance safety; fourth, protecting individual employee's own safety through improving their sense of responsibility; fifth, mobilising employees to support group safety.

Please scan QR code to download our latest ESG report

Encountering the outbreak of new coronavirus in China at the beginning of 2020, the headquarter of the Group and all of its member companies have formed an epidemic prevention and control team, coordinating epidemic prevention and control in accordance with national and local government requirements. The Group has implemented various policies to keep its employees safe and healthy, including regular disinfection at office areas, canteens, apartments and official vehicles; daily monitoring of the physical health of its employees; utilising iCome platform for daily epidemic report mechanism to analyse the health statuses of employees, tracking health statuses of employees on quarantine, preparing contingency plans in advance to ensure the orderly implementation of epidemic prevention, etc. As a leading enterprise in the public utilities sector, the Group is determined to ensure the safety of people's livelihood and gas usage during the outbreak, strengthen the promotion of epidemic prevention knowledge both internally and externally, and ensure all departments are working closely together to protect frontline employees, providing masks, protective suits, goggles and other supplies, ensuring employees to provide services to customers safely.

Environmental Protection

2019 marked a year of serious threat to the earth's ecology. The wildfires in the Amazon Rainforest and California have burned more than 7.1 million hectares of land, while the wildfires in Australia that lasted for months have burned more than 7.3 million hectares of forest, claimed the lives of 28 people and more than 1 billion animals. The consequences of climate change are undeniable. The Group with its mission to "create a modern energy system and build a better eco future", will leverage on its excellent management team and technological innovation, to accelerate "coal-to-gas" conversion and integrated energy business development to build a modern energy system that combines



the advantages of traditional energy sources and renewable energy sources, and strive to facilitate social development and environmental improvement while furthering company growth.

In addition to helping customers reduce greenhouse gas and pollutant emissions through the sales of natural gas and provision of integrated energy services, we also strictly controls pollutants generated from our own operation process and achieve green management throughout the life cycle by saving resources and reducing gas emissions. During the year, the Group conducted "coal-to-gas" projects equivalent to a daily designed installed capacity of 5.81 million cubic meters, offsetting the consumption of 2,318,183 tons of standard coal. We will continue to optimise the use of resources, advocate the culture of green, low-carbon and sustainable development in our daily operation, so as to contribute to preserving the environment.

Outlook

Demand for clean, efficient, economical, safe and convenient energy is an eternal pursuit of mankind. After 40 years of reform, China has become the world's second largest economy, and the world's largest energy producer as well as consumer. Looking ahead, China's energy development is moving towards an era of rapid development. With the transformation, innovation and integration of energy technology, digital technology and energy system, the energy industry is gradually evolving from a traditional energy system to a modern energy system, bringing along tremendous changes to the industry. Energy reform is pushing the transformation from high-carbon to low-carbon or even carbon-free energy consumption; the energy supply is undergoing an evolution from centralised to distributed, and from supply-driven to user-demand-oriented. The relationship between digital information and energy has changed from the absence of energy information and information-assisted energy to data-guided orderly energy flow. The reform of energy such as oil, gas and power system has been deepened, moving from strict planning and control to market-oriented trading. The change is inevitable, but we can prepare for the future. Only by grasping the industry trends and setting clear goals can we gain the opportunity and make arrangement in advance to win in the future.

Looking forward, in developing existing city-gas business, the Group will strive to explore customer potential demand, gain deeper understanding of customer needs, provide better service for existing customers, and focus on seizing opportunities of industry consolidation during economic downturn, actively explore quality projects with huge industrial gas and integrated energy demand through joint M&A to promote gas sales volume. Meanwhile, the Group will actively plan and work out supporting measures to address regulatory policies such as engineering and installation fee, gas distribution return, and upstream reforms. In expanding the integrated energy business that supports future development, the Group will adhere to the strategy of progressive implementation and investment, strengthen the core competitiveness of integrated energy business and innovative project operation models, create core product solutions, optimise data and IoT connection and analysis to strengthen the Group's capabilities for rapid development.

While we think about the future, we also have both feet on the ground. The coronavirus outbreak at the beginning of 2020 has affected industries across China, causing them to postpone the resumption of work after Chinese New Year, which will have certain impact on manufacturing and commercial activities as well as on the demands of natural gas. Nevertheless, the central government has introduced 30 financial measures to support the prevention and control of the epidemic, strengthen monetary policy to counter cyclical risks, maintain basic stability of the financial market, further increase financial support to regions which are greatly affected by the epidemic to better cater to social needs, and fill the demands for basic financial services and promote

Can you elaborate more on your capital allocation strategy as your profit is growing steadily and the cash flow is getting stronger?

Leveraging on the strong execution ability and innovative spirit of our management team, despite changing market conditions, the Group is capable to lead industry development and drive the steady growth of our energy sales business. The increasingly strong cash flow also proved that our profit quality has been constantly improving, while a stable cash flow could strengthen our ability to withstand economic downturn and the risk of deteriorating market environment. Encountering the market fluctuation in 2019, we not only seized favourable policies and opportunities brought by the use of clean energy in China to drive rapid business growth, but also focused on improving operating efficiency and optimising working capital management to increase operating cash flow by 40.9% to RMB11,690 million and generate positive free cash flow of RMB2,694 million.

With the accelerating process of national energy reform, the transformation of improving the quality and efficiency of energy system will provide huge opportunities for our development. Looking forward, we will prudently allocate funds, and strike a balance between increasing dividend payout ratio, controlling liability and making strategic M&A. We aim to achieve a sustainable development and create greater value for shareholders.

Wang Yusuo
Chairman

a sustainable and healthy development of the national economy. The National Development and Reform Commission has also brought forward low-season non-residential city gate price to relieve the mounting pressure from C/I users. The Group believes that the impact of the epidemic on China's economy is temporary. After the epidemic, it is expected that local governments will also introduce policies to stimulate consumption and support enterprises, so that the overall domestic economic growth will gradually return to normal levels.

The Group will also take a number of measures to ensure a stable growth of the whole years' results, including informing member companies to closely monitor customers' production resumption plan, and be well-prepared to provide stable energy supply to customers upon their resumption. The Group will communicate with upstream gas suppliers in a timely manner to pass through the change of cost and reduce supply costs by flexibly adjusting the gas supply structure. The Group will also actively communicate with governments at all levels and seek opportunities from relevant supporting policies, cooperating with the government in terms of epidemic prevention, and actively supporting customers' production resumption, while exploring new business opportunities. During the epidemic, most services provided by the Group have been diverted to mobile application (APP) and online platform, which will lay a strong foundation for the Company to develop value added business and explore more business opportunities. As a responsible utility company, the Group will actively work with the government and customers to cope with the difficulties and sustain a larger customer base for long-term development.

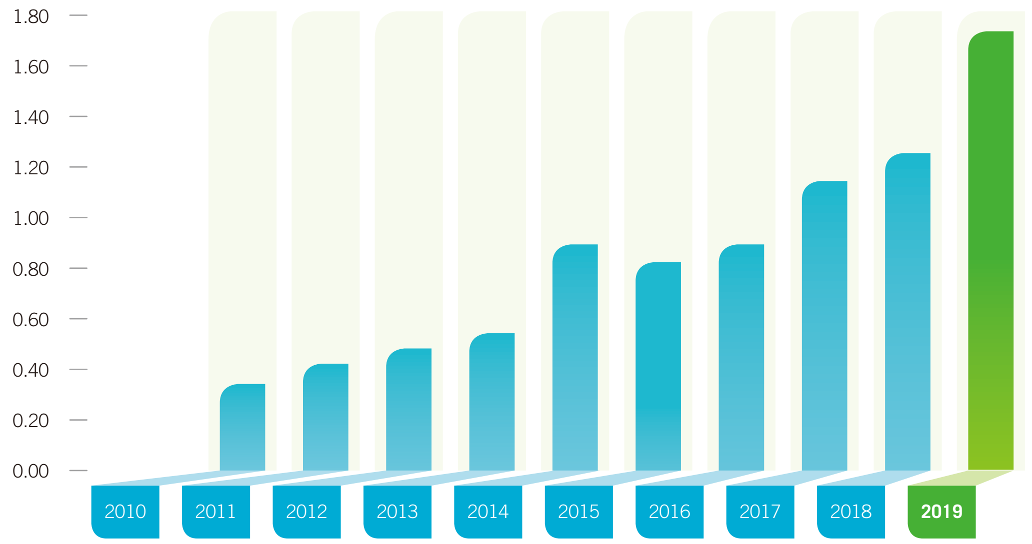
Notwithstanding the many uncertainties in the international political and economic situation, China-US trade talks have achieved preliminary results. It is believed that the export volume of products from China will increase, and the increasing contribution of domestic consumption to economic growth will offset the impact from external factors. In the long run, the export of Chinese products to countries and regions along the "Belt and Road" initiative shows growth potential, which will also help the manufacturing industry flourish. China's overall economic growth in 2019 was 6.1%, and the per capita GDP exceeded USD10,000 for the first time, reflecting an improvement in the quality of economic growth. The Group has numerous projects covering the Guangdong Province and Jiangsu Province located along the Eastern coast, where the annual GDP of these provinces has exceeded or approached the RMB10 trillion threshold, becoming the first batch of provinces named "RMB10 trillion GDP provinces" in China. We will leverage on the national strategy of facilitating the regional development around Beijing-Tianjin-Hebei, the Yangtze River Delta and the Guangdong-Hong Kong-Macao Greater Bay Area, to quickly tap new growth opportunities for future development.

Chairman
WANG Yusuo
16 March 2020

Creating Value for Shareholders

Dividends per share (HK$)

(2010–2019)



Share price performance in 2019

Highest Closing Price

31 October 2019

HK$89.8

Average Closing Price

HK$79.2

Total Return*

24.3%

Movement for 2019

22.6%

HK$69.5 (31 December 2018)

HK$85.2 (31 December 2019)

*Total return = (share price change + dividend payment during the year)/share price at beginning of year

OPERATIONAL LOCATIONS IN CHINA

West-to-East Pipeline I
West-to-East Pipeline II
West-to-East Pipeline III
Shaanxi-Beijing Pipeline I
Shaanxi-Beijing Pipeline II
Shaanxi-Beijing Pipeline III
Shaanxi-Beijing Pipeline IV
Hebei-Nanjing Pipeline
Zhong-Wu Pipeline
Yong-Tang-Qin Pipeline
Qin-Shen Pipeline
Sichuan-East Pipeline
Tai-Qing-Wei Pipeline
Hangzhou-Jiaxing Pipeline
Hu-Hang-Yong Pipeline
Yong-Tai-Wen Pipeline
China-Myanmar Pipeline
China-Russia East Pipeline (under construction)
Xinjiang-Guangdong-Zhejiang Pipeline (under construction)

Gas Project Managed by ENN
LNG Import Terminal
National Storage Tanks

Xinjiang Autonomous Region
Hutubi

Anhui (25 projects)	
Bengbu	1,480,000
Bozhou	785,000
Chaohu	765,000
Chuzhou	915,000
Dingyuan County	13,000
Feidong	255,000
Fengyang	156,000
Guzhen	115,000
Jieshou Industrial Zone	–
Laian	279,000
Luan	1,060,000
Quanjiao	368,000
Suchu Modern Industry Park	–
Suzhou Economic Development Zone	135,000
Tianchang	400,000
Bowu Modern Industrial Park	–
Xuancheng Xuanzhou	368,000
Xuanzhou City	650,000
Xuancheng Economic & Technological Development Zone	–
Jingxian	70,000
Langxi	210,000
Xinhang & Shijie	30,000
Ningguo (Port) Ecological Industrial Park	–
Bengbu Mohekou Industrial Park	–
Yingshang Industrial Park	–

Guangdong (25 projects)	
Dongguan	7,750,000
Dongguan Dongkeng Town	105,000
Dongyuan	109,000
Fengkai	92,000
Guangning	85,000
Heyuan	342,000
Huadu	957,000
Huaiji	138,000
Leizhou	368,000
Lianjiang	335,000
Lianping County	255,000
Lianzhou	178,000
Luoding	312,000
Panyu Zone, Guangzhou City	1,880,000
Qingyuan Minzu Industrial Park	–
Shantou	1,720,000
Shenzhen Bao'an (Longchuan) Industrial Park	–
Sihui	495,000
Wuchuan	315,000
Xinyi	318,000
Yangxi County	122,000
Yunan	79,000
Zhanjiang	1,280,000
Zhaoqing	1,120,000
Zhaoqing Development Zone	165,000

Guangxi (7 projects)	
Beihai Tieshangang Industrial Park	–
Guigang	618,000
Guilin	1,170,000
Guiping Industrial Park, Guigang City	–
Wuzhou Imported Renewable Resources Processing Park	–
China-asean Fusui Forestry Circular Economy Park	–
Yangshuo	60,000

Hebei (31 projects)	
Baoding	1,850,000
Weichang Economic Development Zone	–
Dingxing County	280,000
Dingzhou	505,000
Gaocheng	525,000
Jingxing	369,000
Langfang	1,450,000
Lingshou	101,000
Luanxian	122,000
Luquan	335,000
Luquan Yian Town	11,000
Xingtai Ningjin	48,000
Qingyuan County Western Industrial Zone B	–
Rongcheng	145,000
Shenze	49,000
Shijiazhuang	4,825,000
Shijiazhuang Airport Industrial Park	–
Jinzhou Economic Development Zone	–
Yutian County	155,000
Wangdu Economic Development Zone	–
Xinglonggong	30,000
Wenan Industrial Park	–
Wuji	90,000
Xingtang Development Zone	–
Xinji	265,000
Zhengding New Zone, Shijiazhuang City	53,000
Xige, Xiaoji, Daxinzhuang, Daqigezhuang & Qianying	170,000
Cangzhou Mengcun	230,000
Cangzhou Xian County	180,000
Cangzhou Nandagang Administration Area	–
Xingtai Lincheng	230,000

Henan (14 projects)	
Gongyi Private Technology and Innovation Park	–
Kaifeng	1,425,000
Luoyang	2,720,000
Luanchuan	–
Ruyang County	158,000
Ruzhou	381,000
Shangqiu	3,210,000
Weihui City (Tangzhuang Town) Industrial Agglomeration Zone	33,000
Xinan	168,000
Xinan Wanshan Lake Industrial Park	–
Xinxiang	1,620,000
Yexian	100,000
Zhayuan, Xuedian & Ziba	110,000
Yichuan	115,000

Hunan (15 projects)	
Changsha	6,186,000
Changsha County	375,000
Chenzhou Suxian Industrial Zone	–
Huaihua	505,000
Liling	238,000
Liuyang Industrial Park	–
Ningxiang	472,000
North-western Liuyang	115,000
Wangcheng	182,000
Xiangtan	1,325,000
Yanling County	85,000
Yongxing County	32,000
Yongzhou	755,000
Zhuzhou	1,820,000
Zhuzhou County	288,000

Sichuan (2 projects)	
Shiyanqiao	–
Liangshan Prefecture	675,000

Beijing Municipality (1 project)	
Pinggu	235,000

Fujian (17 projects)	
Anxi	127,000
Dehua	118,000
Huian	205,000
Jinjiang	678,000
Jiangle Economic Development Zone, Jiangle Industrial Park	–
Longyan Development Zone	198,000
Mingxi Economic Development Zone	–
Nanan	408,000
Ningde	1,120,000
Ningde Xiapu Yacheng Dongyang Industrial Park	–
Quangang	328,000
Quanzhou	1,450,000
Quanzhou Taiwanese Investment Zone	–
Sanming Taiwanese Investment Zone Jikou Emerging Industrial Park	–
Shishi	215,000
Zhangzhou Nanjing High-tech Industrial Park	–
Yongchun	172,000

Shan224

Gansu Province

Gansu (1 project)	
Shuping Industrial Park	–

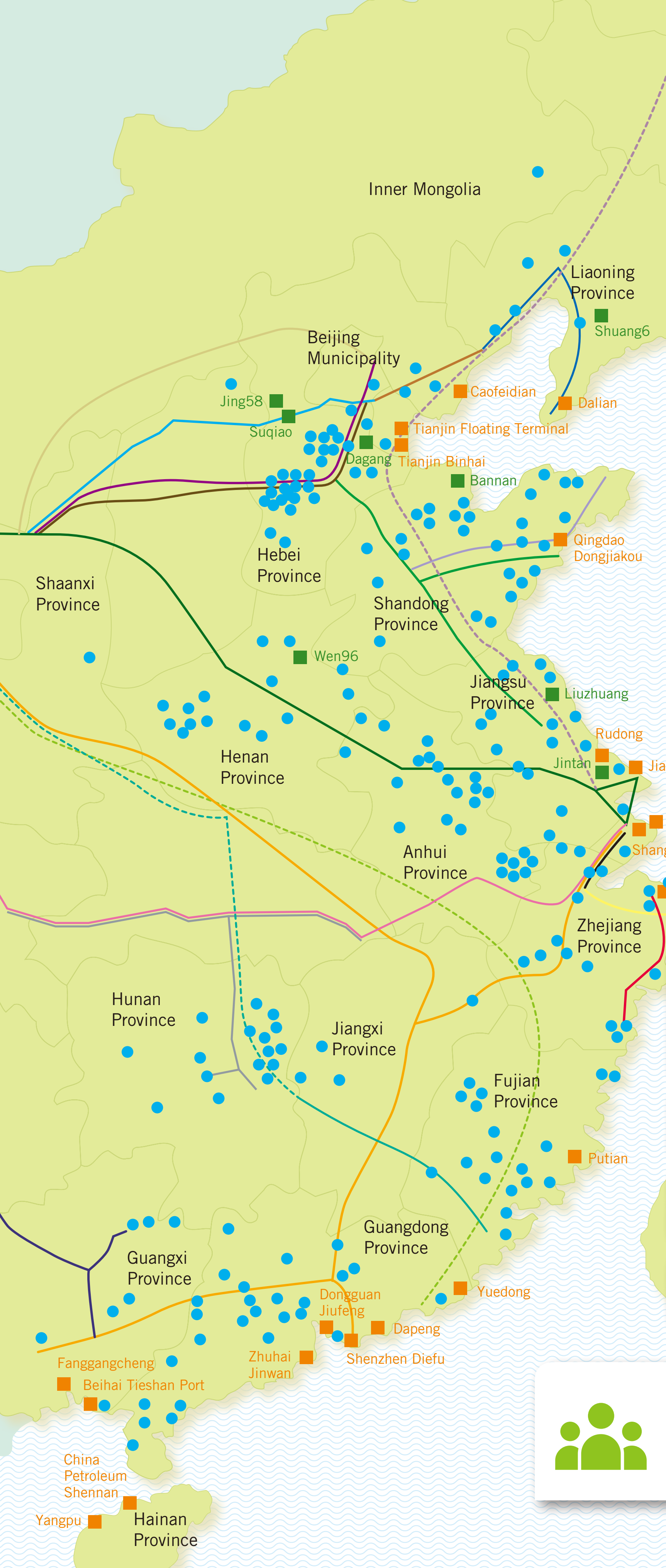
Jiangxi (4 projects)	
Jiujiang Economic & Technological Development Zone	–
Pingxiang Xiangdong District	156,000
Shangrao Economic Development Zone	158,000
Xiajiang	180,000

Xiangguosi

Sichuan Province

Yunnan Province

Yunnan (3 projects)	
Kunming City Hi-tech Zone	53,000
Xuanwei	428,000
Wenshan	468,000



Inner Mongolia (1 project)	
Tongliao	865,000

Heilongjiang (2 projects)	
Suihua	500,000
Daqing High-tech Zone	–

Jiangsu (16 projects)	
Dongtai Coastal Economic Zone	–
Funing	–
Gaoyou	385,000
Guannan Development Zone	161,000
Haian	585,000
Hongze	395,000
Huaian	2,190,000
Lianyungang	1,420,000
Lianyungang Xuyu New Zone	–
Suining Suburban	–
Taixing	565,000
Wujin	1,490,000
Xinghua	631,000
Yancheng	1,575,000
Southern Area of Sheyang Township	270,000
Yancheng Environment Protection Industrial Park	–

Shanghai (2 projects)	
Fengjing, Jinshan District	20,000
Yueyang Industrial Park, Baoshan District	–

Tianjin (1 project)	
Wuqing Dawanggu	25,000

Shaanxi (1 project)	
Chengcheng	90,000

Shanxi (1 project)	
Huairen	430,000

Shandong (25 projects)	
Binzhou Zhanhua Economic Development Zone	–
Changle County	246,000
Changle Economic Development Zone	–
Changqing Zone, Jinan City	636,000
Chengyang	1,185,000
Guangrao Huaguan	10,000
Huangdao	1,355,000
Jiaonan	721,000
Jiaozhou	689,000
Laiyang	372,000
Liaocheng	1,078,000
Qingdao Sino-German Ecopark	–
Rizhao	1,010,000
Xintai City Development Zone	–
Yantai	2,750,000
Zhaoyuan	30,000
Zhucheng	658,000
Shouguang	230,000
Ningyang, Tai'an	350,000
Laiwu	330,000
Liulou, Changxingji, Sanchunji, Shawo & Jiaoyuan, Dongming	300,000
Linyi Luozhuang	45,000
Rizhao Military-civilian Integration Industrial Park	–
Zibo Gaoqing Chemical Industrial Park	–
Zouping	292,000

Zhejiang (17 projects)	
Haining	587,000
Haiyan	116,000
Huangyan	651,000
Huzhou	765,000
Jinhua	395,000
Lanxi	168,000
Longwan	369,000
Longyou	136,000
Nanxun	512,000
Ningbo Daxie Development Zone	–
Ningbo	862,000
Quzhou	415,000
Wenzhou	562,000
Xiaoshan	1,025,000
Yongkang	245,000
Zhoushan	1,170,000
Zhoushan Green	–

Liaoning (6 projects)	
Dayou Linhai Economic Zone, Linghai City	69,000
Huludao	1,580,000
Panjing Chemical Enterprises Zone	–
Xingcheng	139,000
Panshan	–
Yingkou Industrial Park	–

Total Connectable Population

103,880,000

Total Number of Projects

217

CAPITAL MARKET PERFORMANCE

Became a constituent stock of the

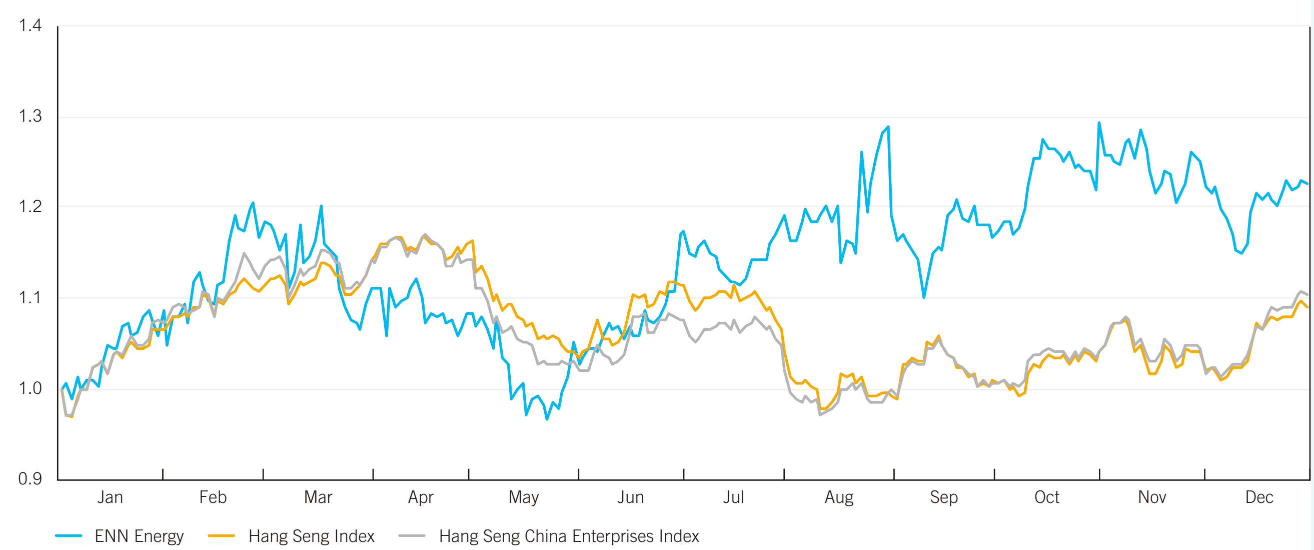
Hang Seng China Enterprises Index

HSCEI

Share price increased by 22.6% over the year, which significantly outperformed the Hang Seng Index's 9.1% gain and the Hang Seng China Enterprises Index's 10.3% gain. Market Capitalisation once exceeded HK$100 billion.

ENN Energy continued to create more value for shareholders

Relative Performance of ENN Energy vs HSI and HSCEI in 2019 (1 Jan 2019–31 Dec 2019)
(Base: 31 December 2018 = 1.0)



Source: Bloomberg

AWARDS

Major awards received by the Group during the year include:

No. 29 in The World's 50 Most Valuable Public Utility Brands (No. 2 among Chinese shortlisted companies)
Organised by: Brand Finance

No. 147 in "China's Top 500 List"
Organised by: Fortune Magazine

No. 1434 in Global 2000 list (No. 11 in Natural Gas sector)
Organised by: Forbes

No. 82 in Top 100 Comprehensive Strength List of "Top 100 Listed Company in Hong Kong"
Organised by: 100 Hong Kong Listed Companies Research Centre

Best IR Company during a corporate transaction
Organised by: IR Magazine

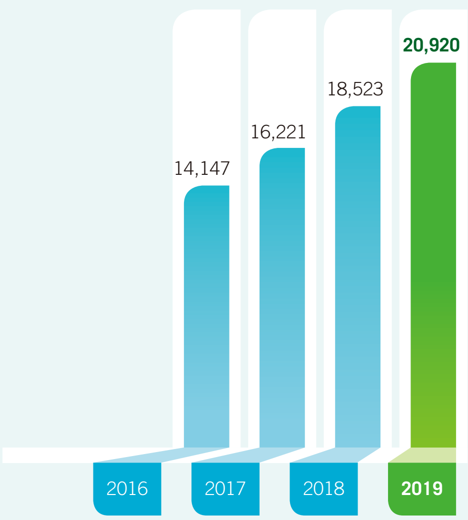
"Certificate of Excellence" from the "Fifth Investor Relations Award 2019"
Organised by: Hong Kong Investor Relations Association

Gold Winner in the category of "Energy & Resource Integrated Presentation"
International Annual Report Design Awards (IADA) 2019 Winter

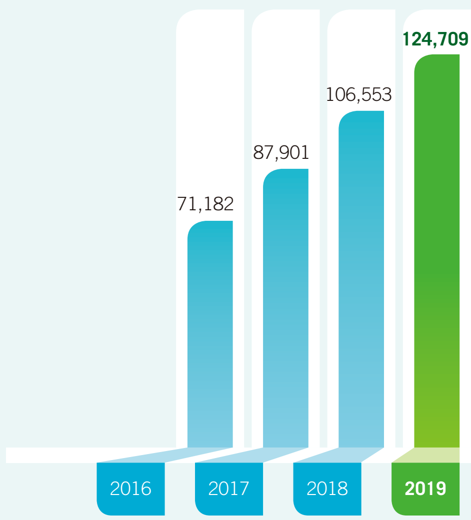
"Most Honored Company" (No. 3)
"Best CEO – Sell Side" (No. 2)
"Best CFO – Combined" (No. 3)
"Best CFO – Sell Side" (No. 2)
"Best IR Program – Combined" (No. 2)
"Best IR Program – Buy Side" (No. 2)
"Best IR Program – Sell Side" (No. 2)
"Best Corporate Governance – Combined" (No. 2)
"Best ESG/SRI Metrics – Combined" (No. 2)
Organised by: Institutional Investor
"2019 All Asia Executive Team Rankings"

OPERATIONAL HIGHLIGHTS

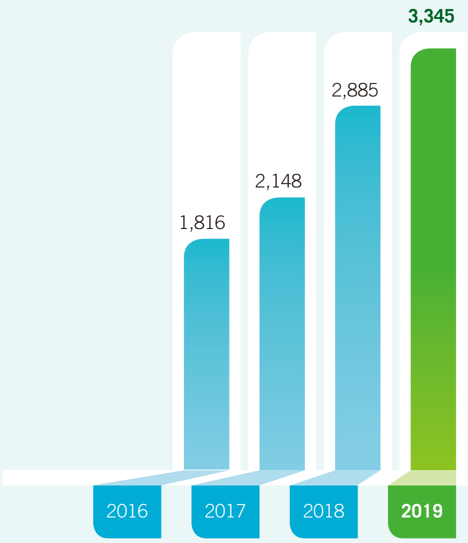
Accumulated Number of Connected Residential Honseholds*
(thousand)



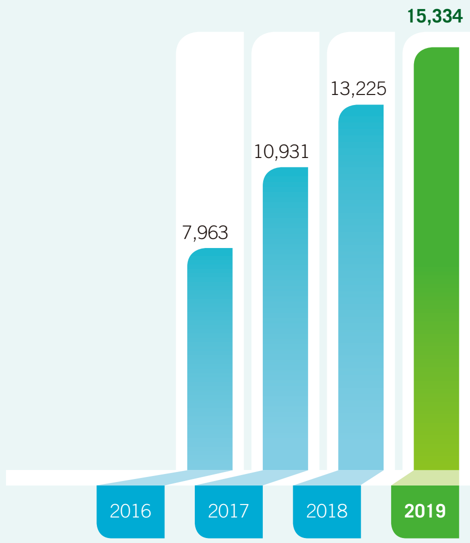
Accumulated Installed Daily Capacity for Commercial/Industrial Customers*
(thousand m³)



Units of Natural Gas Sold to Residential Households*
(million m³)



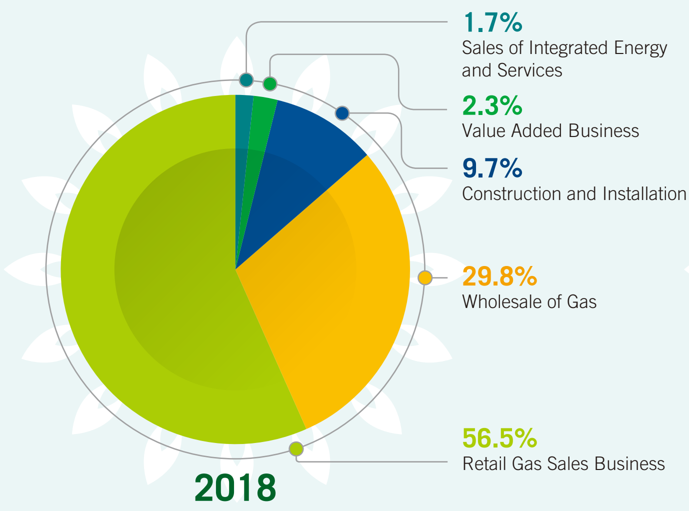
Units of Natural Gas Sold to Commercial/ Industrial Customers*
(million m³)

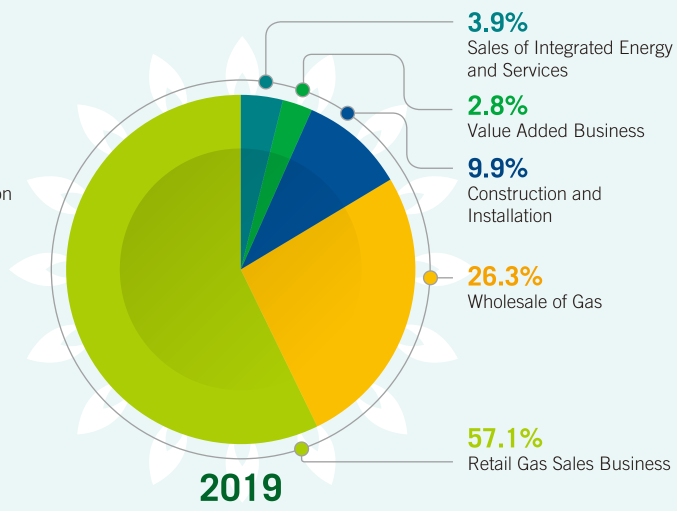


* The Group's operational data included the data of its subsidiaries, joint ventures and associates.

FINANCIAL HIGHLIGHTS

Turnover Breakdown by Segment

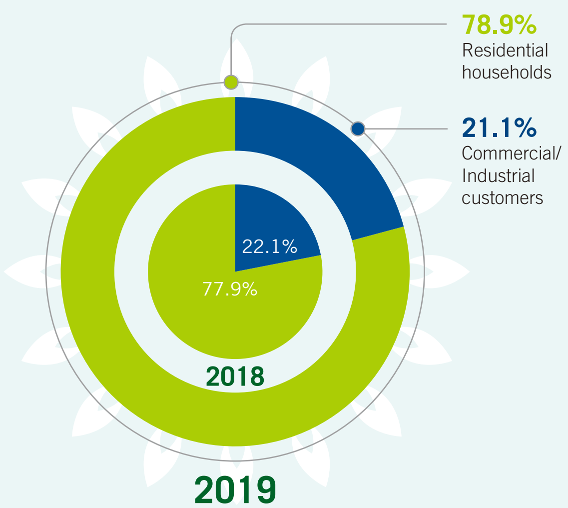




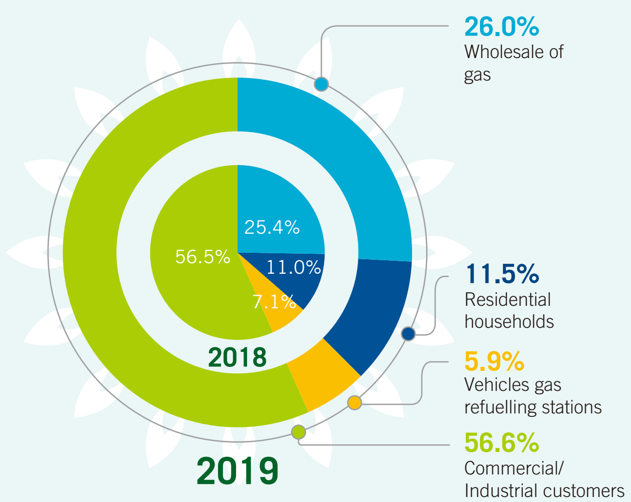
Turnover Breakdown by Customer

(including subsidiaries, joint ventures and associates)

Construction and Installation



Sales of Gas



COMPARISON OF TEN-YEAR RESULTS

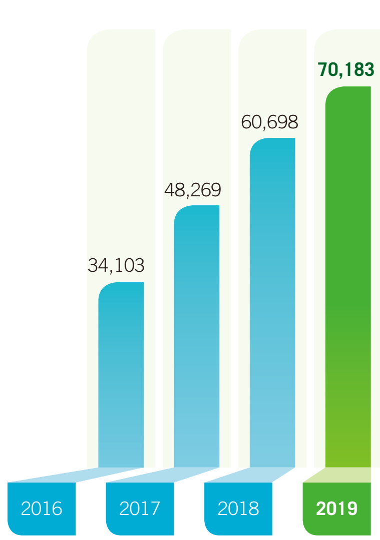
	2019	2018	2017	2016
Highlights (Group)*				
Number of connected households ('000)	**20,920**	18,523	16,221	14,147
Installed designed daily capacity for C/I customers ('000 m^3)	**124,709**	106,553	87,901	71,182
Units of piped gas sold				
Gas sold to residential households ('000 m^3)	**3,349,423**	2,889,578	2,153,314	1,821,136
Gas sold to C/I customers ('000 m^3)	**15,336,362**	13,228,550	10,934,583	7,966,280
Gas sold to vehicles gas refuelling stations ('000 m^3)	**1,276,484**	1,293,930	1,447,063	1,561,737
Wholesale of gas sales volume ('000 m^3)	**7,038,805**	5,958,069	5,140,957	3,036,778
Length of existing pipelines(1) (km)	**54,344**	46,397	39,146	32,921
Number of existing natural gas processing stations	**197**	185	173	166
Daily capacity of existing natural gas processing stations ('000 m^3)	**147,802**	123,640	104,370	84,910
Revenue & Profit (RMB million)				
Revenue	**70,183**	60,698	48,269	34,103
Profit before tax	**8,841**	5,601	5,190	4,195
Income tax expense	**(1,980)**	(1,783)	(1,517)	(1,307)
Profit for the year	**6,861**	3,818	3,673	2,888
Profit for the year attributable to non-controlling interests	**(1,191)**	(1,000)	(871)	(737)
Profit for the year attributable to owners of the Company	**5,670**	2,818	2,802	2,151
Dividends	**1,688**	1,176	952	775
Assets & Liabilities (RMB million)				
Non-current assets	**54,581**	45,706	36,155	32,487
Associates	**3,308**	3,049	1,505	1,350
Joint Ventures	**3,841**	3,620	3,929	3,704
Current assets	**19,515**	21,539	17,626	13,840
Current liabilities	**(31,288)**	(33,017)	(25,605)	(18,341)
Non-current liabilities	**(18,937)**	(15,343)	(13,393)	(15,186)
Net assets	**31,020**	25,554	20,217	17,854
Capital & Reserves (RMB million)				
Share capital	**116**	116	112	112
Reserves	**25,752**	21,269	16,840	14,854
Equity attributable to owners of the Company	**25,868**	21,385	16,952	14,966
Non-controlling interests	**5,152**	4,169	3,265	2,888
	31,020	25,554	20,217	17,854
Earnings per share – basic (RMB)	**5.05**	2.56	2.59	1.99

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

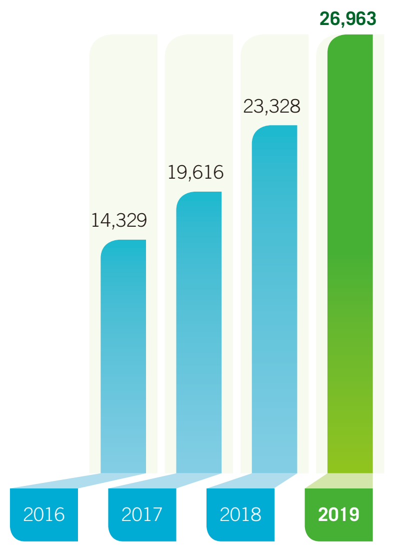
* The Group's operational data included the data of its subsidiaries, joint ventures and associates.

	2015	2014	2013	2012	2011	2010
	12,326	10,605	9,275	7,785	6,815	5,619
	58,608	50,243	41,864	33,423	25,767	18,175
	1,490,416	1,225,825	1,030,054	930,290	824,276	640,597
	7,001,499	6,676,785	5,538,164	4,345,314	3,591,898	2,765,488
	1,588,928	1,441,323	1,186,697	935,926	696,442	520,438
	1,231,521	804,160	370,019	248,536	260,928	222,833
	29,936	27,065	23,907	21,312	18,854	16,340
	157	149	137	126	115	100
	80,198	73,617	58,088	46,176	32,003	23,970
	32,063	29,087	22,966	18,027	15,068	11,215
	4,027	4,747	2,760	2,852	2,327	1,811
	(1,306)	(1,127)	(960)	(859)	(660)	(410)
	2,721	3,620	1,800	1,993	1,667	1,401
	(685)	(652)	(548)	(511)	(414)	(388)
	2,036	2,968	1,252	1,482	1,253	1,013
	705	709	414	362	315	297
	30,328	23,715	21,006	18,137	15,517	12,712
	1,024	882	804	798	694	488
	3,810	3,436	2,998	2,271	1,733	1,361
	11,857	15,002	11,097	9,687	8,944	5,079
	(19,408)	(13,540)	(10,869)	(11,614)	(9,520)	(7,489)
	(11,516)	(14,954)	(13,144)	(8,609)	(8,528)	(4,611)
	16,095	14,541	11,892	10,670	8,840	7,540
	113	113	113	113	110	110
	13,355	11,985	9,430	8,540	6,936	5,922
	13,468	12,098	9,543	8,653	7,046	6,032
	2,627	2,443	2,349	2,017	1,794	1,508
	16,095	14,541	11,892	10,670	8,840	7,540
	1.88	2.74	1.16	1.39	1.19	0.97

Revenue
(RMB million)



Total Natural Gas Sales Volume*
(million m^3)



Retail Gas Sales Business

The Group upheld its customer-oriented philosophy to explore potential demand from existing customers and new customers. As of 31 December 2019, natural gas sold to C/I customers, residential customers and gas refuelling stations increased by 14.7% year-on-year to 19,924 million cubic meters, driving the revenue up 16.9% to RMB40,049 million.

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

Commercial and Industrial Market

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, where local governments strictly implement environmental protection policies. Taking advantage of the opportunities arising from air pollution prevention and control, the Group tapped the potential of the C/I market, and actively promoted the replacement of coal-fired boilers for C/I users. At the same time, the Group successfully developed a large number of new customers leveraging on its advantage of owning multiple industrial park concessions, and opportunities arising from the relocation of industrial facilities to industrial parks. During the year, the Group developed a total number of 27,656 C/I customers (installed gas appliances with designed daily capacity of 18,156,199 cubic meters), among which, incremental designed daily capacity from newly developed "coal-to-gas" customers was approximately 5,810,000 cubic meters, accounting for 32.0% of newly developed C/I customers. The Group implemented market pricing for C/I construction and installation fees, with the average fee remained stable during the year. As of 31 December 2019, the total number of C/I customers served by the Group amounted to 148,761 (installed gas appliances with designed daily capacity of 124,708,782 cubic meters).

To cope with the challenges of upstream gas price hike and the slowdown in economic growth, the Group collected and analysed customer energy consumption data through the established intelligent operation platform, and worked out solutions to address their issues in managing energy consumption, such as providing customers with energy-saving services to improve the economics of using natural gas, and tailoring different sales package for customers with different affordability. The Group also provided discount to customers with stable and large gas consumption volume, and those with peak-shaving or interruptible gas needs, in an attempt to continue expanding gas sales volume while supplying gas stably and safely. The Group managed to maintain a stable dollar margin of gas sales thanks to its effective pass-through mechanism during price hike period.

The “ENN Smart Energy” APP launched by the Group enabled C/I customers to experience convenient online services. C/I customers who have installed standard gas meters, IoT smart meters and Bluetooth smart meters can have quick access to online payment and invoicing functions. New users can also receive messages on project construction progress updates and view service progress online in real time. The APP was equipped with a fast channel for energy solution, which enables customers to reach online professional consultants anytime, greatly improving customer satisfaction. During the year, total volume of natural gas sold to C/I customers reached 15,334 million cubic meters, representing an increase of 15.9% year-on-year, and accounted for 77.0% of the retail natural gas sales volume.

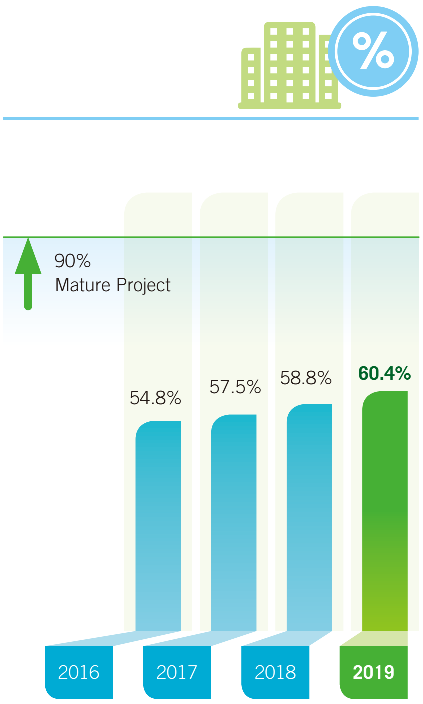
Residential Market

China is sprinting toward a “moderately well-off society”. In this context, the large-scale urbanisation has been carried out with the utilisation of clean energy to improve the environment as well as to meet the demand arising from people’s pursuit of quality life. This provides the Group with enormous opportunities for developing urban residential market. On the other side, the Group continued to work with local governments on implementing their development initiatives, such as “every township-level unit has access to natural gas”, “every village has access to natural gas” and “building beautiful villages”, and prudently carry out “rural coal-to-gas” conversion in areas with higher affordability such as Tianjin, Hebei, Shandong and Henan as part of its efforts to assist the local governments in achieving the replacement of scattered coals for the prevention and control of air pollution.

During the year, the Group developed a total of 2,397,000 residential households, in which new buildings, existing buildings and “rural coal-to-gas” conversion accounted for 67%, 12% and 21% respectively. The average construction and installation fee was RMB2,539 per household, maintaining at a stable level over the past few years.

As of 31 December 2019, the Group had developed 20,920,000 residential customers cumulatively, raising the average piped gas penetration rate from 58.8% at the end of December 2018 to 60.4%.

Residential Penetration Rate



According to the National Bureau of Statistics, the disposable income of national residents grew faster than the national economic growth rate in 2019, and the average per capita disposable household income in urban areas was RMB42,359, indicating the improvement of people's living standards. The Group continued to focus on natural gas sales for urban residents and established tier-pricing mechanism to further increase the gas sales profit from urban residential users.

As of 31 December 2019, the Group cumulatively developed 1.82 million natural gas space heating users and most projects had established residential tier-pricing mechanism. Benefiting from the ramping up of gas consumption by newly developed residential customers and natural gas space heating users, the volume of natural gas sold to residential users increased by 15.9% to 3,345 million cubic meters, accounting for 16.8% of retail gas sales volume.

Accumulated Integrated Energy Projects in Operation

↑ 36

to 98

Integrated Energy Business

In 2019, seizing opportunities arising from stricter air pollution prevention and control, relocation of industrial facilities to industrial parks, adjustment of heating supply structure in industrial park, and the incremental power distribution reform, the Group kept "getting quality projects" and "executing well" in mind and developed new projects by providing heating, electricity and natural gas according to the local demand. Moreover, the Group took effort in promoting the systemic optimisation and upgrade of both the existing projects and projects under construction, and managed to promote both the quality and quantity improvement of integrated energy business through optimising existing projects. During the year, a total of 36 integrated energy projects were put into operation, making the cumulative number climb to 98, bringing a total of 6,847 million kWh of integrated energy sales to the Group, up 137.2% year-on-year. In addition, 22 integrated energy projects were under construction, which will contribute 20,003 million kWh's integrated energy sales in full operation once gradually put into operation in the next one or two years and turn fully operated. During the year, the Group signed 75 new industrial park integrated energy projects, amongst which, 53 are located outside the Group's city-gas concessions. We believe the business will develop rapidly when some of the quality projects are put into operation. In addition, the Group has accumulated a number of quality incremental power grid projects, and the development of various projects has laid a good foundation for promoting the Group's transformation and upgrading to become an integrated energy service provider.

The Group adhered to its principle of integrated energy development, explored and utilised the most competitive resources based on different local conditions, and developed integrated energy project. The No.1 Integrated-energy Station Project of Mudanjiang Economic Development Zone, Heilongjiang Province, which is a technological innovation and a breakthrough of biomass pyrolysis technology. Mudanjiang Economic Development Zone is a national level development zone and one of the national incremental distribution network pilot areas. The project made full use of local rice husk, corncob, sawdust and other biomass resources, adopted biomass energy pyrolysis technology and multi cogeneration device to produce bio oil, gas and carbon, and provided steam and a variety of energy products for downstream storage and users, with better economic and social benefits such as promoting resource recycling, driving energy conservation and emission reduction. The project was going to facilitate biomass pyrolysis industrialisation, and the integrated development of power distribution, photovoltaic and other geothermal electricity to build a biomass ecosystem that is fit for scale replication and drive overall development.

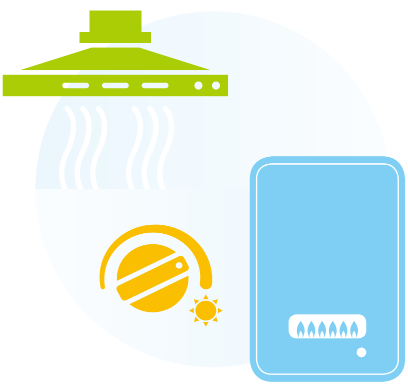
New Gas Projects Development

The group seized the opportunity arising from industry consolidation. Leveraging on its keen market insight, excellent safety and operation management, flexible project development strategies, and leading integrated energy service philosophy, the Group acquired exclusive operating rights of 30 city-gas projects during the year with an incremental population of 4,015,000, and expected to drive additional gas sales volume of more than 2,500 million cubic meters in the coming years.

In terms of projects acquisitions, the Group acquired Xuanran Natural Gas Co., Ltd. as the Company's subsidiary obtaining exclusive operating rights for 8 gas projects in Anhui Province and Shanghai with huge gas demands. The industries covered by the projects are all industries with growth momentum, including medical food, textile, mechanical processing, auto parts, etc., As Anhui Province is looking to benefit from the relocation of industrial facilities to industrial parks, it is expected that more large-scale industrial users will move into the province going forward, bringing greater development potential to the Group.

As of 31 December 2019, the Group had a total of 217 city-gas projects in China, spanning over 22 provinces, municipalities and autonomous regions including Anhui, Beijing, Fujian, Guangdong, Guangxi, Hebei, Henan, Hunan, Inner Mongolia, Heilongjiang, Gansu, Jiangsu, Jiangxi, Liaoning, Sichuan, Shandong, Yunnan, Zhejiang, Shanxi, Shaanxi, Shanghai, Tianjin with a population of 104 million.

A number of small and medium-sized gas companies with single business model have been under mounting pressure in recent years due to the international trade dispute, regulation on gas distribution returns, the gas shortage as well as the rising financing costs. The Group will continue to look for M&A opportunities that may bring synergies to its existing projects, and strive to expand the operational areas of city-gas business leveraging on its good corporate image, excellent safety operation capability and the integrated energy business model.



Value Added Business

Since the Group announced its "customer-centricity" business philosophy, employees started to focus on customers' needs and managed to explore various business opportunities. The Group also provided its member companies with energy experts to evaluate the pain points faced by C/I customers and provide them with energy-saving technologies and retrofitting services, so as to maintain customers' market competitiveness by enhancing their energy consumption and production efficiency, enabling users who could not afford natural gas to gain access to the energy, thereby driving the continuous growth of customers' energy needs. Taking advantage of its brand influence and an online-offline service platform that connects with end customers, the Group actively promoted gas appliances such as cookers, space heaters, water heaters, kitchen ventilators, and disinfection cabinets, and launched a variety of smart products such as smart gas meters, alarms, automatic shut-off valves, etc. Gratle's gas appliances and various household products achieved higher sales to 431,268 units during the year, representing a year-on-year growth of 75.7%.

During the year, revenue from value added business amounted to RMB1,988 million, up 38.8% year-on-year. Benefiting from the Group's diversified value added services provided to customers and continuous efforts to promote high-end and smart products, gross profit increased significantly by 125.5% year-on-year to RMB1,236 million. Currently, penetration rate of value added business among the Group's overall customers is only 6%, while among the newly developed customers during the year, penetration rate was 15%, reflecting the rapid development of this business and its huge growth potential.

Wholesale of Gas 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, sales volume increased by 18.1% year-on-year to 7,039 million cubic meters, maintaining a leading share in domestic LNG trading market. However, the warm weather last year resulted insignificant peak demand, coupled with the increasingly fierce competition pressuring downstream LNG market price, wholesales of gas business revenue only up by 2.0% to RMB18,465 million, gross profit decreased by 27.2% year-on-year to RMB166 million.

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

Gross Profit Generated by Each Employee

↑ 11.1%

RMB315,237

Excellent Operation Management to Improve Efficiency

In 2019, through the active promotion of operational cost management, we actively promoted self-driven organisations' motivation to reduce cost and improve efficiency. We promoted operating efficiency through gas source coordination, pipeline optimisation, reduction of engineering costs and price comparison, which managed to improve our management precision and efficiency with reduced costs. For example, member companies expanded the number of suppliers leveraging the big data through Internet procurement platform. It created a transparent procurement environment through collective bidding and optimisation of procurement strategies, which managed to reduce procurement cost while improving the quality. In terms of pipeline network security operation, the Group also started cooperation with the Urban Management and Law Enforcement, sharing data and information with Urban Management and Law Enforcement through connected platforms, which greatly enhanced efficiency of information acquisition, reduced chances of incidents caused by deterioration of pipelines and enhanced work efficiency of front-line security guards. During the reporting period, each employee of the group has generated an average gross profit of RMB315,237, representing an increase of 11.1% year-on-year while administrative and selling expenses only accounted for 5.8% of revenue. The Group will continue to optimise cost and resources to improve operation efficiency and strive to create greater value for the Group.

Capital Market Awards

With years of steady growth in operating results and business models that keep up with market changes, the Group was included in numerous influential rankings in capital market, including No. 29 in The World's 50 Most Valuable Public Utility Brands (No. 2 among Chinese shortlisted companies), reported by Brand Finance, a UK brand valuation consultancy. No. 147 in "China's Top 500 List" ranked by Fortune Magazine, an international financial magazine highly recognised by investment professionals; No. 1434 in Forbes' annual Global 2000 list (No. 11 in Natural Gas sector); and No. 82 in Top 100 Comprehensive Strength List of "Top 100 Listed Company in Hong Kong" co-organised by a number of authoritative financial media and financial institutions. These awards indicated the Group's powerful influence in energy sector and capital market.

In addition, the Group has been awarded with "Most Honored Company" for three consecutive years, and was included in the rankings of "Best CEO" , "Best CFO", "Best IR Program", "Best ESG/SRI Metrics" and "Best Corporate Governance" in Institutional Investor magazine's 2019 All Asia Executive Team Rankings. The Group has also received "Best IR Company during a corporate transaction" from IR Magazine, "Certificate of Excellence" from the "Fifth Investor Relations Award 2019" by the Hong Kong Investor Relations Association, Gold Award in the category of "Energy & Resource Integrated Presentation" from International Annual Report Design Awards (2019 Winter). The above awards indicate that the Group's execution ability, professional information disclosure, investor relations management and corporate governance are highly recognised by the capital market.

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:

	2019 RMB million	2018 RMB million	Increased/ (Decreased) by RMB million
Bank balances and cash (excluding restricted bank deposits)	**7,373**	7,923	(550)
Long-term debts (including bonds)	**11,650**	8,688	2,962
Short-term debts (including bonds)	**7,495**	11,561	(4,066)
Total debts	**19,145**	20,249	(1,104)
Net debts[1]	**11,772**	12,326	(554)
Total equity	**31,020**	25,554	5,466
Net gearing ratio[2]	**37.9%**	48.2%	(10.3ppt)
Net current liabilities	**11,773**	11,478	295
Unutilised credit facilities	**13,448**	12,110	1,338

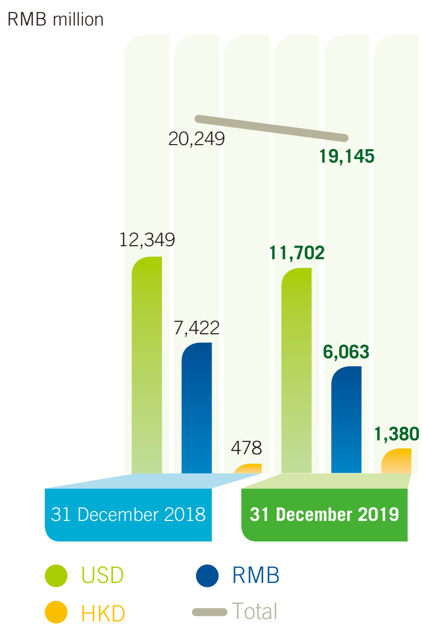
1 Net debts = Total debts – Bank balances and cash (excluding restricted bank deposits)

2 Net gearing ratio = Net debts / Total equity

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 2019, the Group's total debts amounted to RMB19,145 million, representing a decrease of RMB1,104 million compared to the total debts as of 31 December 2018, mainly paid by income from operating activities. The Group's bank balances and cash (excluding restricted bank deposits) amounted to RMB7,373 million, maintaining at a level similar to 31 December 2018. As a result, the Group's net gearing ratio reduced to 37.9% as at 31 December 2019 (2018: 48.2%).

Debt Structure



Foreign exchange risk management

As at 31 December 2019, the principal amount of the Group's borrowings denominated in foreign currencies amounted to USD1,681 million (2018: USD1,806 million) and HK$1,540 million (2018: HK$546 million), equivalent to approximately RMB11,702 million (2018: RMB12,349 million) and RMB1,380 million (2018: RMB478 million) respectively, and among which 67.3% (2018: 62.6%) 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 2019, the Group has hedged debt principal of USD785 million (2018: USD700 million) and the hedge ratio of long-term USD debts reached 62.0% (2018: 56.4%). 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 Group has no bonds due in 2020. For bank and other loans that are soon to expire, the Group intends to continue to repay part of it by using bank revolving loans, and partly by issuing new bonds using the remaining RMB2,900 million issuance quota of a wholly-owned subsidiary of the Company as approved by the China Securities Regulatory Commission on 10 December 2018. In addition, 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. Half of this quota is required for green projects in accordance with national industrial policies in the fields of "Gas-replacement-coal" projects, natural gas pipeline construction, and distributed energy, and the remaining half can be used to supplement working capital. Therefore, the Group has sufficient resources to repay the borrowings.

How does the value added business that ENN has actively developed in recent years fit into its long-term development strategy? What is the growth potential?

From the traditional economy to the digital economy, from focusing on product functions to the focusing on customer experience, market players are competing for users. The deepening of the market-oriented reform of the energy industry has released more options for customers. Enterprises should be able to quickly adapt to changes on the market, to discover, to understand, and to guide users demands to survive and develop a sustainable business. Through developing customer-oriented value added services, including energy-saving technologies and retrofitting services for C/I customers, so as to maintain customers' market competitiveness by enhancing their energy consumption and production efficiency, providing targeted home solutions for gas related products for residential users, we are committed to providing tailored services for customers at different scenarios and becoming their one-stop energy solutions provider. Not only could we gain more understanding of customer demands and cater to their needs, but the Group could also gain customer loyalty, facilitating the sustainable development of energy sales business while bringing in a new source of revenue for the Group. Since the Group's first project in Langfang in 1993, the Group's customer base has expanded with increasing penetration rate over the past 20 years. The Group has approximately 150,000 C/I customers and 20.92 million residential customers, representing great potential value of our customer network. The penetration rate of value added services in the Group's existing customer base is only at 6%, which indicates huge development potential.

Zhang Yuying
Executive Director and President

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 at 31 December 2019, the Group's short-term debt to total debt ratio decreased to 39.1% as compared to 57.1% at the end of last year. Net current liabilities maintain at similar level to last year at RMB11,773 million (2018: RMB11,478 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 favourable. 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.

In September 2019, Standard & Poor's adjusted the Company's outlook to a negative watch. It believes that the restructuring at the Company's controlling shareholder level will not have a direct impact on the operations of the Company and also the credit profile on stand-alone basis, but it may need to adopt a group rating methodology to assess the credit profile of the Company due to the reorganised group structure. Standard & Poor's believes the Company's future new controlling shareholder has a weaker credit profile than the Company, hence the reorganisation is likely to have a negative impact on the Company's credit profile. As the reorganisation has not yet been completed and the results of the assessment depend on the final shareholder's structure, Standard & Poor's did not adjust the Company's long-term credit rating and remained at BBB+. Moody's believes the restructuring has no impact on the Company's current credit profile, while Fitch Ratings believes the debt financing required for the restructuring is limited, therefore, they maintain the Company's credit ratings at Baa2 and BBB respectively, both with "stable" outlook.

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.

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

The long-term LNG procurement contracts signed by the Group with three international natural gas suppliers was implemented in the second half of 2018, which have been achieved to the normal operation in 2019. The pricing of the contracts is mainly linked to the international crude oil price. In order to cope with the resulting risk of commodity price fluctuations, the Group has established a comprehensive risk management policy to stabilise the LNG procurement costs by hedging a certain reasonable proportion of LNG annual procurement plans to reduce international LNG price exposures.

The oil prices were rebounded in the first half of 2019, followed by falling in the middle of the year and fluctuating in a relatively stable range in the second half of the year. Taking advantage of the optimisation of hedging, the Group recognised a realised gain of RMB178 million and an unrealised gain of RMB633 million for the year ended 31 December 2019.

The Group introduced and implemented a world leading Energy Trading Risk Management System (ETRM), which could closely combine financial derivative transactions with physical trading, achieving a digitalised risk management process in real time. In addition, the group will continually optimise the existing hedging strategy, trading authorisation and risk management policies to better manage the risks associated with the Group's import LNG business.

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 2019.

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 2019, a fair value loss of approximately RMB7 million for such investment was recognised in profit or loss and the Group received dividend income of approximately RMB128 million (2018: RMB341 million) from Sinopec Marketing.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. WANG Yusuo, aged 56, 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 gas business in the PRC. He holds a Doctor of Philosophy in Management from Tianjin University of Finance and Economics. He is the father of Mr. Wang Zizheng, the Non-executive Director of the Company. He is the Chairman and a controlling shareholder of ENN Group International Investment Limited ("EGII"), a controlling shareholder of the Company. He is the Chairman of 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. He is also a Non-executive Director of Legend Holdings Corporation (a company listed on Hong Kong Stock Exchange, stock code: 3396.HK) (appointed on 13 February 2020).

Mr. CHEUNG Yip Sang, aged 53, is the Executive Director of the Company. He assists the Chairman in overseeing the Group's overall strategic planning and overseeing the functioning of the Board. He graduated from the China People's Police University (formerly known as The Chinese People's Armed Police Force Academy) in 1990 with a Bachelor's Degree in Legal Studies and received an Executive Master of Business Administration from the Peking University in 2006. He has extensive experience in corporate governance and the market integration in the public utilities sector. He also has wide exposure in the research and development of the gas industry. He is currently a Non-executive Director of Shanghai Dazhong Public Utilities (Group) Co., Ltd. (a company listed on Hong Kong Stock Exchange, stock code: 1635.HK).

Mr. HAN Jishen, aged 55, is the Executive Director and the Chief Executive Officer of the Company, and is the Chairman of the Risk Management Committee and also the Environmental, Social and Governance Committee. He is fully responsible for the Group's strategic planning and execution, business development, etc. He graduated from Baoding Staff University in 1990 and obtained an Executive Master of Business Administration from the Nanyang Technological University in Singapore in 2007. He has joined the Group in 1993 and worked at the senior managerial level for 20 years in various subsidiaries of the Group and has extensive experience and qualifications in market research, business development and operation management in the energy industry. He has an in-depth understanding of energy industry and the current businesses of the Group, and he also has insights into the strategic development of the Group.

Mr. ZHANG Yuying, aged 47, is the Executive Director and the President of the Company, and a member of the Risk Management Committee. He assists Chief Executive Officer 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 51, 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 also the Director and President of EGII (the controlling shareholder of the Company), and he is also an Independent Director of Abterra Ltd. (a company listed on Singapore Stock Exchange, stock code: ABTR.SI).

Non-executive Directors

Mr. WANG Zizheng, aged 31, was re-designated to a Non-executive Director of the Company on 16 March 2020. He is currently a member of the Environmental, Social and Governance Committee. 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 EGII (the controlling shareholder of the Company), and he is also a Director of ENN Ecological Holdings Co., Ltd. (stock code: 600803) and the Chairman 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. He is the son of Mr. Wang Yusuo.

Mr. JIN Yongsheng, aged 56, was appointed as the Non-executive Director of the Company and a member of the Nomination Committee on 16 March 2020. 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 Hong Kong Stock Exchange, stock code: 3899.HK) from 2006 to 2009, and then was re-designated to be Non-executive Director from 2009 to 2018. He is currently a director of EGII, the controlling shareholder of the Company and a director of ENN Ecological Holdings Co., Ltd. (a company listed on Shanghai Stock Exchange, stock code: 600803).

Independent Non-executive Directors

Mr. MA Zhixiang, aged 67, was appointed as the 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.

Mr. YUEN Po Kwong, aged 50, was appointed as the Independent Non-executive Director of the Company on 24 March 2014. He is currently the Chairman of the Remuneration Committee and a member of 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 67, was appointed as the 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. He is a fellow member of HKICPA and the Association of Chartered Certified Accountants. At present, he serves as a court member at the Hong Kong University of Science and Technology. He played significant management roles both in the private and public sector. 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 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), whose shares are listed on Hong Kong Stock Exchange.

Ms. Yien Yu Yu, Catherine, aged 49, was appointed as the 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 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 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 46, 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.

Mr. LIU Jianfeng, aged 43, 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. YANG Chengwen, aged 54, is the Chief Technology Officer of the Company. He assists the President of the Company for the implementation and achievement of the Group's strategies and development, participation in the decision making for integrated energy business, and the promotion of delivery and operation of integrated energy business, as well as the technological innovation of the Group. He obtained a Master's Degree in Automatic Control from Harbin Industrial University in 1993. Before joining the Group in 2019, he has been working in in Harbin Electric, Black & Veatch and GE China. He had extensive experience in energy technology promotion and the operation of integrated energy business.

Mr. NIU Yunfeng, aged 45, is the Chief Information Officer of the Company. He assists the CEO and President of the Company for the implementation of management restructuring of the Group. He obtained a Master's Degree in Business Administration from Renmin University of China in 2003. He joined the Group in 2003, and held general manager positions in various subsidiaries and participated in works related to strategic performance management, hence accumulated extensive experience in business management and smart operation.

Mr. ZHOU Zhizhu, aged 51, is the Senior Vice President of the Company. He is responsible for digital transformation work of the Group. He obtained a Bachelor's Degree in Thermal Engineering from Beijing University of Aeronautics and Astronautics in 1990, and then obtained a Master's Degree in Corporate Management from Wuhan University in 2001. Prior to joining the Group in 2019, he served in Hunan Thermal Power, Shanghai Electric Group, China Southern Power Grid and GCL Group. He has extensive experience in digital technology and integrated energy projects.

Ms. WU Xiaojing, aged 51, 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 49, 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 47, 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. LIANG Hongyu, aged 40, 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 14 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 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 (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

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 "Capital Market Awards" under the "Management Discussion and Analysis" on page 25 of this annual report.

Responding to the recommendations put forward by the Stock Exchange in November 2017 in a consultation paper entitled "Review of the Corporate Governance Code and Related Listing Rules" to, inter alia, upgrade the current Code provision relating to board diversity to form part of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to require disclosure of a nomination policy in the Corporate Governance Report and to expand the factors for consideration when assessing the independence of a non-executive director. Since then, the Company has been preparing for the roll out of the new requirements to ensure its compliance.

For the year ended 31 December 2019, the Company was in compliance with all provisions of the CG Code except for a deviation from Code Provision E.1.2 which requires the Chairman of the Board to attend the annual general meeting. As Mr. Wang Yusuo, Chairman of the Board, was unable to present at the annual general meeting held on 30 May 2019 due to a business trip, Mr. Wang Dongzhi, an Executive Director of the Company, presided over the annual general meeting instead, to answer the questions raised at the meeting.

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

The Board 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 has delegated insignificant and more cumbersome Board matters to Management Committee (details have been set out in below under the section headed "Management Committee"), and the daily operations of the Group to the Executive Directors and senior management (collectively the "Management"), although it reserves the right to approve certain significant matters. The Management Committee has to report its decisions made to the Board regularly. 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 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, reviewing the Company's compliance with the CG Code and disclosures in its Corporate Governance Report.

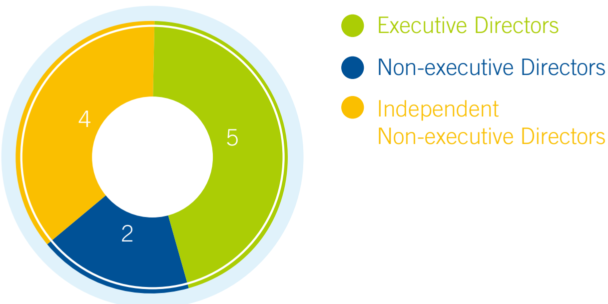
The Chairman of the Board and the Management will ensure all Directors (including the Independent Non-executive Directors) have access to adequate, complete and timely information so that they can make informed decisions and discharge their duties and responsibilities as Directors. Directors may request 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.

All Directors has disclosed to the Company, upon their appointment, and in a timely manner for any change, of their offices held in other public companies or organisations and other significant commitments, if any. The Directors have confirmed that they have given sufficient time and attention to the affairs of the Company for the year ended 31 December 2019.

Board composition

During the year, the Board had 10 directors, made up of 6 executive directors and 4 independent non-executive directors. The Company would continuously optimise the composition and structure of the Board.

Board composition



As at the date of this report, the Board has 11 directors, made up of 5 executive directors, 2 non-executive directors and 4 independent non-executive directors, for details please refer to the announcement about the change of directors and change in composition of board committees published on the websites of the Company and the Stock Exchange dated 16 March 2020. As shown in the chart on left hand side, independent non-executive directors represent more than one third of the Board, which complies with the Listing Rules.

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, as well as the fairness and reasonableness of the Board resolutions. A list of the Directors 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 are set out on pages 30 to 32 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, Mr. Wang Zizheng (Executive Chairman of the Company) and Mr. Cheung Yip Sang (Vice Chairman of the Company) are responsible for assisting the Chairman for ensuring the effective functioning of the Board, monitoring the performance of the Chief Executive Officer 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 is borne by Chief Executive Officer and he reports to the Board. Throughout the year, Mr. Han Jishen, being the Chief Executive Officer of the Company, is responsible for the Group's strategic planning, execution and business expansion etc., whereas Mr. Liu Min (until 4 December 2019)/Mr. Zhang Yuying (from 4 December 2019), being the President, is responsible for assisting the Chief Executive Officer 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.

Independent Non-executive Directors

Independent non-executive directors of the Company have their respective terms of appointment coming to an end normally three years after their appointment to the Board or (in the case of Directors who were re-elected to the Board at previous general meeting) their last re-election as Directors. Independent non-executive directors must be abided by the articles of associations of the Company and retire by rotation at the first annual general meeting after his appointment and at least once every three years, and are eligible for re-election.

During the year, Ms. Yien Yu Yu, Catherine who has served on the Board for more than nine years, her re-appointment was subject to (i) a separate resolution to be approved by shareholders at the 2019 annual general meeting; and (ii) the papers to shareholders accompanying that resolution included the reasons why the board believed she was still independent and should be re-elected. The resolution was passed as more than 99% of the votes were cast in favour of the resolution.

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.

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.

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 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 on a weekly basis.
- Send the report about the operation, investment and financial performance of the Group to the Directors on a monthly basis.
- As most of the Directors 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, 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, independent professional advices will be sought upon request by the Directors, the expenses will be borne by the Company.
- In relation to each connected transaction of the Company that requires independent shareholders' approval, an independent board committee comprising independent non-executive directors who have no interest therein will be formed and independent financial advisor will be engaged, to give independent opinion on such transactions to the Board.

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.

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 board meetings and Board committees meetings have been recorded in sufficient details, and maintained by the Company Secretary for inspection by any Directors within a reasonable time upon a reasonable notice given.

Directors' attendance

The Board held eight meetings (including four regular meetings) during 2019 and other additional meetings when Board approvals are needed for other issues. The number of meetings is well exceeding the requirement of the CG Code which requires every listed issuer to hold board meetings at least four times a year. Details of 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 (Note 1)	4/4	0/1
Cheung Yip Sang	4/4	0/1
Wang Zizheng	4/4	0/1
Han Jishen	4/4	0/1
Liu Min (Note 2)	3/3	0/1
Zhang Yuying (Note 2)	1/1	0/0
Wang Dongzhi	4/4	1/1
Independent Non-executive Directors:		
Ma Zhixiang	4/4	0/1
Yuen Po Kwong	4/4	1/1
Law Yee Kwan, Quinn	4/4	1/1
Yien Yu Yu, Catherine	4/4	0/1

Notes:

1. As Mr. Wang Yusuo, Chairman of the Board, was unable to present at the annual general meeting held on 30 May 2019 due to a business trip, Mr. Wang Dongzhi, an Executive Director of the Company, presided over the annual general meeting instead, to answer the questions raised at the meeting. This constitutes a deviation from Code Provision E.1.2 of the CG Code which requires the Chairman of the Board to attend the annual general meeting.

2. On 4 December 2019, Mr. Liu Min resigned as an Executive Director and President of the Company. On the same date, Mr. Zhang Yuying was appointed as an Executive Director and President 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 Director Mr. Zhang Yuying had been offered an induction training and briefed by the external legal advisor engaged by the Company 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). He was provided with an information memorandum on Directors' duties and obligations which assists him in understanding his responsibilities as a Director. The Company has arranged a director training programme organised by external legal advisor for the Directors and senior management of the Company in 2018, the subjects included requirements on disclosure of inside information under SFO, code for securities transactions by the Directors, continuing obligations of a listed company and continuing and connected transactions under Chapter 14A of the Listing Rules, therefore, no such large scale training was arranged during the year. During the year, a training about environment, social and corporate governance (the "ESG") had been arranged to the ESG Committee and the focus group, and 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 of the Company updated the business and prospects of the Group in detail to the Board at least twice a year, and the Directors, particularly the Independent Non-executive Directors, have been invited twice to visit key projects and main facilities organised by the Company during the year, providing the Directors an update on the operation and business of the Group.

For the year ended 31 December 2019, all the Directors 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 internal control and risk management systems so as to protect the interests of the shareholders as a whole. Its written terms of reference is published on the websites of the Company and the Stock Exchange.

All members have sufficient experience in reviewing 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 meetings. At the request of the committee to spend more time to review the Group's internal control and internal audit issues, one additional meeting was held during the year. 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

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 2018 and the six months ended 30 June 2019;
- reviewed the continuing connected transactions of the Group for the year ended 31 December 2018 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;
- reviewed the external auditor's independence, objectivity and the effectiveness of the audit process in accordance with applicable standards;
- approved the remuneration and terms of engagement of the external auditor;
- reviewed the effectiveness of the Group's risk management and internal control systems, 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.

During the year, the Company also engaged external advisor to review the internal control and risk management systems of the Group's treasury management and reported to the committee for the sake of continuous improvement.

Auditors' remuneration

For the year ended 31 December 2019, 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	6,123,000
Interim results review service	1,627,000
Total	7,750,000

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 to the Board, and ensuring no director or any of his/her associates is involved in deciding his/her own remuneration. Its terms of reference 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.

The Remuneration Committee has reviewed this policy during the year and consulted Chairman and Vice Chairman of the Board about the remuneration proposals of the Management at formal and informal meetings. The Remuneration Committee may seek independent professional advice, if necessary, the expenses will be borne by the Company.

Two Remuneration Committee meetings were held during the year. Attendance of the members is set out below:

Members	**Attendance/ number of meetings held**
Yuen Po Kwong *(Chairman of the Remuneration Committee)*	2/2
Ma Zhixiang	2/2
Law Yee Kwan, Quinn	2/2
Yien Yu Yu, Catherine	2/2

The Remuneration Committee held meetings during the year to handle, among others, the followings:

- reviewed the policy and structure of remuneration for all Directors and senior management of the Company;
- considered and approved the remuneration of the Management of the Company;
- reviewed the fees of the independent non-executive directors of the Company;
- approved and granted share options of the Company to eligible participants; and
- approved the 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 2019 fell within the following bands:

Remuneration Bands (HK$)	Number of individuals
0 to 1,000,000	4
1,500,001 to 2,000,000	1
2,000,001 to 2,500,000	1
2,500,001 to 3,000,000	2
3,000,001 to 3,500,000	1
3,500,001 to 4,000,000	1
4,000,001 to 4,500,000	2
4,500,001 to 5,000,000	3
5,500,001 to 6,000,000	2
6,000,001 to 6,500,000	1
7,000,001 to 7,500,000	2
10,500,001 to 11,000,000	1
Total	21

Details of Directors' remuneration and equity interest in the Company held by the Directors for the two years ended 31 December 2019 and 2018 respectively are listed out in Note 12 and Note 45 to the consolidated financial statements.

Nomination Committee

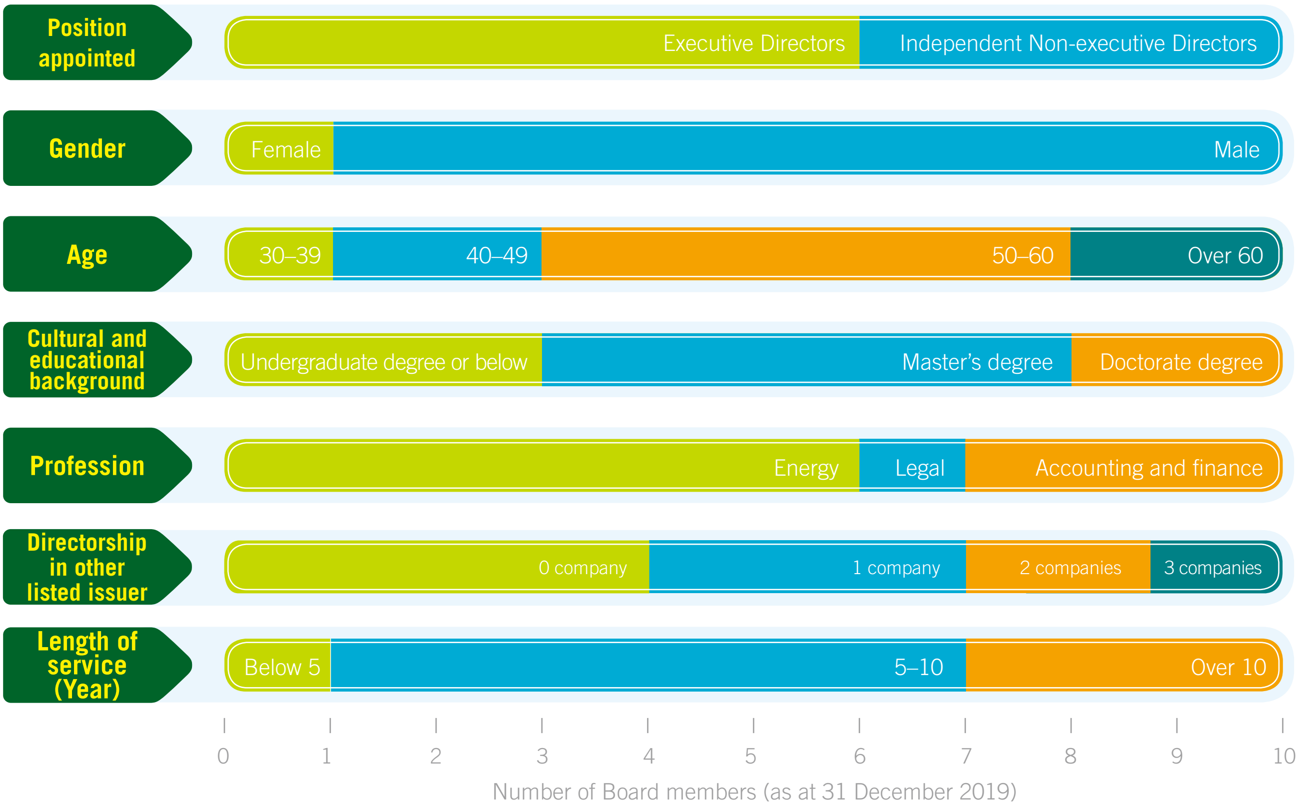
The Nomination Committee reviews the structure, composition and diversity of the Board, identifies and recommends to the Board of suitable candidates as Directors, makes recommendations to the Board on matters relating to the appointment and re-appointment of Directors, succession planning for Directors, and assesses the independence of independent non-executive directors. Its terms of reference is published on the websites of the Company and the Stock Exchange.

The Board has adopted its "Nomination Policy" and uploaded onto the Company's website. It guides 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 Company firmly believes that board diversity improves the performance of the Company, the Board, therefore, has adopted the "Board Diversity Policy", details had been uploaded onto the Company's website. Pursuant to which, appointments of director will 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.

When Ms. Yien Yu Yu, Catherine was recommended as an independent non-executive director of the Company in 2018 and her re-election was nominated in 2019 annual general meeting, the Nomination Committee had taken into account the requirement for board diversity. The Nomination Committee considered that Ms. Yien Yu Yu, Catherine's extensive experience in investment banks and listed companies, as well as her membership in the Listing Committee of the Stock Exchange would benefit the Board. In 2019, she was appointed as the deputy chairman of the Listing Committee and a member of the advisory committee of the Securities and Futures Commission. The Nomination Committee believes that this will further enrich the Board's skills, experience and diversity of perspectives, thereby improving the governance capability of the Board.

The Board composition reflects various genders, cultural and educational backgrounds, professional, length of service, knowledge on the Company and a broad range of individual attributes, interests and values. The Board considers the current Board composition has provided the Company with a good balance and diversity of skills and experience. Apart from retaining a core of members with longstanding and deep knowledge of the Group, the Board appointed new Directors who bring fresh perspectives and diverse experiences to the Board during the year. The Board will continue to review its composition from time to time taking into consideration specific needs for the Group's business.



Two Nomination Committee meetings were held during the year. Attendance of the members is set out below:

Members	**Attendance/ number of meetings held**
Wang Yusuo *(Chairman of the Nomination Committee)*	2/2
Cheung Yip Sang	2/2
Ma Zhixiang	2/2
Yuen Po Kwong	2/2
Law Yee Kwan, Quinn	2/2
Yien Yu Yu, Catherine	2/2

The Nomination Committee held meetings during the year to review and recommend to the Board, among others, the followings:

- 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 need for identifying individuals suitably qualified to become Directors and selected or made recommendations to the Board on the selection of individuals nominated for directorships;
- 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.

The Nomination Committee has conducted an annual review of the structure, size and composition of the Board and considered the same is appropriate in light of the Company's strategy. The Nominations Committee also assessed that the Board currently possesses a balanced mix of skills, experience and diversity of perspectives and is appropriate for continuing to support the execution of the Company's business strategies in an efficient and effective manner.

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**
Wang Zizheng *(Chairman of the Risk Management Committee)*	1/1
Han Jishen	1/1
Liu Min (Note)	0/0
Zhang Yuying (Note)	1/1
Ma Zhixiang	1/1
Yuen Po Kwong	1/1
Law Yee Kwan, Quinn	1/1
Yien Yu Yu, Catherine	1/1

Note:

On 4 December 2019, Mr. Liu Min resigned as an executive Director and President of the Company, and ceased to be a member of the Risk Management Committee. On the same date, Mr. Zhang Yuying was appointed as an executive Director and President of the Company, and a member of the Risk Management Committee.

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

- 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 and share award scheme. The responsibility committees may include non-director as members.

Management Committee

The Board has established the Executive Committee on 21 March 2019 comprising four executive directors, namely Mr. Wang Yusuo, Mr. Cheung Yip Sang, Mr. Wang Zizheng and Mr. Wang Dongzhi. Subsequently, in response to the needs of the Board, it was re-named to Management Committee which is responsible for the insignificant and cumbersome Board affairs and extended to cover all executive directors.

During the year, the Management Committee held two meetings which dealt with the 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 signing of major international swap and derivative agreements ("ISDA") with them.

ESG Committee

The Board has established the ESG Committee on 21 March 2019 comprising three directors, namely Mr. Han Jishen, Mr. Wang Zizheng and Mr. Ma Zhixiang which was responsible for formulating and reviewing the Company's environmental, social and corporate governance policies and practices, and making recommendations to the Board; reviewing and monitoring the training and continuous professional development in ESG by Directors and the senior management; and reviewing and monitoring the Company's policies and practices in compliance with rules and regulations.

During the year, the ESG Committee held a meeting to review the results of work relating to ESG in 2018 and formulate a work plan for 2019 to 2020. The Company also engaged an external consultant to conduct a detailed training to the members of the committee and the focus group, especially on the consultation paper about the "Review of the Environmental, Social and Governance Reporting Guide and related Listing Rules" issued by the Stock Exchange in May 2019 in order to further improve the work on ESG.

Share Award Committee

The Board has established the Share Award Committee on 30 November 2018, 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 instruct the Company's trustee to purchase approximately 2,415,100 shares of the Company on the over-the-counter market in accordance with the scheme rules adopted by the Board.

Accountability and Audit

Financial reporting

The Board is responsible for the consolidated financial statements of the Group. The consolidated financial statements are prepared on a going concern basis and give a true and fair view of the financial position, performance and cash flow of the Group for the year ended 31 December 2019, and the disclosure of other financial information and report therein complies with the relevant legal requirements. A statement of the reporting responsibility of the external auditor is set out in the Independent Auditor's Report on page 64.

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. Moreover, the management also regularly meets with the Directors to present results and discuss any variance between the budget and the actual results. Moreover, the Board are provided with 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.

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, have been discussed and approved at the Audit Committee before adoption by the Group.

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.

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.

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 the risk management and internal control systems have been effective and adequate for the year ended 31 December 2019 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.

Whistleblowing Policy

The Company is committed to achieving and maintaining the highest corporate cultures of openness, probity and accountability. A whistleblowing policy is 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

With regard to procedures and internal controls for handling and disseminating of inside information, the Company follows 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. Various internal control measure such as management review, use of project codes and assignment of project coordinators 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.

Company Secretary

Ms. Liang Hongyu ("Ms. Liang") is a full-time employee of the Company, reporting to the Chairman and Vice Chairman of the Board throughout the year. She is 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 33 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.

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

The AGM held on 30 May 2019 at Tianshan and Lushan Rooms, Level 5 Island Shangri-La Hotel, Two Pacific Place, Supreme Court Road, Central, Hong Kong. All ordinary resolutions proposed at the AGM were passed as more than 50% of the votes were cast in favour of these resolutions. The resolutions considered and approved mainly include:

- To receive and consider the audited consolidated financial statements for the year ended 31 December 2018 together with the directors' and independent auditor's reports;
- To declare a final dividend of HK$1.19 per share for the year ended 31 December 2018;
- 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 16 April 2019. 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. Evonne Zhang/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, 16 March 2020

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 2019.

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 2019 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 2019, the relevant disclosures are set out below:

	Disclosures	Relevant sections
(1)	Fair review of the Group's business for the year ended 31 December 2019 (including an analysis using financial key performance indicators)	• Chairman's Statement (pages 4 to 11) • Management Discussion and Analysis (pages 20 to 29)
(2)	Description of the principal risks and uncertainties facing by the Group	• Management Discussion and Analysis (pages 20 to page 29) • Note 4 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 2019	• Note 57 to the Consolidated Financial Statements
(4)	Future development in the Group's business	• Chairman's Statement (pages 4 to 11) • Management Discussion and Analysis (pages 20 to 29)
(5)	Compliance with the relevant laws and regulations that have a significant impact on the Company	• Section in this report • Corporate Governance Report (pages 34 to 47) • 2019 Environmental, Social and Governance Report to be published by end of May 2020
(6)	The Group's environmental policies and performance	• Section in this report • Chairman's Statement (pages 4 to 11) • 2019 Environmental, Social and Governance Report to be published by end of May 2020
(7)	The Group's relationship with key stakeholders	• Section in this report • 2019 Environmental, Social and Governance Report to be published by end of May 2020

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 2019, the Group recorded a volume of 25,718 million cubic meters of natural gas sales for city-gas and energy trading business, equivalent to reducing 34.20 million tons of standard coal and reducing 33.33 million tons of carbon dioxide. A total of 98 integrated energy projects had been put into operation during the year, the Group recorded 6,847 million Kwh of energy sales for cooling, heat, electricity and steam etc., equivalent to reducing 227,437 tons of standard coal for customers' energy consumption, and reducing 1,089,050 tons of carbon dioxide.

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 19%.

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 34 to 47 of this annual report.

Results and Appropriation

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 67 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$1.67 (equivalent to approximately RMB1.50) per share to the shareholders on the register of members on Thursday, 21 May 2020. The total dividend amount is approximately RMB1,688 million, and remaining profit for the year of approximately RMB3,986 million is retained. The distributions to shareholders are subject to the approval by shareholders at the 2020 annual general meeting to be held on Wednesday, 13 May 2020. For the purpose of ascertaining shareholders who are entitled to the final dividend, the register of members of the Company will be closed from Wednesday, 20 May 2020 to Thursday, 21 May 2020, 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 18 to 19 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 40 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 over-the-counter a total of 2,415,100 shares of the Company from Nomura International plc at a total consideration of HK$181,857,030.

Reserves

According to the applicable laws of the Cayman Islands, the Company's reserve available for distribution as at 31 December 2019 amounted to RMB3,573 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 70 in this Annual Report and Note 58 to the Consolidated Financial Statements.

Bank and Other Loans

Details of bank and other loans of the Group are set out in Note 41 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
Mr. Han Jishen
Mr. Liu Min (resigned on 4 December 2019)
Mr. Zhang Yuying (appointed on 4 December 2019)
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

Directors *(continued)*

In accordance with article 99 of the Company's Article of Association, Mr. Zhang Yuying and Mr. Jin Yongsheng 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. Cheung Yip Sang, Mr. Han Jishen, Mr. Wang Dongzhi and Mr. Law Yee Kwan, Quinn, shall retire by rotation at the forthcoming AGM of the Company. All the above retiring Directors are eligible and offer themselves for re-election except Mr. Cheung Yip Sang will not offer himself for re-election due to other work commitment. Details of these Directors proposed for re-election are set out in the circular sent together with this Annual Report.

Mr. Liu Min resigned as an executive director of the Company on 4 December 2019 due to his family reason. He 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"). On the same date, Mr. Zhang Yuying had been appointed as an executive director of the Company.

As of 31 December 2019, 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 30 to 32 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 2019, 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:

Name of Director	Capacity	Personal interests	Corporate interests	Total interests in shares	Interests in underlying shares pursuant to share options	Total aggregate interests in shares and underlying shares	Approximate percentage of the Company's total issued shares
Wang Yusuo ("Mr Wang")	Beneficial owner and interest of controlled corporation	–	369,175,534 (Note)	369,175,534	1,060,000	370,235,534	32.90%
Cheung Yip Sang	Beneficial owner	–	–	–	759,000	759,000	0.07%
Wang Zizheng	Beneficial owner	–	–	–	420,000	420,000	0.04%
Han Jishen	Beneficial owner	–	–	–	587,875	587,875	0.05%
Zhang Yuying	Beneficial owner	–	–	–	242,525	242,525	0.02%
Wang Dongzhi	Beneficial owner	15,000	–	15,000	647,000	662,000	0.06%
Ma Zhixiang	Beneficial owner	–	–	–	96,700	96,700	0.01%
Yuen Po Kwong	Beneficial owner	–	–	–	120,000	120,000	0.01%
Law Yee Kwan, Quinn	Beneficial owner	–	–	–	120,000	120,000	0.01%
Yien Yu Yu, Catherine	Beneficial owner	106,000	–	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 100% controlled corporations, including Langfang City Natural Gas Company Limited ("LCNG"), ENN Investment Holdings Company Limited ("EIH"), ENN Group International Investment Limited ("EGII") and Essential Investment Holding Limited ("EIHL").

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

Save as disclosed above, as at 31 December 2019, 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 Directors (including independent non-executive directors) and other employees of the Group.

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 2019	Granted during the year	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 2019 (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	230,750	–	(250)	–	–	230,500
	09.12.2015	01.04.2018–08.12.2025	40.34	538,750	–	(73,550)	(22,625)	–	442,575
	09.12.2015	01.04.2019–08.12.2025	40.34	538,750	–	–	–	25	538,775
	09.12.2015	01.04.2020–08.12.2025	40.34	538,750	–	–	–	42,500	581,250
Employees	09.12.2015	01.04.2017–08.12.2025	40.34	406,900	–	(201,650)	–	–	205,250
	09.12.2015	01.04.2018–08.12.2025	40.34	1,030,850	–	(539,287)	(125,302)	–	366,261
	09.12.2015	01.04.2019–08.12.2025	40.34	1,727,750	–	(659,513)	(507,738)	(25)	560,474
	09.12.2015	01.04.2020–08.12.2025	40.34	1,727,750	–	–	(260,250)	(42,500)	1,425,000
Sub-total				6,740,250	–	(1,474,250)	(915,915)	–	4,350,085

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 2019	Granted during the year	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 2019 (Note 2)
2012 Scheme – Batch 2									
Directors	28.3.2019	01.04.2020–27.03.2029	76.36	–	105,000	–	(90,000)	–	15,000
	28.3.2019	01.04.2021–27.03.2029	76.36	–	791,600	–	(90,000)	66,600	768,200
	28.3.2019	01.04.2022–27.03.2029	76.36	–	791,700	–	(90,000)	66,700	768,400
	28.3.2019	01.04.2023–27.03.2029	76.36	–	791,700	–	(90,000)	66,700	768,400
Employees	28.3.2019	01.04.2020–27.03.2029	76.36	–	1,061,300	–	–	–	1,061,300
	28.3.2019	01.04.2021–27.03.2029	76.36	–	2,606,500	–	–	(66,600)	2,539,900
	28.3.2019	01.04.2022–27.03.2029	76.36	–	2,608,100	–	–	(66,700)	2,541,400
	28.3.2019	01.04.2023–27.03.2029	76.36	–	2,608,100	–	–	(66,700)	2,541,400
Business Consultants	28.3.2019	01.04.2020–27.03.2029	76.36	–	241,000	–	(40,000)	–	201,000
	28.3.2019	01.04.2021–27.03.2029	76.36	–	241,000	–	(40,000)	–	201,000
	28.3.2019	01.04.2022–27.03.2029	76.36	–	241,000	–	(40,000)	–	201,000
	28.3.2019	01.04.2023–27.03.2029	76.36	–	241,000	–	(40,000)	–	201,000
Sub-total				–	12,328,000	–	(520,000)	–	11,808,000
Total				6,740,250	12,328,000	(1,474,250)	(1,435,915)	–	16,158,085

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 200,000 shares, representing 0.02% of the issued share capital of the Company as at the date of this report are available for issue under the 2002 Scheme and a total number of 16,141,085 shares, representing 1.43% 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 16,141,085 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$81.54.

The remaining 200,000 share options under the 2002 Scheme have met the exercise conditions and vested, but have not yet been exercised. 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 and incentise them contribute more. Except independent non-executive directors of the Company and Wang Yusuo (Executive Director), all participants are subject to performance target. 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.

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 2019	Granted during the year (Note 2)	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 2019
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	09.12.2015	01.04.2017–08.12.2025	40.34	–	–	–	–	–	–
Sang	09.12.2015	01.04.2018–08.12.2025	40.34	133,000	–	–	–	–	133,000
(Note 3)	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	–	–	–	–	133,000
	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
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
Han Jishen	09.12.2015	01.04.2017–08.12.2025	40.34	250	–	(250)	–	–	–
(Note 3)	09.12.2015	01.04.2018–08.12.2025	40.34	105,250	–	(65,250)	(22,625)	–	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	–	–	–	–	105,250
	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
Liu Min	28.03.2019	01.04.2020–27.03.2029	76.36	–	90,000	–	(90,000)	–	–
(Notes 3 & 4)	28.03.2019	01.04.2021–27.03.2029	76.36	–	90,000	–	(90,000)	–	–
	28.03.2019	01.04.2022–27.03.2029	76.36	–	90,000	–	(90,000)	–	–
	28.03.2019	01.04.2023–27.03.2029	76.36	–	90,000	–	(90,000)	–	–
Zhang Yuying	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	–	–	–	–	–	–
	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	42,500
	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

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 2019	Granted during the year (Note 2)	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 2019
Wang Dongzhi (Note 3)	09.12.2015	01.04.2017–08.12.2025	40.34	40,500	–	–	–	–	40,500
	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
Ma Zhixiang	09.12.2015	01.04.2017–08.12.2025	40.34	–	–	–	–	–	–
	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	–	(8,300)	–	–	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				1,847,000	2,480,000	(73,800)	(382,625)	242,525	4,113,100

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 2019 to 31 December 2019.
3. The vesting of share options is subject to the fulfilment of performance target.
4. Mr. Liu Min resigned from the position as an executive Director of the Company on 4 December 2019, the 360,000 share options granted to him were lapsed. On the same date, Mr. Zhang Yuying had been appointed as an executive Director, the 242,525 share options granted to him were reclassified as 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. 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.

As at 31 December 2019, there were 2,415,100 shares of the Company held in the trust under the Share Award Scheme and no Awarded Shares have been granted during the year.

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, underlying shares or debentures of, the Company or any other body corporate.

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 2019. 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.

Interests in Competitors

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 competes or may compete with the business of the Group.

Substantial Shareholders

As at 31 December 2019, 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	Total interests in the Company	Respective interests in share according to share options	Total aggregate interests in shares and underlying shares (Note 7)	Approximate percentage of the Company's total issued share capital
Mr. Wang	Beneficial owner and interest of controlled corporation	369,175,534 (Notes 1, 2, 3, 4 & 6)	1,060,000 (Note 5)	370,235,534 (L)	32.90%
Ms. Zhao	Interest of controlled corporation and interest of spouse	369,175,534 (Notes 1, 2, 3, 4, 5 & 6)	1,060,000 (Note 5)	370,235,534 (L)	32.90%
LCNG	Interest of controlled corporation	369,175,534 (Notes 1, 2 & 3)	–	369,175,534 (L)	32.80%
EIH	Interest of controlled corporation	369,175,534 (Notes 1 & 2)	–	369,175,534 (L)	32.80%
EGII	Beneficial owner and interest of controlled corporation	369,175,534 (Notes 1 & 6)	–	369,175,534 (L)	32.80%
ENN Ecological Holdings Co., Ltd	Beneficial owner	369,175,534 (Note 6)	–	369,175,534 (L)	32.80%
The Capital Group Companies, Inc.	Beneficial owner	154,195,536	–	154,195,536 (L)	13.70%
Mitsubishi UFJ Financial Group, Inc	Interest of controlled corporation	67,419,733	–	67,419,733 (L)	5.99%
JPMorgan Chase & Co.	Interest of controlled corporation, investment manager, person having a security interest in shares, trustee and approved lending agent	66,184,132	–	66,184,132 (L) (including 2,061,054 (S) 51,707,250 (P))	5.88%
BlackRock, Inc.	Interest of controlled corporation	61,340,002	–	61,340,002 (L)	5.45%
Citigroup Inc.	Interest of controlled corporation and approved lending agent	60,746,005	–	60,746,005 (L) (including 533,700 (S) 47,844,278 (P))	5.40%

Substantial Shareholders *(continued)*

Notes:

1. Of these shares, 39,926,534 shares are held by EIHL (a company which is wholly-owned by EGII), EGII is deemed to be interested in the shares in which EIHL is interested. 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.

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.

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

6. Pursuant to the sale and purchase agreement entered into between EGII and its wholly-owned subsidiary EIHL and ENN Ecological Holdings Co., Ltd on 9 September 2019, EGII intends to transfer all of the 369,175,534 shares in the Company held directly and indirectly to ENN Ecological Holdings Co., Ltd., subject to the completion by the fulfillment of the precedent conditions.

7. (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 2019, 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 2019, 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.

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 2019:

	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.	180,000,000	52,040,000
(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.	1,442,000,000	1,263,046,000
(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.	304,290,000	139,361,000
(D)	LNG Purchasing		
	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	1,312,645,000
(E)	LNG Terminal Usage Services		
	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.	685,440,000	130,837,000

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).

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.

Connected Transactions *(continued)*

Continuing Connected Transactions *(continued)*

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 61 to 62 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 2019 is USD366 million (equivalent to RMB2,539 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 2019, the outstanding balance is USD600 million (equivalent to RMB4,169 million) respectively.

Moreover, 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 2019, the outstanding balances are USD300 million (equivalent to RMB2,093 million).

Charitable Donations

Charitable donations made by the Group during the year amounted to RMB36.80 million (2018: RMB73.15 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 13 March 2020 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 2019. 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 2019.

Auditor

The consolidated financial statements for the year ended 31 December 2019 have been audited by Messrs. Deloitte Touche Tohmatsu who would retire at the 2020 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 2020 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, 16 March 2020

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 67 to 176 which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key audit 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 allocated to integrated energy business (the "Integrated Energy CGU") as a key audit matter due to that the goodwill amounting to RMB1,998 million recognised in relation to the Integrated Energy CGU and the assessment process requires significant judgements and estimates of the Group's management including estimating the future cash flow, profit margins, revenue growth rate and discount rate used in the impairment model. The changes to these may have significant impact on determining whether any impairment is required and the amount of impairment. No impairment loss was recognised as at 31 December 2019. Details of disclosures are set out in Note 20 to the consolidated financial statements.	Our procedures in relation to impairment assessment of goodwill allocated to the Integrated Energy CGU included: • Evaluating management's methodology and models for impairment assessment of goodwill and corroborating the discount rate used through analysing the cost of capital of the Group against comparable corporations with the assistance of internal valuation expert; • Challenging the future cash flows of the Integrated Energy CGU and the process by which they were drawn up, including checking the accuracy of the underlying calculations and the consistency between the forecasts and the latest budgets approved by management; • Comparing the profit margins, short-term and long-term revenue growth rate assumed to the Group's historical performances or external market data where available; and • Evaluating the sensitively analysis performed by management.

Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Fair value measurement of commodity derivative contracts	
We identified the fair value measurement of commodity derivative contracts (Note 25 to the consolidated financial statements) as a key audit matter due to the significance of the changes in fair value to the consolidated financial statements and the significant judgements associated with the fair value measurement. The fair value measurement of commodity derivative contracts is complex and requires judgments in areas such as estimates of future price curves, market price volatility and counterparty's credit risk. Any changes to these estimates may have significant impact on the fair value.	Our procedures in relation to the fair value measurement of commodity derivative contracts included: • Understanding the design and implementation of key controls relating to valuation of commodity derivative contracts and relevant accounting treatments; • Testing the completeness of commodity derivative contracts by arranging confirmations to the counterparties and inspecting the supporting documents on a sample basis; and • With the assistance of internal valuation expert, evaluating the appropriateness of management's valuation methodology, challenging key inputs involving in determining the fair value of commodity derivative contracts, including the future price curves used, the expected market price volatility and the counterparty's credit risk, and checking the calculation on a sample basis.

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.

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.

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

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 audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Lam Kam Chiu.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
16 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	**2019 RMB million**	2018 RMB million
Revenue	6	**70,183**	60,698
Cost of sales		**(58,918)**	(51,188)
Gross profit		**11,265**	9,510
Other income	8	**861**	949
Other gains and losses	9	**644**	(1,634)
Distribution and selling expenses		**(976)**	(790)
Administrative expenses		**(3,099)**	(2,673)
Share of results of associates		**326**	275
Share of results of joint ventures		**547**	601
Finance costs	10	**(727)**	(637)
Profit before tax	11	**8,841**	5,601
Income tax expense	13	**(1,980)**	(1,783)
Profit for the year		**6,861**	3,818
Other comprehensive income (expense)			
Items that will not be reclassified to profit or loss:			
Gain on revaluation of properties arising from the transfer to investment properties		**3**	6
Fair value loss on equity instruments at fair value through other comprehensive income ("FVTOCI")		**(1)**	(7)
		2	(1)
Item that have been reclassified or may be reclassified subsequently to profit or loss:			
Release of exchange reserve to profit or loss upon deregistration/disposal of subsidiaries		**3**	(40)
Other comprehensive income (expense) for the year		**5**	(41)
Total comprehensive income for the year		**6,866**	3,777
Profit for the year attributable to:			
Owners of the Company		**5,670**	2,818
Non-controlling interests		**1,191**	1,000
		6,861	3,818
Total comprehensive income for the year attributable to:			
Owners of the Company		**5,674**	2,778
Non-controlling interests		**1,192**	999
		6,866	3,777

		RMB	RMB
Earnings per share	15		
– Basic		**5.05**	2.56
– Diluted		**5.04**	2.56

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 RMB million	2018 RMB million
Non-current Assets			
Property, plant and equipment	16	**37,955**	31,073
Right-of-use assets	17	**2,185**	–
Prepaid lease payments	18	**–**	1,401
Investment properties	19	**268**	265
Goodwill	20	**2,379**	2,248
Intangible assets	21	**4,175**	3,037
Interests in associates	22	**3,308**	3,049
Interests in joint ventures	23	**3,841**	3,620
Other receivables	24	**48**	145
Financial assets at fair value through profit or loss (“FVTPL”)	25	**5,169**	4,845
Equity instruments at FVTOCI	26	**123**	112
Amounts due from associates	29	**345**	353
Amounts due from joint ventures	30	**12**	68
Deferred tax assets	32	**1,292**	1,159
Deposits paid for investments	33	**15**	190
Prepayment and deposits paid for acquisition of property, plant and equipment, land use rights and right of operation		**169**	171
Restricted bank deposits	35	**446**	639
		61,730	52,375
Current Assets			
Inventories	34	**1,169**	1,331
Trade and other receivables	24	**7,492**	8,560
Contract assets	28	**757**	612
Prepaid lease payments	18	**–**	39
Financial assets at FVTPL	25	**361**	735
Amounts due from associates	29	**575**	523
Amounts due from joint ventures	30	**1,058**	1,523
Amounts due from related companies	31	**164**	231
Restricted bank deposits	35	**566**	62
Cash and cash equivalents	35	**7,373**	7,923
		19,515	21,539

	Notes	2019 RMB million	2018 RMB million
Current Liabilities			
Trade and other payables	37	**7,635**	7,103
Contract liabilities	38	**12,613**	10,490
Deferred income	39	**33**	25
Amounts due to associates	29	**189**	351
Amounts due to joint ventures	30	**785**	1,693
Amounts due to related companies	31	**1,060**	793
Taxation payables		**962**	782
Lease liabilities	36	**100**	–
Bank and other loans – due within one year	41	**7,495**	8,621
Corporate bonds	42	**–**	2,497
Unsecured bonds	44	**–**	443
Financial liabilities at FVTPL	25	**416**	219
		31,288	33,017
Net Current Liabilities		**(11,773)**	(11,478)
Total Assets less Current Liabilities		**49,957**	40,897
Capital and Reserves			
Share capital	40	**116**	116
Reserves		**25,752**	21,269
Equity attributable to owners of the Company		**25,868**	21,385
Non-controlling interests		**5,152**	4,169
Total Equity		**31,020**	25,554
Non-current Liabilities			
Contract liabilities	38	**3,302**	3,240
Deferred income	39	**650**	520
Amounts due to joint ventures	30	**735**	970
Lease liabilities	36	**450**	–
Bank and other loans – due after one year	41	**2,848**	2,101
Corporate bonds	42	**2,094**	–
Senior notes	43	**2,539**	2,491
Unsecured bonds	44	**4,169**	4,096
Financial liabilities at FVTPL	25	**330**	924
Deferred tax liabilities	32	**1,820**	1,001
		18,937	15,343
		49,957	40,897

The consolidated financial statements on pages 67 to 176 were approved and authorised for issue by the Board of Directors on 16 March 2020 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 2019

	Equity attributable to owners of the Company												
	Share capital RMB million (Note 40)	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)	Designated safety fund RMB million (note c)	Retained earnings RMB million	Total RMB million	Non-controlling interests RMB million	Total equity RMB million
At 1 January 2018 (restated)	112	–	72	(92)	16	74	37	2,082	59	14,649	17,009	3,265	20,274
Profit for the year	–	–	–	–	–	–	–	–	–	2,818	2,818	1,000	3,818
Other comprehensive income for the year	–	–	–	–	–	–	(40)	–	–	–	(40)	(1)	(41)
Total comprehensive income for the year	–	–	–	–	–	–	(40)	–	–	2,818	2,778	999	3,777
Recognition of equity-settled share-based payment (Note 45)	–	–	–	–	–	19	–	–	–	–	19	–	19
Share repurchase (Note 40)	–	–	(78)	–	–	–	–	–	–	–	(78)	–	(78)
Issue of ordinary shares on exercise of share options (Notes 40 & 45)	–	–	48	–	–	(15)	–	–	–	–	33	–	33
Issue of ordinary shares on conversion of convertible bonds	–	–	79	–	–	–	–	–	–	–	79	–	79
Issue of ordinary shares on acquisition of subsidiaries (Note 47)	4	–	2,493	–	–	–	–	–	–	–	2,497	–	2,497
Acquisition of subsidiaries and businesses (Notes 47 & 48)	–	–	–	–	–	–	–	–	–	–	–	259	259
Disposal of subsidiaries (Note 49)	–	–	–	–	–	–	–	–	–	–	–	(51)	(51)
Disposal of equity instrument at FVTOCI	–	–	–	–	6	–	–	–	–	(6)	–	–	–
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	234	234
Dividends appropriation (Note 14)	–	–	–	–	–	–	–	–	–	(952)	(952)	–	(952)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(537)	(537)
Transfer to surplus reserve fund (note b)	–	–	–	–	–	–	–	332	–	(332)	–	–	–
Transfer to designated safety fund (note c)	–	–	–	–	–	–	–	–	1	(1)	–	–	–
At 31 December 2018 and 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 40 & 45)	–	–	76	–	–	(24)	–	–	–	–	52	–	52
Purchase of shares under Share Award Scheme	–	(151)	–	–	–	–	–	–	–	–	(151)	–	(151)
Acquisition of subsidiaries and businesses (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

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 disposal 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 based on the relevant PRC regulation and the amount utilised during the year.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 RMB million	2018 RMB million
OPERATING ACTIVITIES			
Profit before tax		**8,841**	5,601
Adjustments for:			
Share of results of associates		**(326)**	(275)
Share of results of joint ventures		**(547)**	(601)
Exchange differences		**194**	635
Fair value loss on convertible bonds at FVTPL		**–**	249
Fair value (gain) loss on financial assets/liabilities at FVTPL		**(920)**	797
Bargain purchase gain on acquisition of businesses	47	**(15)**	–
Impairment losses on receivables, net		**44**	64
Loss on disposal of property, plant and equipment		**77**	47
Gain on disposal of prepaid lease payments		**–**	(13)
Gain on disposal of right-of-use assets		**(29)**	–
Loss on deregistration/disposal of subsidiaries	49	**2**	2
Gain on remeasurement of interest in joint ventures previously held		**(11)**	(111)
Gain on dilution of equity interests in joint ventures		**–**	(72)
Gain on disposal of joint ventures		**(3)**	(16)
Loss on disposal of associates		**16**	–
Gain on redemption of convertible bonds at FVTPL		**–**	(34)
Dividends income from financial assets at FVTPL		**(139)**	(352)
Dividends income from equity instruments at FVTOCI		**(7)**	(2)
Increase in fair value of investment properties		**(6)**	(9)
Share-based payment expenses		**74**	19
Depreciation of property, plant and equipment		**1,377**	1,144
Depreciation of right-of-use assets		**169**	–
Amortisation of intangible assets		**238**	142
Release of prepaid lease payments		**–**	43
Financial guarantee income		**–**	(5)
Interest income on bank deposits and loan receivables		**(200)**	(162)
Finance costs		**727**	637
		9,556	7,728
Movements in working capital:			
Decrease (increase) in inventories		**216**	(404)
Decrease (increase) in trade and other receivables		**1,631**	(1,724)
(Increase) decrease in contract assets		**(148)**	65
Increase in contract liabilities		**2,185**	1,877
Increase in amounts due from associates		**(128)**	(130)
Increase in amounts due from joint ventures		**(198)**	(110)
Decrease in amounts due from related companies		**55**	246
(Decrease) increase in trade and other payables		**(445)**	956
(Decrease) increase in amounts due to joint ventures		**(51)**	1,680
Increase in amounts due to associates		**68**	161
Increase in deferred income		**138**	207
Increase (decrease) in amounts due to related companies		**266**	(306)
Cash generated from operations		**13,145**	10,246
PRC enterprise income tax paid		**(1,455)**	(1,952)
Net cash generated from operating activities		**11,690**	8,294

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	**2019** **RMB million**	2018 RMB million
INVESTING ACTIVITIES			
Dividends received from joint ventures		**404**	463
Dividends received from associates		**103**	100
Dividends received from financial assets at FVTPL		**139**	352
Dividends received from equity instruments at FVTOCI		**7**	2
Settlement of financial assets/liabilities at FVTPL		**390**	(122)
Option premium (paid) received in relation to derivative contracts		**(19)**	106
Interest received		**200**	162
Purchases of property, plant and equipment		**(7,146)**	(5,918)
Acquisition of intangible assets		**(39)**	(73)
Increase in prepaid lease payments		**–**	(123)
Proceeds from disposal of property, plant and equipment		**234**	93
Proceeds from disposal of prepaid lease payments		**–**	39
Purchases of wealth management products		**(20,480)**	(22,118)
Redemptions of wealth management products		**20,530**	22,859
Addition of right-of-use assets		**(197)**	–
Deposits paid for investments		**(14)**	(182)
Deposits paid for prepaid lease payments		**–**	(92)
Deposits paid for acquisition of right-of use assets		**(18)**	–
Deposits paid for acquisition of property, plant and equipment		**(126)**	(46)
Net cash outflow on acquisition of subsidiaries and businesses	47&48	**(1,175)**	(488)
Net cash outflow on acquisition of an additional interest in a subsidiary		**(100)**	–
Net cash inflow on disposal of subsidiaries	49	**42**	43
Proceeds from disposal of joint ventures		**17**	79
Proceeds from disposal of associates		**26**	5
Proceed from capital released from a joint venture		**–**	61
Proceeds from disposal of right-of use assets		**119**	–
Purchases of financial assets at FVTPL		**–**	(527)
Purchases of equity instruments at FVTOCI		**(12)**	(10)
Investments in joint ventures		**(74)**	(53)
Investments in associates		**(109)**	(1,121)
Addition of restricted bank deposits		**(606)**	(213)
Release of restricted bank deposits		**295**	254
Amounts advanced to third parties		**(320)**	(153)
Amounts repaid by third parties		**311**	–
Amounts advanced to associates		**(114)**	(293)
Amounts repaid by associates		**195**	177
Amounts advanced to joint ventures		**(83)**	(696)
Amounts repaid by joint ventures		**812**	804
Amounts advanced to related companies		**(2)**	(7)
Amounts repaid by related companies		**14**	34
Net cash used in investing activities		**(6,796)**	(6,602)

	2019 RMB million	2018 RMB million
FINANCING ACTIVITIES		
Interest paid	**(806)**	(748)
Advanced from banks and other financial institutions by ENN Finance Company Limited ("ENN Finance")	**8,854**	11,660
Amounts repaid to banks and other financial institutions by ENN Finance	**(8,854)**	(11,660)
Repurchase of shares	**–**	(78)
Purchase of shares under Share Award Scheme	**(151)**	–
Net proceeds from ordinary shares issued on exercise of share options	**52**	33
Proceeds from issuance of corporate bonds	**2,093**	–
Proceeds used in redemption of convertible bonds at FVTPL	**–**	(3,771)
Capital contribution from non-controlling shareholders	**142**	234
Dividends paid to non-controlling shareholders	**(559)**	(537)
Dividends paid to shareholders	**(1,176)**	(952)
New bank loans raised	**9,900**	11,519
Repayment of bank loans	**(10,561)**	(3,667)
Repayment of corporate bonds	**(2,500)**	(3,000)
Repayment of unsecured bonds	**(459)**	–
Repayment of lease liabilities	**(101)**	–
Advanced from associates	**3**	173
Amounts repaid to associates	**(233)**	(265)
Advanced from joint ventures	**14**	552
Amounts repaid to joint ventures	**(1,106)**	(1,246)
Advanced from related companies	**31**	9
Amounts repaid to related companies	**(30)**	(30)
Net cash used in financing activities	**(5,447)**	(1,774)
Net decrease in cash and cash equivalents	**(553)**	(82)
Effect of foreign exchange rate changes	**3**	30
Cash and cash equivalents at the beginning of the year	**7,923**	7,975
Cash and cash equivalents at the end of the year	**7,373**	7,923

1. GENERAL

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 RMB11,773 million as at 31 December 2019. A wholly-owned subsidiary of the Company has been approved by China Securities Regulatory Commission on 10 December 2018 to issue corporate bonds amounting to RMB5,000 million and issued three tranches of three-year corporate bonds amounting to RMB2,100 million in 2019. As at 31 December 2019, the unutilised issuance quota of the corporate bonds is RMB2,900 million. The wholly-owned subsidiary was also 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 corporate bonds and green bonds, the Group has unutilised credit facilities of approximately RMB13,448 million as at 31 December 2019, 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 as they fall due in the foreseeable future. Accordingly, the consolidated financial statements for the year ended 31 December 2019 have been prepared on a going concern basis.

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

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

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

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

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 16 Leases

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

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

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

As a lessee

The Group has applied HKFRS 16 using the modified retrospective approach with the cumulative effect recognised at the date of initial application, 1 January 2019. The comparative information has not been restated.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

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

HKFRS 16 Leases (continued)

As a lessee *(continued)*

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition.

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

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iii. applied a single discount rate to a portfolio of leases with similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of machinery and equipment in the PRC was determined on a portfolio basis; and

iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities range from 5.03% to 5.22%.

	At 1 January 2019 RMB million
Operating lease commitments disclosed as at 31 December 2018	839
Lease liabilities discounted at relevant incremental borrowing rates	646
Less: Recognition exemption – short-term leases	(14)
Lease liabilities as at 1 January 2019	632
Analysed as:	
Current portion	96
Non-current portion	536

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

	Note	**Right-of-use assets** RMB million
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		632
Reclassified from prepaid lease payments	(a)	1,440
		2,072
By class:		
Prepaid lease payments		1,440
Leasehold lands and buildings		580
Motor vehicles		48
Equipment		4

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

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

HKFRS 16 Leases (continued)

As a lessee *(continued)*

Note:

(a) Upon initial application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB39 million and RMB1,401 million respectively were reclassified to right-of-use assets.

As a lessor

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

Upon initial application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted for as if the existing leases are modified as at 1 January 2019. The application has had no impact on the consolidated statement of financial position at 1 January 2019. However, effective on 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

Effective on 1 January 2019, the Group has applied HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the consolidated financial statements of the Group for the current year.

There is no impact of transition to HKFRS 16 on retained earnings at 1 January 2019.

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

	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under HKFRS 16 at 1 January 2019
	RMB million	RMB million	RMB million
Non-current Assets			
Prepaid lease payments	1,401	(1,401)	–
Right-of-use assets	–	2,072	2,072
Current Assets			
Prepaid lease payments	39	(39)	–
Current Liabilities			
Lease liabilities	–	96	96
Non-current Liabilities			
Lease liabilities	–	536	536

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

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and amendments to HKFRSs in issue but not yet effective

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

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

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

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

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

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

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

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

Amendments to HKFRS 3 Definition of a Business

The amendments:

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

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted. The application of the amendments is not expected to have significant impact on the financial performance of the Group but may affect the acquisitions to be accounted for by the Group in the coming future.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

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

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

4. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

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 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

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 are 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of preparation *(continued)*

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.

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

Changes in the Group's ownership interests in existing subsidiaries (continued)

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 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

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

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

(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 HKRFS 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

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.

Acquisition of a subsidiary not constituting a business

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 the financial assets and 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and joint ventures *(continued)*

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.

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 Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 LNG and 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue from contracts with customers *(continued)*

Performance obligations for contracts with customers (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Lease

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in Note 3)

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, 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 (upon application of HKFRS 16 in accordance with transitions in Note 3)

Allocation of consideration to components of a contract

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

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

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.

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 "Financial Instruments" 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Lease *(continued)*

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in Note 3) (continued)

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.

Lease modifications

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

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

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

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

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

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the term of the relevant lease. Contingent rentals arising under operating leases are recognised as expenses in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Lease *(continued)*

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

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.

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 arising on the settlement of monetary items, and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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. Exchange differences arising, if any, 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.

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.

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 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 at initial recognition and over the lease terms due to application of the initial recognition exemption.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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

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.

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" (upon application of HKFRS 16) or prepaid lease payments (before application of HKFRS 16) in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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 under HKRFS 16 or prepaid lease payments under HKAS 17) 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

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.

Derecognition of intangible assets

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.

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 addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual CGUs, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 the date of 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

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

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term;
- 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.

(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. 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

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 under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for trade receivables, 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 when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

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

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.

4. 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)*

(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.

(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.

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

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

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

4. 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)

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

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 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) are subsequently measured 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derivative financial instruments (continued)

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.

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.

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.

Estimated impairment 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 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, a material impairment loss may arise. As at 31 December 2019, the carrying amount of goodwill and intangible assets less accumulated amortisation is RMB2,379 million and RMB4,175 million (2018: RMB2,248 million and RMB3,037 million), respectively. Details of the calculation of the recoverable amount are set out in Notes 20 and 21.

Fair value measurement of financial instruments

Certain of the Group's financial instruments, including unlisted equity securities and derivative contracts amounting to RMB4,097 million as at 31 December 2019 are measured at fair values with fair values being determined based on complex valuation techniques or 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 assumptions relating to these factors could affect the reported 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 available without undue costs or effort. At each reporting date, 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, 24 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 2019, the carrying amount of property, plant and equipment less accumulated depreciation and accumulated impairment losses is RMB37,955 million (2018: RMB31,073 million).

6. REVENUE

Revenue from contract with customers comprises the following:

	2019 RMB million	2018 RMB million
Sales of goods		
Retail gas sales business	**40,049**	34,272
Sales of integrated energy	**2,365**	875
Wholesale of gas	**18,465**	18,107
Valued added business	**1,643**	1,432
	62,522	54,686
Provision of services		
Construction and installation	**6,932**	5,882
Integrated energy	**384**	130
Valued added business	**345**	–
	7,661	6,012
	70,183	60,698

Disaggregation of revenue from contracts with customers

	2019			2018		
	Sales of goods RMB million	**Construction services RMB million**	**Total RMB million**	Sales of goods RMB million	Construction services RMB million	Total RMB million
Types of goods or services						
Retail gas sales business	**40,049**	**–**	**40,049**	34,272	–	34,272
Sales of integrated energy and services	**2,365**	**384**	**2,749**	875	130	1,005
Wholesale of gas	**18,465**	**–**	**18,465**	18,107	–	18,107
Construction and installation	**–**	**6,932**	**6,932**	–	5,882	5,882
Valued added business	**1,643**	**345**	**1,988**	1,432	–	1,432
Total	**62,522**	**7,661**	**70,183**	54,686	6,012	60,698

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 operating decision maker, the chief executive officer of the Company (the "CEO"), for the purposes of resource allocation and performance assessment among segments focuses specifically on different type of goods and services.

During the year, the segment information presented to CEO was re-grouped. The "sales of piped gas" and "vehicle gas refuelling stations" were combined into "retail gas sales business", while the sales of gas appliances and material previously stated separately in "sales of gas appliances" and "sales of material" segments, are now combined with various new value added services including the provision of energy saving technology, home energy solutions, etc., into a new segment named "value added business". Accordingly, the Group's operating and reportable segment under HKFRS 8 "Operating Segments" are retail gas sales business, sales of integrated energy and services, wholesale of gas, construction and installation, and value added business. Segment profit reviewed by the CEO represents the gross profit earned by each segment. The Group re-presented the corresponding segment information for the year ended 31 December 2018. The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 4.

7. SEGMENT INFORMATION *(continued)*

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 CEO 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:

2019	**Retail gas sales business RMB million**	**Sales of integrated energy and services 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**

2018	Retail gas sales business RMB million	Sales of integrated energy and services RMB million	Wholesale of gas RMB million	Construction and installation RMB million	Value added business RMB million	Total RMB million
Segment revenue	44,924	1,114	26,147	7,376	4,886	84,447
Inter-segment sales	(10,652)	(109)	(8,040)	(1,494)	(3,454)	(23,749)
Revenue from external customers	34,272	1,005	18,107	5,882	1,432	60,698
Segment profit before depreciation and amortisation	5,962	196	233	3,659	550	10,600
Depreciation and amortisation	(827)	(53)	(5)	(203)	(2)	(1,090)
Segment profit	5,135	143	228	3,456	548	9,510

7. SEGMENT INFORMATION *(continued)*

Segment assets and liabilities

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

2019	**Retail gas sales business RMB million**	**Sales of integrated energy and services 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**

2018	Retail gas sales business RMB million	Sales of integrated energy and services RMB million	Wholesale of gas RMB million	Construction and installation RMB million	Value added business RMB million	Total RMB million
Assets:						
Segment assets	28,546	2,942	1,309	5,559	1,551	39,907
Interests in associates						3,049
Interests in joint ventures						3,620
Unallocated corporate assets						27,338
Consolidated total assets						73,914
Liabilities:						
Segment liabilities	7,006	2,328	413	9,610	1,322	20,679
Bank and other loans						10,722
Corporate bonds						2,497
Senior notes						2,491
Unsecured bonds						4,539
Unallocated corporate liabilities						7,432
Consolidated total liabilities						48,360

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, 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, financial liabilities at FVTPL, 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	**Sales of integrated energy and services** RMB million	**Wholesale of gas** RMB million	**Construction and installation** RMB million	**Value added business** RMB million	**Total** RMB million
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 recognised (reversed) in profit or loss	**(7)**	**12**	**(2)**	**37**	**11**	**51**
Impairment losses on contract assets recognised in profit or loss	**–**	**1**	**–**	**2**	**–**	**3**
2018						
Additions to non-current assets (note b)	5,742	3,418	103	1,034	14	10,311
Depreciation and amortisation	827	53	5	203	2	1,090
Impairment losses on trade receivables recognised (reversed) in profit or loss	(19)	12	(14)	39	4	22
Impairment losses on contract assets recognised in profit or loss	–	3	–	22	–	25

7. SEGMENT INFORMATION *(continued)*

Other segment information *(continued)*

	Additions to non-current assets (note b)		Depreciation and amortisation	
	2019	2018	**2019**	2018
	RMB million	RMB million	**RMB million**	RMB million
Segment total	**10,450**	10,311	**1,405**	1,090
Adjustments (note a)	**91**	477	**379**	196
Total	**10,541**	10,788	**1,784**	1,286

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 segment non-current assets are located in the PRC. For the year ended 31 December 2019, the revenues from the PRC and overseas were RMB70,021 million (2018: RMB60,568 million) and RMB162 million (2018: RMB130 million), respectively. As of 31 December 2019, the non-current assets located in the PRC were RMB46,681 million (2018: RMB37,746 million) and overseas were RMB13 million (2018: RMB13 million).

8. OTHER INCOME

	2019	2018
	RMB million	RMB million
Other income mainly includes:		
Incentive subsidies (note)	**213**	164
Dividends income from equity instruments at FVTOCI	**7**	2
Dividends income from financial assets at FVTPL	**139**	352
Interest income on bank deposits	**104**	65
Interest income on loan receivables from joint ventures and associates	**66**	82
Interest income on loan receivables from third parties	**30**	15
Rental income from investment properties	**10**	13
Rental income from equipment	**40**	48
Sale of proprietary technology	**1**	23

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.

9. OTHER GAINS AND LOSSES

	2019 **RMB million**	2018 RMB million
Net (loss) gain on disposal of:		
– Property, plant and equipment	**(77)**	(47)
– Right-of-use assets/prepaid lease payments	**29**	13
– Subsidiaries (Note 49)	**(2)**	(2)
– Joint ventures	**3**	16
– Associates	**(16)**	–
Bargain purchase gain on acquisition of businesses (Note 47)	**15**	–
Gain on dilution of equity interests in joint ventures	**–**	72
Gain on remeasurement of interests in joint ventures previously held (Notes 47 & 48)	**11**	111
Increase in fair value of investment properties (Note 19)	**6**	9
Gain on redemption of convertible bonds at FVTPL	**–**	34
Net gain (loss) of:		
– Convertible bonds at FVTPL	**–**	(249)
– Financial assets/liabilities at FVTPL (Note 25)	**920**	(797)
Impairment losses, net of reversal		
– Trade and other receivables	**(48)**	(29)
– Contract assets	**(3)**	(25)
– Amounts due from associates/joint ventures/related companies	**7**	(10)
Loss on foreign exchange, net (note)	**(198)**	(770)
Release of exchange reserve to profit or loss upon deregistration/disposal of subsidiaries	**(3)**	40
	644	(1,634)

Note: Included in the amount for the year ended 31 December 2019 is an exchange loss of approximately RMB192 million (2018: RMB707 million) arising from the translation of senior notes, unsecured bonds and bank loans denominated in United States dollars ("USD") and Hong Kong dollars ("HK$") to RMB.

10. FINANCE COSTS

	2019 **RMB million**	2018 RMB million
Interest on:		
Bank and other loans	**390**	269
Senior notes	**157**	151
Corporate bonds	**143**	188
Unsecured bonds	**153**	149
Lease liabilities	**34**	–
	877	757
Less: Amount capitalised under construction in progress (note)	**(150)**	(120)
	727	637

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 3.89% (2018: 3.82%) per annum.

11. PROFIT BEFORE TAX

	2019 **RMB million**	2018 RMB million
Profit before tax has been arrived at after (crediting) charging:		
Share-based payment expenses, including directors' emoluments (included in administrative expenses)	**74**	19
Other staff costs, including directors' emoluments	**3,199**	2,721
Less: Amount of other staff costs capitalised under construction in progress	**(165)**	(149)
	3,108	2,591
Depreciation and amortisation:		
Property, plant and equipment	**1,377**	1,144
Intangible assets	**238**	142
Right-of-use assets	**169**	–
Total depreciation and amortisation (note)	**1,784**	1,286
Release of prepaid lease payments	**–**	43
Auditors' remuneration	**21**	23
Minimum lease payments under operating leases in respect of premises, equipment and vehicles recognised in profit or loss	**35**	199

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:

	2019 **RMB million**	2018 RMB million
Staff costs included in:		
Cost of sales	**1,003**	914
Distribution and selling expenses	**683**	582
Administrative expenses	**1,422**	1,095
	3,108	2,591
Depreciation and amortisation included in:		
Cost of sales	**1,405**	1,090
Distribution and selling expenses	**57**	11
Administrative expenses	**322**	185
	1,784	1,286

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

a. Directors' emoluments

Emoluments paid and payable to the Directors for the year were as follows:

	2019					
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	–	2,601	–	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

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

a. Directors' emoluments *(continued)*

Emoluments paid and payable to the Directors for prior year were as follows:

	2018					
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	–	2,597	–	863	–	3,460
Cheung Yip Sang	–	1,598	2,400	792	15	4,805
Wang Zizheng*	133	972	900	89	14	2,108
Han Jishen	–	3,000	4,177	627	19	7,823
Liu Min**	–	2,800	2,639	–	126	5,565
Wang Dongzhi	–	1,499	180	569	–	2,248
Sean SJ Wang***	–	–	–	–	–	–
Sub-total	133	12,466	10,296	2,940	174	26,009
Independent Non-executive Directors: (note b)						
Ma Zhixiang	400	–	–	89	–	489
Yuen Po Kwong	400	–	–	89	–	489
Law Yee Kwan, Quinn	400	–	–	89	–	489
Yien Yu Yu, Catherine****	33	–	–	–	–	33
Sub-total	1,233	–	–	267	–	1,500
Total	1,366	12,466	10,296	3,207	174	27,509

* Mr. Wang Zizheng was redesignated as an executive director of the Company from non-executive director of the Company since 11 May 2018.

** Mr. Liu Min was appointed as executive director of the Company on 12 January 2018 and resigned on 4 December 2019.

*** Mr. Sean SJ Wang resigned on 12 January 2018.

**** Ms. Yien Yu Yu, Catherine was appointed as an independent non-executive director of the Company on 30 November 2018.

***** Mr. Zhang Yuying was appointed as executive director of the Company on 4 December 2019.

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.

The amounts disclosed above include directors' fees of RMB1,600,000 (2018: RMB1,233,000) paid or payable to independent non-executive directors. 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 three (2018: three) directors, details of whose remuneration are set out in Note 12(a) above. Details of the remuneration for the year of the remaining two (2018: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 **RMB'000**	2018 RMB'000
Salaries and allowance	**4,160**	3,502
Discretionary performance bonus	**5,826**	5,447
Share-based payment	**1,413**	507
Retirement benefits scheme	**239**	188
	11,638	9,644

The number of the highest paid employees included the Directors whose remuneration fell within the following bands is as follows:

	2019 **Number of employees**	2018 Number of employees
HK$5,500,001 to HK$6,000,000	**1**	3
HK$6,000,001 to HK$6,500,000	**1**	–
HK$6,500,001 to HK$7,000,000	**–**	1
HK$7,000,001 to HK$7,500,000	**2**	–
HK$9,000,001 to HK$9,500,000	**–**	1
HK$10,500,001 to HK$11,000,000	**1**	–
	5	5

13. INCOME TAX EXPENSE

	2019 **RMB million**	2018 RMB million
Current tax	**1,565**	1,586
Underprovision in prior years	**1**	9
Withholding tax	**69**	158
	1,635	1,753
Deferred tax (Note 32)	**345**	30
	1,980	1,783

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.

13. INCOME TAX EXPENSE *(continued)*

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:

	2019 **RMB million**	2018 RMB million
Profit before tax	**8,841**	5,601
Tax at the PRC Enterprise Income Tax rate of 25% (2018: 25%)	**2,210**	1,400
Tax effects of share of results of associates	**(81)**	(69)
Tax effects of share of results of joint ventures	**(137)**	(150)
Tax effects of income not taxable for tax purpose	**(288)**	(207)
Tax effects of expenses not deductible for tax purpose	**211**	668
Tax effects of tax losses not recognised	**173**	154
Utilisation of tax losses previously not recognised	**(80)**	(50)
Tax effects of deductible temporary differences not recognised	**(16)**	(7)
Tax concession and exemption granted to certain PRC subsidiaries	**(121)**	(146)
Effect of different tax rates of subsidiaries operating in Hong Kong	**(10)**	–
Underprovision in respect of prior years	**1**	9
Withholding tax on undistributed profit of PRC entities	**118**	181
Income tax charge for the year	**1,980**	1,783

14. DIVIDENDS

	2019 **RMB million**	2018 RMB million
Final dividend paid in respect of previous financial year	**1,176**	952

Notes:

a. 2018 final dividend of HK$1.19 (equivalent to approximately RMB1.04) per ordinary share or approximately RMB1,176 million in aggregate was paid during the year ended 31 December 2019.

b. The proposed final dividend in respect of 2019 of HK$1.67 (equivalent to approximately RMB1.50) per ordinary share with total amount of HK$1,880 million (2018: HK$1,338 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 2019 and 2018 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.

	2019	2018
Profit for the year attributable to the owners of the Company (RMB million)	**5,670**	2,818
Weighted average number of ordinary shares	**1,122,968,436**	1,099,639,474
Basic earnings per share (RMB)	**5.05**	2.56

Diluted earnings per share

Diluted earnings per share for the year ended 31 December 2019 and 2018 are calculated assuming all dilutive potential ordinary shares were converted.

	2019	2018
Earnings		
Earnings for the purpose of diluted earnings per share (RMB million)	**5,670**	2,818
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,122,968,436**	1,099,639,474
Effect of dilutive potential ordinary shares:		
– share options	**2,626,599**	2,864,964
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,125,595,035**	1,102,504,438
Diluted earnings per share (RMB)	**5.04**	2.56

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB million	Pipelines RMB million	Machinery and equipment RMB million	Motor vehicles RMB million	Office equipment RMB million	Properties under construction RMB million	Total RMB million
COST							
At 1 January 2018	3,650	20,338	2,028	417	1,480	3,461	31,374
Acquisition of subsidiaries (Notes 47 & 48)	198	325	197	2	16	170	908
Additions	126	302	229	88	185	5,156	6,086
Reclassification	243	3,467	344	–	25	(4,079)	–
Transfer to prepaid lease payments	–	–	–	–	–	(5)	(5)
Transfer to investment properties	(2)	–	–	–	–	–	(2)
Disposal of subsidiaries	(58)	(49)	(83)	(1)	(8)	(4)	(203)
Disposals	(24)	(97)	(73)	(62)	(19)	(8)	(283)
At 31 December 2018	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
DEPRECIATION AND IMPAIRMENT							
At 1 January 2018	544	3,692	609	254	785	–	5,884
Provided for the year	128	642	180	50	144	–	1,144
Disposal of subsidiaries	(15)	(10)	(47)	(5)	(6)	–	(83)
Eliminated on disposals	(4)	(36)	(35)	(54)	(14)	–	(143)
At 31 December 2018	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
CARRYING VALUES							
At 31 December 2019	3,861	24,397	2,391	199	932	6,175	37,955
At 31 December 2018	3,480	19,998	1,935	199	770	4,691	31,073

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 the carrying value of RMB37 million (2018: RMB38 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 RMB430 million (2018: RMB255 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
As at 1 January 2019	1,440	580	48	4	2,072
Additions	418	40	–	–	458
Disposals	(155)	(21)	–	–	(176)
Depreciation	(50)	(98)	(19)	(2)	(169)
As at 31 December 2019	1,653	501	29	2	2,185
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					35
Variable lease payments not included in the measurement of lease liabilities					2
Total cash outflow for leases					172

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 a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

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 RMB110 million (2018: RMB108 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 2019, the total outstanding lease commitments is RMB5 million.

18. PREPAID LEASE PAYMENTS

	2018 RMB million
The Group's prepaid lease payments comprise land in the PRC	1,440
Analysed for reporting purposes as:	
Current portion	39
Non-current portion	1,401

19. INVESTMENT PROPERTIES

	RMB million
FAIR VALUE	
At 1 January 2018	246
Exchange adjustment	2
Net increase in fair value recognised in profit or loss	9
Transfers from property, plant and equipment	8
At 31 December 2018	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
Unrealised gains on property revaluation included in profit or loss (included in other gains and losses)	6

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 2019 and 2018 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 2019 and 2018.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

20. GOODWILL

	2019 RMB million	2018 RMB million
COST		
At 1 January	**2,299**	813
Acquisition of businesses (Note 47)	**131**	2,056
Disposal of subsidiaries	**–**	(570)
At 31 December	**2,430**	2,299
IMPAIRMENT		
At 1 January	**(51)**	(621)
Eliminated on disposal of subsidiaries	**–**	570
At 31 December	**(51)**	(51)
CARRYING VALUES		
At 31 December	**2,379**	2,248

Note: The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

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:

	2019 RMB million	2018 RMB million
Integrated energy business located in the PRC	**1,998**	1,998
Sale of piped gas business located in Xuancheng, the PRC	**100**	–
Sale of piped gas business located in Binzhou, the PRC	**16**	–
Sale of piped gas business located in Linyi, the PRC	**15**	–
Other CGUs of sales of piped gas business, the PRC	**250**	250
	2,379	2,248

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 6-year period and the cash flow beyond the 6-year period was extrapolated using a steady growth rate of 3% (2018: 3%). For the 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 sixth year were estimated using an annualised growth rates of 17.40% (2018: 21.55%). The growth rates are based on the management's estimation on the respective entity's 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 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 15.64% (2018: 15.57%).

20. GOODWILL *(continued)*

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 3.00% to 5.50% (2018: 4.37% to 7.17%) 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 13.32% to 14.38% (2018: 13.41% to 14.05%).

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.

21. 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 2018	2,165	50	26	–	85	2,326
Acquisition of subsidiaries (Notes 47 & 48)	875	1	–	549	–	1,425
Additions	33	–	6	–	34	73
Reclassification	–	–	94	–	(94)	–
At 31 December 2018	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
AMORTISATION						
At 1 January 2018	621	20	4	–	–	645
Charge for the year	117	2	4	19	–	142
At 31 December 2018	738	22	8	19	–	787
Charge for the year	163	2	18	55	–	238
At 31 December 2019	901	24	26	74	–	1,025
CARRYING VALUES						
At 31 December 2019	3,509	27	153	475	11	4,175
At 31 December 2018	2,335	29	118	530	25	3,037

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.

22. INTERESTS IN ASSOCIATES

	2019 RMB million	2018 RMB million
Cost of investments	**2,287**	2,258
Share of post-acquisition profits, net of dividend received	**995**	765
	3,282	3,023
Deemed capital contribution		
Financial guarantee	**26**	26
	3,308	3,049

Included in the interests in associates is goodwill of approximately RMB47 million (2018: RMB47 million) arising on acquisitions of associates.

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.

Aggregate information of associates:

	2019 RMB million	2018 RMB million
Profit and total comprehensive income for the year	**692**	826
Group's share of profit and total comprehensive income from associates for the year	**326**	275
Aggregate carrying amount of the Group's interests in these associates	**3,308**	3,049

23. INTERESTS IN JOINT VENTURES

	2019 RMB million	2018 RMB million
Cost of investments	**2,390**	2,302
Shares of post-acquisition profits, net of dividends received	**1,394**	1,261
	3,784	3,563
Deemed capital contribution		
Financial guarantee	**53**	53
Fair value adjustments on interest-free advances	**4**	4
	57	57
	3,841	3,620

Included in the interests in joint ventures is goodwill of approximately RMB192 million (2018: RMB192 million) arising on acquisitions of joint ventures.

The fair value adjustments on the interest-free advances are calculated by using an effective interest rate of 4.75% (2018: 4.75%) per annum and average terms of two years.

The joint ventures are accounted for using the equity method in these consolidated financial statements.

23. INTERESTS IN JOINT VENTURES *(continued)*

Details of the Group's principal joint ventures as at 31 December 2019 and 2018 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 2019	2018	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
長沙新奧燃氣發展有限公司 ("Changsha Xinao") (note)	Incorporated	The PRC	**55%**	55%	Sales of piped gas

Note: The Group holds 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.

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

	2019 RMB million	2018 RMB million
Current assets	**798**	1,399
Non-current assets	**3,207**	2,859
Current liabilities	**2,406**	2,626
Non-current liabilities	**81**	1
Non-controlling interests	**166**	156

The above amounts of assets and liabilities include the following:

	2019 RMB million	2018 RMB million
Cash and cash equivalents	**299**	1,012
Current financial liabilities (excluding trade and other payables and provisions)	**627**	817

	2019 RMB million	2018 RMB million
Revenue	**4,182**	2,797
Profit and total comprehensive income for the year	**157**	207
Dividends received from Dongguan Xinao during the year	**154**	144

23. INTERESTS IN JOINT VENTURES *(continued)*

Summarised financial information of material joint ventures *(continued)*

Dongguan Xinao (continued)

The above profit for the year includes the following:

	2019 RMB million	2018 RMB million
Depreciation and amortisation	**138**	109
Interest income	**41**	25
Interest expense	**52**	36
Income tax expense	**74**	120

Reconciliation of the above summarised financial information to the carrying amount of the interest in Dongguan Xinao is recognised in the consolidated financial statements:

	2019 RMB million	2018 RMB million
Net assets of Dongguan Xinao	**1,352**	1,475
Proportion of the Group's ownership interest in Dongguan Xinao	**743**	811
Goodwill	**31**	31
Carrying amount of the Group's interest in Dongguan Xinao	**774**	842

Changsha Xinao

	2019 RMB million	2018 RMB million
Current assets	**1,801**	1,713
Non-current assets	**208**	215
Current liabilities	**1,306**	1,180

The above amounts of assets and liabilities include the following:

	2019 RMB million	2018 RMB million
Cash and cash equivalents	**84**	141
Current financial liabilities (excluding trade and other payables and provisions)	**669**	550

	2019 RMB million	2018 RMB million
Revenue	**3,026**	2,683
Profit and total comprehensive income for the year	**66**	130
Dividends received from Changsha Xinao during the year	**61**	97

The above profit for the year includes the following:

	2019 RMB million	2018 RMB million
Depreciation and amortisation	**9**	9
Interest income	**12**	39
Interest expense	**33**	30
Income tax expense	**18**	44

23. INTERESTS IN JOINT VENTURES *(continued)*

Summarised financial information of material joint ventures *(continued)*

Changsha Xinao (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in Changsha Xinao is recognised in the consolidated financial statements:

	2019 **RMB million**	2018 RMB million
Net assets of Changsha Xinao	**703**	748
Proportion of the Group's ownership interest in Changsha Xinao	**387**	411
Capitalisation of financial guarantee	**4**	4
Carrying amount of the Group's interest in Changsha Xinao	**391**	415

Aggregate information of joint ventures that are not individually material:

	2019 **RMB million**	2018 RMB million
Profit and total comprehensive income for the year	**824**	803
Group's share of profit and total income from joint ventures for the year	**424**	416
Aggregate carrying amount of the Group's interests in these joint ventures	**2,676**	2,363

24. TRADE AND OTHER RECEIVABLES

	2019 **RMB million**	2018 RMB million
Trade receivables	**2,595**	2,868
Less: Allowance for credit losses	**(233)**	(182)
	2,362	2,686
Bills receivable (note a)	**1,413**	1,786
Other receivables	**472**	339
Loan receivables	**191**	379
	2,076	2,504
Less: Allowance for credit losses	**(18)**	(21)
	2,058	2,483
Deductible input value added tax and prepayment of other taxes and charges	**1,589**	1,363
Investment in wealth management products	**–**	13
Advances to suppliers and prepayments	**1,531**	2,160
Total trade and other receivables	**7,540**	8,705
Analysed for reporting purpose as:		
Current portion	**7,492**	8,560
Non-current portion (note b)	**48**	145

Notes:

a. The bills receivable were endorsed by PRC banks for guarantee payments and the default risk is considered to be minimal.

b. The balance that the management expects to recover after one year from the end of the reporting period is initially recognised by using an effective interest rate of 4.75% (2018: 4.75%) per annum.

24. TRADE AND OTHER RECEIVABLES *(continued)*

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:

	2019 **RMB million**	2018 RMB million
0 to 3 months	**1,792**	1,905
4 to 6 months	**76**	164
7 to 9 months	**192**	230
10 to 12 months	**55**	171
More than one year	**247**	216
	2,362	2,686

As at 31 December 2019, total bills receivable amounting to RMB1,413 million (2018:RMB1,786 million) are with a maturity period of less than one year.

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB719 million (2018: RMB638 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 2019 are set out in Note 53.

25. FINANCIAL ASSETS/LIABILITIES AT FVTPL

	2019 **RMB million**	2018 RMB million
Financial assets measured at FVTPL		
Foreign currency derivative contracts (note a)	**100**	6
Commodity derivative contracts (note b)	**573**	225
Listed equity interest in Shanghai Dazhong Public Utilities (Group) Co., Ltd ("Shanghai Utilities") (note c)	**287**	310
1.13% equity interest in Sinopec Marketing Co., Ltd (note d)	**4,170**	4,177
Unlisted wealth management products	**16**	49
Total return swap (note e)	**–**	463
Other unlisted equity securities (note f)	**384**	350
	5,530	5,580
Financial liabilities measured at FVTPL		
Foreign currency derivative contracts (note a)	**–**	(68)
Commodity derivative contracts (note b)	**(746)**	(1,075)
	(746)	(1,143)
Analysed for reporting purpose as:		
Assets		
Current portion	**361**	735
Non-current portion	**5,169**	4,845
Liabilities		
Current portion	**416**	219
Non-current portion	**330**	924

25. FINANCIAL ASSETS/LIABILITIES AT FVTPL *(continued)*

	2019 **RMB million**	2018 RMB million
Net unrealised gain (loss) included in other gains and losses		
Foreign currency derivative contracts (note a)	**161**	16
Commodity derivative contracts (note b)	**633**	(748)
Listed equity interest in Shanghai Utilities (note c)	**(22)**	(57)
1.13% equity interest in Sinopec Marketing Co., Ltd (note d)	**(7)**	114
Other unlisted equity securities (note f)	**34**	12
	799	(663)
Net realised gain (loss) included in other gains and losses		
Foreign currency derivative contracts (note a)	**(57)**	(137)
Commodity derivative contracts (note b)	**178**	3
	121	(134)
	920	(797)

Notes:

a. The Group is exposed to exchange 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 2019, the Foreign Currency Derivatives have a total notional amount of USD785 million (2018: USD700 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 the maturity dates. The Foreign Currency Derivatives are not designated as hedging instruments. Accordingly, they are classified and accounted for as financial instruments at FVTPL.

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. The Commodity Derivatives are not designated as hedging instruments. Accordingly, they are classified and accounted for as financial instruments at FVTPL.

c. The above listed investment represents 4.38% of the total issued share capital of Shanghai Utilities (1635.HK). During the year ended 31 December 2019, the Group received dividend income of approximately RMB7 million (2018: RMB8 million) from Shanghai Utilities.

d. The above investment represents 1.13% unlisted equity interest in Sinopec Marketing Co., Ltd ("Sinopec Marketing"). During the year ended 31 December 2019, the Group received dividend income of approximately RMB128 million (2018: RMB341 million) from Sinopec Marketing.

e. On 30 November 2018, the Company entered into a total return swap ("TRS") contract with a third party financial institution and the financial institution may purchase up to 7,000,000 of the Company's shares based on certain limitations of market conditions and its own service excellence. The Group provided HK$525 million to the financial institution in order to reduce the service charges by the financial institution. That TRS arrangement has been concluded by 30 June 2019. 2,415,100 of the Company's shares were purchased by the financial institution under the TRS contract and subsequently sold to the trust under the Share Award Scheme and were accounted for as treasury stocks amounted to RMB151 million as set out in Note 45. Remaining cash held by the financial institution was returned to the Group during the year.

f. The unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC.

26. EQUITY INSTRUMENTS AT FVTOCI

	2019 RMB million	2018 RMB million
Unlisted equity securities	**123**	112

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 2019 and 2018 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 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)**
	–	**–**	**–**

At 31 December 2018

	Bills receivable discounted or pledged to banks RMB million	Bills receivable endorsed to suppliers RMB million	Total RMB million
Carrying amount of transferred assets	217	739	956
Carrying amount of associated liabilities	(217)	(739)	(956)
	–	–	–

28. CONTRACT ASSETS

	2019 RMB million	2018 RMB million
Gas pipeline installation	**643**	511
Integrated energy construction contracts	**114**	101
	757	612

As at 1 January 2018, contract assets amounted to RMB682 million.

29. AMOUNTS DUE FROM/TO ASSOCIATES

	2019 **RMB million**	2018 RMB million
Amounts due from associates:		
Current portion	**575**	523
Non-current portion	**345**	353
	920	876
Amounts due to associates:		
Current portion	**189**	351

Included in the amounts due from/to associates are trade receivables amounting to approximately RMB473 million (2018: RMB350 million) and trade payables amounting to approximately RMB84 million (2018: RMB17 million).

The aged analysis presented based on the invoice date, which approximated the respective revenue recognition date, at the end of the reporting period is as follows:

	2019 **RMB million**	2018 RMB million
Trade receivables due from associates		
0 to 3 months	**189**	228
4 to 6 months	**94**	40
7 to 9 months	**88**	12
10 to 12 months	**26**	24
More than one year	**76**	46
	473	350

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 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

29. AMOUNTS DUE FROM/TO ASSOCIATES *(continued)*

At 31 December 2018

	Maturity date	Effective interest rate per annum	2018 RMB million
Loan receivables from associates			
Secured	09/05/2022–30/11/2022	5.23%	29
Unsecured	06/03/2019–01/01/2021	4.35%–5.47%	441
			470
Loan payables to associates			
Unsecured	31/07/2019–24/12/2019	1.00%–4.35%	56
Savings in ENN Finance		0.35%	264
			320

Details of impairment assessment of amounts due from associates are set out in Note 53.

30. AMOUNTS DUE FROM/TO JOINT VENTURES

	2019 RMB million	2018 RMB million
Amounts due from joint ventures:		
Current portion	**1,058**	1,523
Non-current portion	**12**	68
	1,070	1,591
Amounts due to joint ventures:		
Current portion	**785**	1,693
Non-current portion	**735**	970
	1,520	2,663

Included in the amounts due from joint ventures was approximately RMB194 million (2018: RMB87 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 RMB653 million (2018: RMB461 million) and trade payables amounting to approximately RMB585 million (2018: RMB635 million) and the aged analysis presented based on invoice date, which approximated the respective revenue recognition date, is as follows:

	2019 RMB million	2018 RMB million
Trade receivables due from joint ventures		
0 to 3 months	**430**	357
4 to 6 months	**35**	15
7 to 9 months	**60**	16
10 to 12 months	**31**	7
More than one year	**97**	66
	653	461

30. AMOUNTS DUE FROM/TO JOINT VENTURES *(continued)*

	2019 RMB million	2018 RMB million
Trade payables due to joint ventures		
0 to 3 months	**500**	584
4 to 6 months	**35**	20
7 to 9 months	**6**	9
10 to 12 months	**3**	4
More than one year	**41**	18
	585	635

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 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	07/01/2020–05/11/2020	0.35%–5.00%	**95**
Savings in ENN Finance		0.35%	**79**
			174

At 31 December 2018

	Maturity date	Effective interest rate per annum	2018 RMB million
Loan receivables from joint ventures			
Unsecured	10/01/2019–26/09/2022	3.90%–8.00%	716
Secured	27/04/2019–22/01/2020	6.00%	250
			966
Loan payables to joint ventures			
Unsecured	04/02/2019–31/12/2021	4.35%–5.10%	1,084
Savings in ENN Finance		0.35%	794
			1,878

Details of impairment assessment of amounts due from joint ventures are set out in Note 53.

31. AMOUNTS DUE FROM/TO RELATED COMPANIES

	2019 **RMB million**	2018 RMB million
Amounts due from companies controlled by a director and shareholder with significant influence	**164**	231
Amounts due to companies controlled by a director and shareholder with significant influence	**1,060**	793

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 RMB646 million (2018: RMB418 million).

Included in the amounts due from/to related companies are trade receivables amounting to approximately RMB160 million (2018: RMB215 million) and trade payables amounting to approximately RMB1,026 million (2018: RMB760 million) and the aged analysis presented based on invoice date, which approximated the respective revenue recognition date, at the end of the reporting period is as follow:

	2019 **RMB million**	2018 RMB million
Trade receivables due from related companies		
0 to 3 months	**38**	132
4 to 6 months	**16**	16
7 to 9 months	**13**	13
10 to 12 months	**26**	19
More than one year	**67**	35
	160	215

	2019 **RMB million**	2018 RMB million
Trade payables due to related companies		
0 to 3 months	**674**	516
4 to 6 months	**137**	115
7 to 9 months	**62**	54
10 to 12 months	**36**	17
More than one year	**117**	58
	1,026	760

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

	2019 RMB million	2018 RMB million
Deferred tax assets	**1,292**	1,159
Deferred tax liabilities	**(1,820)**	(1,001)

The following are the major deferred tax assets and liabilities recognised and movements thereon during the years ended 31 December 2019 and 2018:

	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 2018	252	158	111	(857)	(176)	–	(1)	(513)
Acquisition of businesses (Note 47)	325	–	–	–	–	–	–	325
(Credit) charge to profit or loss	(25)	24	22	(159)	(69)	252	(15)	30
At 31 December 2018	552	182	133	(1,016)	(245)	252	(16)	(158)
Acquisition of businesses (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

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 RMB809 million (2018: RMB 662 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 2019, the Group has unused tax losses of approximately RMB1,651 million (2018: RMB1,252 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:

	2019 **RMB million**	2018 RMB million
2019	**–**	125
2020	**120**	144
2021	**158**	200
2022	**147**	167
2023	**534**	616
2024	**692**	–
	1,651	1,252

As at 31 December 2019, the Group has other deductible temporary differences of approximately RMB496 million (2018: RMB562 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. DEPOSITS PAID FOR INVESTMENTS

The balance as at 31 December 2019 of RMB15 million (2018: RMB190 million) represented the deposits paid for the acquisitions of unlisted equity investment in the PRC which have not been completed at the end of the reporting period.

34. INVENTORIES

	2019 **RMB million**	2018 RMB million
Construction materials	**648**	583
Gas appliances	**218**	197
Natural gas	**214**	403
Other energy inventories	**30**	26
Spare parts and consumables	**4**	2
Integrated energy appliances	**55**	120
	1,169	1,331

The cost of inventories recognised as an expense during the year was approximately RMB54,976 million (2018: RMB41,818 million).

35. CASH AND CASH EQUIVALENTS/RESTRICTED BANK DEPOSITS

	2019 **RMB million**	2018 RMB million
Cash and cash equivalents	**7,373**	7,923
Restricted bank deposits		
Current portion	**566**	62
Non-current portion	**446**	639
	1,012	701
Bank deposits secured for:		
Letter of credit	**45**	13
Right of operation	**30**	19
Mandatory reserves in the People's Bank of China ("PBOC")	**384**	539
Energy supplies	**83**	56
Bills payable	**370**	74
Structured deposit	**100**	–
	1,012	701

Cash and cash equivalents include bank balances with original maturities less than three months carrying interest at market rates which range from 0.3% to 3.71% (2018: 0.3% to 3.75%) per annum as at 31 December 2019. 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 RMB152 million (2018: RMB586 million), of which approximately RMB129 million (2018: RMB578 million) and approximately RMB23 million (2018: RMB7 million) are denominated in USD and HK$ respectively.

As at 31 December 2019, the restricted bank deposits carry fixed interest rate ranging from 0.3% to 3.71% (2018: from 0.3% to 3.75%) 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.

36. LEASE LIABILITIES

	2019 **RMB million**
Lease liabilities payables:	
Within one year	**100**
More than one year, but not more than two years	**80**
More than two years, but not more than five years	**143**
More than five years	**227**
	550
Less: Amounts due within one year shown under current liabilities	**(100)**
Amounts shown under non-current liabilities	**450**

37. TRADE AND OTHER PAYABLES

	2019 RMB million	2018 RMB million
Trade payables	**5,698**	5,095
Accrued charges and other payables	**1,937**	2,008
	7,635	7,103

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

	2019 RMB million	2018 RMB million
0 to 3 months	**3,559**	3,253
4 to 6 months	**1,135**	930
7 to 9 months	**238**	121
10 to 12 months	**161**	86
More than one year	**605**	705
	5,698	5,095

The average credit period on purchases of goods is 30 to 90 days.

38. CONTRACT LIABILITIES

	2019 RMB million	2018 RMB million
Deposit for gas charges and other sales (note a)	**6,597**	6,192
Deposit for construction and installation contracts (note b)	**5,721**	4,019
Deferred income (note c)	**3,597**	3,519
	15,915	13,730
Analysed for reporting purpose as:		
Current	**12,613**	10,490
Non-current	**3,302**	3,240
	15,915	13,730

As at 1 January 2018, contract liabilities amounted to RMB11,798 million.

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 RMB8,910 million (2018: RMB7,701 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 connection fees and subsidies received from certain customers for the construction of main gas pipelines and related to 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.

39. DEFERRED INCOME

	Government grants RMB million	Subsidies received from customers RMB million (note a)	Connection fee received from customers RMB million (note b)	Total RMB million
GROSS				
At 1 January 2018	358	86	3,775	4,219
Reclassified to contract liabilities	–	(86)	(3,775)	(3,861)
Acquisition of subsidiaries	5	–	–	5
Additions	231	–	–	231
At 31 December 2018	594	–	–	594
Additions	164	–	–	164
At 31 December 2019	758	–	–	758
RECOGNITION				
At 1 January 2018	25	24	742	791
Reclassified to contract liabilities	–	(24)	(742)	(766)
Release to profit or loss	24	–	–	24
At 31 December 2018	49	–	–	49
Release to profit or loss	26	–	–	26
At 31 December 2019	75	–	–	75
CARRYING VALUES				
At 31 December 2019	683	–	–	683
At 31 December 2018	545	–	–	545

	2019 RMB million	2018 RMB million
Analysed for reporting purposes as:		
Current liabilities	**33**	25
Non-current liabilities	**650**	520
	683	545

Notes:

a. The balance represented the subsidies received from the customers to subsidise the construction cost of the main gas pipelines to the gas provision site and the gas storage. These customers do not restrict the Group to use the assets constructed for the use of other customers but the Group are committed to provide the gas to these customers for a period from 1 to 40 years. Accordingly, the Group has deferred the subsidies received and released to the profit or loss upon the completion of the assets over the shorter of the committed gas supply period and the useful lives of the related assets, which was reclassified to contract liabilities upon the initial application of HKFRS 15 as set out in Note 38.

b. Since 2009, the local governments in certain provinces in the PRC have issued relevant notice to the Group's subsidiaries governing the subsidiaries that an amount of the connection fee received by the Group's subsidiaries from its customers are for the construction cost of their main gas pipelines. The management considers that the arrangement indicates that the subsidiaries are required to maintain the ongoing deliverability to supply gas at the discretion of the customers. As the agreement under such arrangement does not specify a period for provision of the ongoing access to a supply of gas, fees received are deferred and released to the profit or loss over the estimated useful lives of the assets used to provide the ongoing service, which was reclassified to contract liabilities upon the initial application of HKFRS 15 as set out in Note 38.

40. SHARE CAPITAL

	2019 Number of shares	2018 Number of shares	**2019 HK$ million**	2018 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	**1,124,002,858**	1,082,844,897	**112**	108
Issue of shares on exercise of share options (note a)	**1,474,250**	1,025,500	**–**	–
Share repurchase (note b)	**–**	(1,419,400)	**–**	–
Issue of shares on acquisition of subsidiaries (Note 47)	**–**	39,926,534	**–**	4
Issue of shares on conversion of convertible bonds (note c)	**–**	1,625,327	**–**	–
At end of the year	**1,125,477,108**	1,124,002,858	**112**	112

	2019 RMB million	2018 RMB million
Presented in consolidated financial statements as:		
At beginning of the year	**116**	112
Share repurchase (note b)	**–**	–
Acquisition of subsidiaries	**–**	4
At end of the year	**116**	116

Notes:

a. During the year ended 31 December 2019, 1,474,250 shares (2018: 1,025,500 shares) were issued at the exercise price of HK$40.34 (2018: HK$40.34) per ordinary share in relation to the exercise of outstanding share options. These shares rank pari passu with the then existing shares in all respects as set one in Note 45.

b. On 4 October 2018, 5 October 2018, 8 October 2018, 11 October 2018, 12 October 2018 and 15 October 2018, the Company repurchased 200,000, 300,000, 274,500, 172,500, 272,400 and 200,000 of its own ordinary shares through the Stock Exchange. The highest price was HK$65.00 and the lowest price was HK$60.80. The aggregate consideration paid was approximately HK$89 million (equivalent to approximately RMB78 million). The above ordinary shares were cancelled on 16 November 2018.

   Save as disclosed above, none of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities up to 31 December 2019.

c. On 15 February 2018, the Company issued 1,625,327 ordinary shares at a price of HK$47.73 per ordinary share to satisfy the conversion rights attached to the convertible bonds.

41. BANK AND OTHER LOANS

	2019 RMB million	2018 RMB million
Bank loans		
Secured	**187**	656
Unsecured	**10,015**	9,970
	10,202	10,626
Other loans		
Secured	**36**	–
Unsecured	**105**	96
	141	96
	10,343	10,722
The bank and other loans are repayable:		
On demand or within one year	**7,495**	8,621
More than one year, but not exceeding two years	**2,131**	189
More than two years, but not exceeding five years	**242**	1,574
More than five years	**475**	338
	10,343	10,722
Less: Amounts due within one year shown under current liabilities	**(7,495)**	(8,621)
Amounts shown under non-current liabilities	**2,848**	2,101

As at 31 December 2019, all the bank and other loans are denominated in the functional currency of respective group entities except for approximately RMB4,994 million (2018: RMB5,319 million) and approximately RMB1,380 million (2018: RMB478 million) which is 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.

41. BANK AND OTHER LOANS *(continued)*

Details of the terms of the Group's borrowings are set out below:

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 London Interbank Offered Rate ("LIBOR")	30/11/2021	2.99%–3.26%	2,093
Total floating-rate borrowings			3,066
Total borrowings			10,343

41. BANK AND OTHER LOANS *(continued)*

At 31 December 2018

	Maturity date	Effective interest rate per annum	Carrying amount RMB million
Fixed-rate borrowings			
Unsecured RMB bank loans	10/01/2019–29/12/2019	3.30%–5.00%	1,799
Unsecured RMB other loan	12/06/2019	3.79%	96
Secured RMB bank loans	05/03/2019–25/05/2020	4.28%–7.50%	524
Unsecured HK$ bank loan	06/07/2019	2.83%	478
Unsecured USD bank loans	03/01/2019–30/06/2019	3.00%–4.31%	3,878
Total fixed-rate borrowings			6,775
Floating-rate borrowings			
Secured RMB bank loans at PBOC base rate	30/03/2020–23/11/2023	4.56%–4.90%	132
Unsecured RMB bank loans at PBOC base rate	10/01/2019–07/11/2032	4.45%–5.88%	2,374
Unsecured USD bank loan at LIBOR	30/11/2021	3.74%	1,441
Total floating-rate borrowings			3,947
Total borrowings			10,722

42. CORPORATE BONDS

a. Corporate bonds issued in 2016 (the “2016 Corporate Bonds”)

On 30 November 2016, a subsidiary of the Company, Xinao (China) Gas Investment Company Limited (“Xinao (China)”) issued the 2016 Corporate Bonds of RMB2,500 million. The amount was unsecured and carried a fixed interest rate of 3.55% per annum and was repaid on 2 December 2019.

b. Corporate bonds issued in 2019 (the “2019 Corporate Bonds”)

Details of the terms of the three tranches’ 2019 Corporate Bonds issued by 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 issuance 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%**

42. CORPORATE BONDS *(continued)*

b. Corporate bonds issued in 2019 (the "2019 Corporate Bonds") *(continued)*

The 2019 Corporate Bonds recognised in the consolidated statement of financial position are calculated cumulatively as follows:

	2019 RMB million
Nominal value of 2019 Corporate Bonds	2,100
Issue costs	(7)
Fair value at date of issuance	2,093
Cumulative effective interest recognised	58
Cumulative interest paid/payable	(57)
Carrying amount at 31 December	2,094

43. 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.

The 2021 Senior Notes recognised in the consolidated statement of financial position are calculated cumulatively as follows:

	2019 RMB million	2018 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	2,083	1,926
Cumulative interest paid/payable	(2,023)	(1,872)
Exchange loss	317	275
Carrying amount at 31 December	2,539	2,491

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 2019 and 2018.

44. 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:

	2019 **RMB million**	2018 RMB million
Nominal value of Unsecured Bonds	**6,526**	6,526
Discount cost	**(17)**	(17)
Issue costs	**(43)**	(43)
Fair value at date of issuance	**6,466**	6,466
Repurchased and cancelled in 2015	**(2,107)**	(2,107)
Cumulative effective interest recognised	**481**	328
Cumulative interest paid/payable	**(458)**	(311)
Repayment	**(459)**	–
Exchange loss	**246**	163
Carrying amount at 31 December	**4,169**	4,539
Less: Amounts due within one year shown under current liabilities	**–**	(443)
Amounts shown under non-current liabilities	**4,169**	4,096

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.

On 3 May 2019, the trustee, pursuant to the terms and trust deed of the Share Award Scheme, purchased a total of 2,415,100 shares of the Company over-the-counter from the financial institution under the TRS contract. The cost of the shares purchased was recognised in equity as treasury stocks. As at 31 December 2019, the Board had neither decided or selected employee nor granted any awarded shares.

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 above, 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 1.1.2019	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

		Date of grant	Exercise period	Exercise price (HK$)	Number of options 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)*

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 1.1.2018	Exercised during the year	Reclassified during the year	Forfeited during the year	Outstanding at 31.12.2018
Directors	Tranche 1	9.12.2015	1.4.2017 to 8.12.2025	40.34	230,750	–	–	–	230,750
	Tranche 2	9.12.2015	1.4.2018 to 8.12.2025	40.34	538,750	–	–	–	538,750
	Tranche 3	9.12.2015	1.4.2019 to 8.12.2025	40.34	538,750	–	–	–	538,750
	Tranche 4	9.12.2015	1.4.2020 to 8.12.2025	40.34	538,750	–	–	–	538,750
Employees	Tranche 1	9.12.2015	1.4.2017 to 8.12.2025	40.34	980,500	(511,100)	–	(62,500)	406,900
	Tranche 2	9.12.2015	1.4.2018 to 8.12.2025	40.34	2,020,000	(514,400)	–	(474,750)	1,030,850
	Tranche 3	9.12.2015	1.4.2019 to 8.12.2025	40.34	2,020,000	–	–	(292,250)	1,727,750
	Tranche 4	9.12.2015	1.4.2020 to 8.12.2025	40.34	2,020,000	–	–	(292,250)	1,727,750
					8,887,500	(1,025,500)	–	(1,121,750)	6,740,250
Exercisable at the end of the year									2,207,250
Weighted average exercise price									HK$40.34

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.

45. SHARE BASED PAYMENT TRANSACTIONS *(continued)*

b. Scheme 2012 *(continued)*

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 2019, 12,328,000 (2018: nil) share options were granted, 1,474,250 (2018: 1,025,500) share options were exercised and 1,435,915 (2018: 1,121,750) share options were forfeited. As at 31 December 2019, the number of outstanding share options is 16,158,085 (2018: 6,740,250). During the year, the Group recognised share-based payment expenses of RMB74 million (2018: RMB19 million) and RMB24 million (2018: RMB15 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 the end 31 December 2019, the number of outstanding share option granted to certain employees of the Group is 200,000 (2018: 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

	2019 **RMB million**	2018 RMB million
Retirement benefit scheme contribution made during the year	**220**	215

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

a. Acquisition of businesses during the year ended 31 December 2019

Acquisition date	Company acquired	Registered capital acquired	Consideration 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限公司 ("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

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 (collectively referred to as "2019 Companies Acquired") with the objective of expansion in market coverage of the Group's business.

47. ACQUISITION OF BUSINESSES *(continued)*

a. Acquisition of businesses during the year ended 31 December 2019 *(continued)*

The amounts of fair value of the assets and liabilities at the date of acquisition are as follows:

	Jinhong RMB million	Mengcun & Nandagang RMB million	Xuanran RMB million	Others RMB million	Total 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 and provisional value)	–	109	–	50	159
Net assets acquired including capital injection by the Group (provisional value)	273	167	909	623	1,972
Goodwill (bargain purchase gain) arising on acquisition (determined on a provisional basis)					
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 (provisional value)	–	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)

47. ACQUISITION OF BUSINESSES *(continued)*

a. Acquisition of businesses during the year ended 31 December 2019 *(continued)*

The fair value of property, plant and equipment and intangible assets at the date of acquisition is provisional and pending for the valuation by an independent professional valuer.

Included in the profit for the year ended 31 December 2019 is RMB67 million of profit attributable to the additional businesses generated by 2019 Companies Acquired. Revenue for the year ended 31 December 2019 includes RMB1,120 million generated from 2019 Companies Acquired.

Had the acquisitions of 2019 Companies Acquired been effected on 1 January 2019, the revenue of the Group for the year ended 31 December 2019 would have been approximately RMB72,284 million, and the profit for the year would have been approximately RMB6,869 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 2019, nor is intended to be a projection of future results.

In determining the "pro-forma" revenue and profit of the Group, had 2019 Companies Acquired been acquired on 1 January 2019, 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 2018

Acquisition date	Company acquired	Registered capital acquired	Consideration RMB million	Nature of business
30 January 2018	寧德利拓能源有限公司 ("Ningde")	100.00%	29	Retail gas sales business
8 February 2018	玉田新奧燃氣有限公司 ("Yutian")	55.00%	25	Retail gas sales business
12 April 2018	安徽省安燃燃氣有限公司 ("Anran")	60.00%	96	Retail gas sales business
27 June 2018	聊城金奧燃氣發展有限公司 and 聊城開發區金奧能源有限公司 ("Liaocheng") (note a)	50.00%	180	Retail gas sales business
16 August 2018	Excellence Award Holding Company Limited ("EAH") (note b)	100.00%	2,502	(note b)
21 November 2018	懷仁市金源天然氣有限責任公司 ("Huairen")	90.00%	198	Retail gas sales business
4 December 2018	香港天成能源投資集團有限公司 ("Tiancheng")	100.00%	108	Retail gas sales business
24 December 2018	常熟市銅業總公司有限公司 ("Changshu")	100.00%	1	Sales of integrated energy and services
29 December 2018	東莞市新奧車用燃氣發展有限公司 ("Dongguan") (note c)	N/A	N/A	Retail gas sales business

47. ACQUISITION OF BUSINESSES *(continued)*

b. Acquisition of businesses during the year ended 31 December 2018 *(continued)*

Notes:

a. The Group acquired further 50% of the registered capital of Liaocheng, which then became wholly-owned subsidiaries of the Group from joint ventures.

b. On 16 August 2018 ("Completion Date"), the Group acquired 100% of the registered capital of Excellence Award Holding Company Limited ("EAH") from a company controlled by Mr. Wang. EAH and its subsidiaries (collectively referred to as "EAH Group") are principally engaged in the provision of technology solutions of multiple forms of energy in the PRC. The acquisition was made as part of the Group's strategy to accelerate its integrated energy business development, to foster new profit growth driver, facilitate its gas distribution business development, and also to eliminate continuing connected transactions between the Group and the EAH Group. The total consideration was approximately RMB2,502 million, representing issuance of 39,926,534 ordinary shares of the Company measured at closing market price on Completion Date of HK$71.35 per share. The Group incurred transaction costs of RMB22 million for this acquisition. Other than the incremental costs directly attributable to issuance of the Company's ordinary shares, all other transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

c. Dongguan amended its articles of association, which then became a subsidiary of the Group from a joint venture.

Ningde, Yutian, Anran, Liaocheng, Huairen, Tiancheng, Changshu and Dongguan 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 dates of acquisition are as follows:

	Dongguan & Liaocheng RMB million	**EAH Group** RMB million	**Others** RMB million
Non-current assets			
Property, plant and equipment	299	69	317
Intangible assets	250	549	488
Prepaid lease payments	16	–	36
Interests in joint ventures	20	4	–
Other receivables	–	24	–
Current assets			
Inventories	5	170	8
Trade and other receivables	60	782	70
Cash and cash equivalents	154	16	20
Restricted bank deposits	–	15	–
Contract assets	–	20	–
Amounts due from related companies	–	396	–
Current liabilities			
Trade and other payables	(216)	(678)	(223)
Bank and other loans – due within one year	–	(165)	(41)
Contract liabilities	–	(55)	–
Amounts due to related companies	–	(478)	–
Non-current liabilities			
Deferred tax liabilities	(64)	(137)	(124)
Bank and other loans – due after one year	–	(23)	(9)
Deferred income	–	(5)	–
Net assets acquired	524	504	542
Goodwill arising on acquisition			
Total consideration	180	2,502	456
Add: Non-controlling interests	87	–	120
Add: Fair value of previously held interest	281	–	–
Less: Fair value of identified net assets acquired	(524)	(504)	(542)
	24	1,998	34

47. ACQUISITION OF BUSINESSES *(continued)*

b. Acquisition of businesses during the year ended 31 December 2018 *(continued)*

	Dongguan & Liaocheng RMB million	EAH Group RMB million	Others RMB million
Gain on remeasurement of the investments in joint ventures previously held by the Group			
Fair value of previously held interest	281	–	–
Less: Carrying amount of the equity interest	(163)	–	–
	118	–	–
Total consideration satisfied by:			
Cash	180	–	387
Consideration payables	–	–	69
Issuance of the Company's ordinary shares	–	2,502	–
	180	2,502	456
Net cash (outflow) inflow arising on acquisition:			
Cash consideration paid	(180)	–	(387)
Less: Deposit paid in the prior year	–	–	21
Less: Cash and cash equivalents acquired	154	16	20
	(26)	16	(346)

Goodwill arises in the acquisition of businesses because the consideration included a control premium. In addition, the consideration paid for the acquisitions effectively included amounts in relation to the benefit of synergies, revenue growth, further market development and the assembled workforce of the businesses. These benefits are not recognised separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets.

48. ACQUISITION OF ASSETS THROUGH ACQUISITIONS OF SUBSIDIARIES

a. Acquisition of assets through acquisitions of subsidiaries during the year ended 31 December 2019

To facilitate the Group's overall business, 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)*

a. 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 acquisition 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)

48. ACQUISITION OF ASSETS THROUGH ACQUISITIONS OF SUBSIDIARIES *(continued)*

b. Acquisition of assets through acquisitions of subsidiaries during the year ended 31 December 2018

To facilitate the Group's overall business, 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 by acquisition of subsidiaries. During the year ended 31 December 2018, the Group has acquired assets through the acquisitions of the following subsidiaries:

Acquisition date	Company acquired	Registered capital acquired	Consideration RMB million
5 January 2018	上海綠環加氣有限公司	90.00%	0.4
17 April 2018	懷化中油振宇清潔能源有限公司	70.00%	5
21 June 2018	天長市徐礦天然氣有限公司	90.00%	72
11 September 2018	葉縣東方天然氣有限公司	80.00%	17
26 September 2018	上海新晟文化用品有限公司 (note a)	100.00%	1
1 November 2018	東營新奧燃氣有限公司	100.00%	37
16 November 2018	周口易聖熱力供應有限公司	51.00%	22
28 November 2018	商水新奧能源發展有限公司	90.00%	9
26 December 2018	壽光卓宇新能源有限公司	100.00%	0.2
26 December 2018	新鄉縣中能服熱力有限公司	80.00%	10
28 December 2018	廊坊廣核開新能源服務有限公司 (note b)	51.00%	33
6 December 2018	開封新奧中原燃氣有限公司 (note c)	N/A	N/A
17 December 2018	淄博新奧燃氣有限公司 (note d)	N/A	N/A

Notes:

a. 上海新晟文化用品有限公司 was acquired from a company controlled by Mr. Wang.

b. The Group acquired further 51% of the equity interest of 廊坊廣核開新能源服務有限公司, which then became 90% owned subsidiary of the Group from an associate.

c. 開封新奧中原燃氣有限公司 amended its articles of association, which then became 60% owned subsidiary of the Group from a joint venture.

d. 淄博新奧燃氣有限公司 amended its articles of association, which then became 60% owned subsidiary of the Group from a joint venture.

48. ACQUISITION OF ASSETS THROUGH ACQUISITIONS OF SUBSIDIARIES *(continued)*

b. Acquisition of assets through acquisitions of subsidiaries during the year ended 31 December 2018 *(continued)*

The transactions were accounted for as acquisition of assets through acquisition 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	223
Intangible assets – right of operation	138
Prepaid lease payments	32
Current assets	
Inventories	2
Trade and other receivables	65
Cash and cash equivalents	18
Current liabilities	
Trade and other payables	(186)
Net assets acquired	292
Less: Non-controlling interests	(52)
Less: Fair value of previously held interest	(34)
Total consideration	206
Loss on remeasurement of the investment in a joint venture previously held by the Group	
Fair value of previously held interest	4
Less: Carrying amount of the equity interest	(11)
	(7)
Total consideration satisfied by:	
Cash	150
Consideration payables	56
	206
Net cash outflow arising on acquisition:	
Cash consideration paid	(150)
Less: Cash and cash equivalents acquired	18
	(132)

49. DISPOSAL OF SUBSIDIARIES

a. 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

49. DISPOSAL OF SUBSIDIARIES *(continued)*

b. Disposal of subsidiaries during the year ended 31 December 2018

On 31 January 2018, the Group disposed of 100% equity interest in Green Transportation Fuels North America LLC and ENN Canada Corporation (collectively referred to as "NA subsidiaries") at a cash consideration of USD3 million (approximately RMB18 million) to an independent third party. NA subsidiaries were classified as assets held for sale as at 31 December 2017.

On 5 June 2018, the Group disposed of 60% equity interest in 煙台新奧實業有限公司 ("Yantai Xinao") at cash consideration of RMB62 million to a joint venture. As a result, the Group lost control on Yantai Xinao and its subsidiary.

On 30 November 2018, the Group disposed of 51% equity interest in 邯鄲新奧萬合清潔能源有限公司 ("Handan Xinao") at a cash consideration of RMB10 million.

The net assets at the dates of disposal were as follow:

	NA subsidiaries RMB million	Yantai Xinao RMB million	Handan Xinao RMB million
Non-current assets			
Property, plant & equipment	47	93	27
Prepaid lease payment	–	3	–
Current assets			
Inventories	–	1	1
Trade and other receivables	5	67	18
Cash and cash equivalents	5	32	–
Current liabilities			
Trade and other payables	(42)	(98)	(15)
Taxation payable	–	(1)	–
Net assets	15	97	31
Less: Non-controlling interests	–	(35)	(16)
Net assets attributable to owners of the Company disposed of	15	62	15

The gain (loss) on disposal recognised in profit or loss was calculated as below:

	NA subsidiaries RMB million	Yantai Xinao RMB million	Handan Xinao RMB million
Consideration received	18	62	–
Consideration receivable	–	–	10
Less: Net assets attributable to owners of the Company derecognised	(15)	(62)	(15)
Gain (loss) on disposal of subsidiaries	3	–	(5)
Net cash inflow arising from the disposal:			
Cash consideration received	18	62	–
Less: Cash and cash equivalents disposed of	(5)	(32)	–
	13	30	–

50. COMMITMENTS

a. Capital commitments

	2019 **RMB million**	2018 RMB million
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**1,021**	1,113
Capital commitments in respect of		
– investments in joint ventures	**495**	212
– investments in associates	**518**	219
– other equity investments	**259**	92

b. 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 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. LEASE COMMITMENTS

The Group as lessee

	2018 RMB million
Minimum lease payments paid under operating leases during the year:	
Premises	138
Other assets	27
	165

51. LEASE COMMITMENTS *(continued)*

The Group as lessee *(continued)*

The Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2018 RMB million
Within one year	148
In the second to fifth year inclusive	347
Over five years	344
	839

Leases are negotiated for an average term of four years and rentals are fixed for an average of one year.

The Group as lessor

The Group's investment properties are held for rental purposes. Property rental income earned during the year was RMB10 million (2018: RMB13 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:

	2019 **RMB million**	2018 RMB million
Within one year	**17**	14
In the second to fifth year inclusive	**37**	26
Over five years	**34**	24
	88	64

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:

	2019 **RMB million**	2018 RMB million
Carrying amount of:		
Property, plant and equipment	**106**	6
Restricted bank deposits	**628**	163
Right-of-use assets	**7**	–
Bills receivable	**49**	217

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 RMB868 million (2018: RMB810 million) granted to the Group, of which RMB187 million (2018: RMB432 million) has been utilised up to 31 December 2019.

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 41, 42, 43 and 44, 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:

	2019	2018
	RMB million	RMB million
Bank and other loans	**10,343**	10,722
Corporate bonds	**2,094**	2,497
Senior notes	**2,539**	2,491
Unsecured bonds	**4,169**	4,539
	19,145	20,249
Less: Cash and cash equivalents	**(7,373)**	(7,923)
Net debt	**11,772**	12,326
Total equity	**31,020**	25,554

	2019	2018
	%	%
Net debt to total equity ratio	**37.9**	48.2

53. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

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:

	2019 **RMB million**	2018 RMB million
Financial assets		
Financial assets at FVTPL	**5,530**	5,580
Equity instruments at FVTOCI	**123**	112
Financial assets at amortised cost	**14,954**	16,504
Financial liabilities		
Financial liabilities at FVTPL	**746**	1,143
Financial liabilities at amortised cost	**29,548**	31,159

c. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, contract assets, equity investments, financial assets/liabilities at FVTPL, amounts due from/to associates, joint ventures and related companies, cash and cash equivalents, restricted bank deposits, trade and other payables, contract liabilities, lease liabilities, bank and other loans, corporate bonds, senior notes and unsecured bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including foreign currency risk, interest rate risk, commodity price risk and other price risk), credit risk and liquidity risk.

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 25. The management of the Group monitors foreign exchange exposure and will consider to hedge its foreign exchange exposure should the need arises.

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**	
	2019 **RMB million**	2018 RMB million	**2019** **RMB million**	2018 RMB million
Foreign currency:				
USD	**129**	578	**11,702**	12,349
HK$	**23**	7	**1,380**	478

53. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

c. Financial risk management objectives and policies *(continued)*

Foreign currency risk management (continued)

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 analysis includes only outstanding monetary items denominated in foreign currency without considering the impact of the Foreign Currency Derivatives and adjusts their translations at the end of the reporting period for a change in foreign currency exchange rate as set out below:

	USD		**HK$**	
	2019	2018	**2019**	2018
	%	%	**%**	%
Possible change in foreign exchange rate	**5**	5	**5**	5

	2019	2018	**2019**	2018
	RMB million	RMB million	**RMB million**	RMB million
(Decrease) increase in profit after taxation for the year:				
– if RMB weakens against foreign currencies	**(580)**	(592)	**(68)**	(24)
– if RMB strengthens against foreign currencies	**580**	592	**68**	24

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.

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, 41, 42, 43 and 44 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.

53. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

c. Financial risk management objectives and policies *(continued)*

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to floating-rate bank loans (see Note 41 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.

	2019	2018
	%	%
Possible change in interest rate	**50 basis points**	50 basis points

	2019	2018
	RMB million	RMB million
(Decrease) increase in profit after taxation for the year		
– as a result of increase in interest rate	**(14)**	(15)
– as a result of decrease in interest rate	**14**	15

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 will consider to hedge its commodity price risk exposure should the need arises.

Sensitivity analysis on commodity derivative contracts

A decrease of 5% in relevant commodity prices at the end of the year ended 31 December 2019 and 2018 would have affected profit or loss for the years by amount shown below. These amounts represent the change in fair value of commodity derivative contracts at the reporting date.

	2019	2018
	RMB million	RMB million
Decrease in profit before taxation for the year	**(7)**	(194)

53. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

c. Financial risk management objectives and policies *(continued)*

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 RMB248 million (2018: RMB 247 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.

Other receivables, amount 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.

53. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

c. Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment (continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount 2019 RMB million	2018 RMB million
Financial assets at amortised cost						
Amounts due from associates*	29	N/A	(note a)	12-month ECL	**455**	536
				Lifetime ECL (not credit impaired)	**483**	355
					938	891
Amounts due from joint ventures*	30	N/A	(note a)	12-month ECL	**427**	1,155
				Lifetime ECL (not credit impaired)	**662**	465
					1,089	1,620
Amounts due from related companies*	31	N/A	(note a)	12-month ECL	**4**	16
				Lifetime ECL (not credit impaired)	**164**	219
					168	235
Restricted bank deposits	35	AA	N/A	12-month ECL	**1,012**	701
Bank balances	35	AA+	N/A	12-month ECL	**7,373**	7,923
Other receivables	24	N/A	(note a)	12-month ECL	**472**	339
Loan receivables	24	N/A	(note a)	12-month ECL	**191**	379
Trade receivables	24	N/A	(note b)	Lifetime ECL (provision matrix)	**2,456**	2,680
				Lifetime ECL (not credit impaired)	**30**	143
				Credit-impaired	**109**	45
					2,595	2,868
Bills receivable	24	N/A	(note a)	12-month ECL	**1,413**	1,786
Contract assets	28	N/A	(note b)	Lifetime ECL (provision matrix)	**785**	636
				Credit-impaired	**1**	2
					786	638

* 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)

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.

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**

2018

	Past due RMB million	Not past due/ No fixed terms of repayment RMB million	Total RMB million
Amounts due from associates	–	891	891
Amounts due from joint ventures	–	1,620	1,620
Amounts due from related companies	–	235	235
Bills receivable	–	1,786	1,786
Other receivables	–	339	339
Loan receivables	–	379	379

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 2019 within lifetime ECL. Debtors of a subsidiary acquired during the year ended 31 December 2018 were assessed individually. 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

	2019		2018	
	Average loss rate	**Trade receivables and contract assets RMB million**	Average loss rate	Trade receivables and contract assets RMB million
0 to 3 months	**0.38%**	**2,344**	0.41%	2,349
4 to 6 months	**6.08%**	**188**	7.10%	262
7 to 9 months	**7.80%**	**283**	8.60%	315
10 to 12 months	**9.03%**	**98**	10.52%	81
1 to 2 years	**22.58%**	**273**	24.46%	199
2 to 3 years	**39.11%**	**55**	37.75%	110
		3,241		3,316

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 2019, the Group provided RMB105 million (2018: RMB130 million) and RMB28 million (2018: RMB24 million) impairment allowance for trade receivables and contract assets respectively, based on the provision matrix. Impairment allowance of RMB128 million (2018: RMB52 million) and RMB1 million (2018: RMB2 million) were made for trade receivables and contract assets respectively, based on debtors of the subsidiary acquired in prior year and 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 2018	28	50	200	278
Changes due to financial instruments recognised:				
– Transfer to credit-impaired	–	(3)	3	–
– Impairment losses recognised	39	65	51	155
– Impairment losses reversed	(28)	(48)	(15)	(91)
– Eliminated on disposal of subsidiaries	–	–	(65)	(65)
As at 31 December 2018	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

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 41, 42, 43 and 44. Except for the unutilised issuance quota of the corporate bonds and green bonds amounting to RMB7,900 million by China Securities Regulatory Commission and National Development and Reform Commission, the Group has unutilised credit facilities of approximately RMB13,448 million as at 31 December 2019, 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 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	

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 2018									
Non-derivative financial liabilities									
Trade and other payables		7,103	–	–	–	–	–	7,103	7,103
Amounts due to associates	0.35	351	–	–	–	–	–	351	351
Amounts due to joint ventures	4.50	1,739	46	1,016	–	–	–	2,801	2,663
Amounts due to related companies		793	–	–	–	–	–	793	793
Bank and other loans									
– fixed rate	3.98	6,768	102	–	–	–	–	6,870	6,775
– variable rate	4.68	2,092	167	1,600	64	67	386	4,376	3,947
Corporate bonds	3.55	2,589	–	–	–	–	–	2,589	2,497
Senior notes	6.00	151	151	2,584	–	–	–	2,886	2,491
Unsecured bonds	3.25	593	134	134	4,252	–	–	5,113	4,539
Financial guarantee contracts		203	–	–	–	–	–	203	–
		22,382	600	5,334	4,316	67	386	33,085	31,159
Derivatives									
– inflow		(719)	(159)	(487)	(4,252)	–	–	(5,617)	
– outflow		1,002	492	711	4,350	3	–	6,558	

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:

	2019		2018	
	RMB million	**Expiry period**	RMB million	Expiry period
Guarantees issued to banks to secure loan facilities granted to joint ventures	**726**	**2025**	203	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
	2019 RMB million	2018 RMB million		
Financial assets				
Derivative financial instruments	**673**	231	Level 2	Discounted cash flow for swap 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 Black-Scholes Model for option 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	**287**	310	Level 1	Fair values are derived from quoted bid prices in an active market
Unlisted wealth management products	**16**	49	Level 3	Discounted cash flow 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**	4,177	Level 3	Estimated based on the P/B ratio of comparable listed companies and a liquidity discount
Total return swap	**–**	463	Level 2	Fair value is with reference to the similar assets' quoted price in an active market.
Other unlisted equity securities – FVTPL	**384**	350	Level 3	Fair value is derived from price multiples of similar assets that have been traded in the market
Unlisted equity securities – FVTOCI	**123**	112	Level 3	Fair values are derived from the fair value of the underlying assets and liabilities held by the investee
Financial liabilities				
Derivative financial instruments	**746**	1,143	Level 2	Discounted cash flow for swap 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 Black-Scholes Model for option 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 2019 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 FVTPL 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 RMB26 million as at 31 December 2019.

(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:

	2019		2018	
	Carrying amount RMB million	**Fair value RMB million**	Carrying amount RMB million	Fair value RMB million
Fixed-rate bank and other loans	**7,277**	**7,079**	6,775	6,599
Senior notes	**2,539**	**2,655**	2,491	2,622
Unsecured bonds	**4,169**	**4,216**	4,539	4,456
Corporate bonds	**2,094**	**2,105**	2,497	2,500

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 41)	Lease liabilities RMB million	Corporate bonds RMB million (Note 42)	Unsecured bonds RMB million (Note 44)	Senior notes RMB million (Note 43)	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 HKFRS 16	–	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

	Bank and other loans RMB million (Note 41)	Convertible bonds RMB million	Corporate bonds RMB million (Note 42)	Unsecured bonds RMB million (Note 44)	Senior notes RMB million (Note 43)	Others RMB million (note)	Total RMB million
At 1 January 2018	2,260	3,635	5,490	4,316	2,366	1,705	19,772
Financing cash flows	7,852	(3,771)	(3,000)	–	–	(2,249)	(1,168)
Acquisition of subsidiaries	238	–	–	–	–	–	238
Fair value adjustments	–	249	–	–	–	–	249
Foreign exchange translation	372	–	–	216	119	–	707
Gain on repurchase and redemption of convertible bonds	–	(34)	–	–	–	–	(34)
Issue of shares on conversion of convertible bonds	–	(79)	–	–	–	–	(79)
Dividends paid to shareholders	–	–	–	–	–	952	952
Interest expense	–	–	7	7	6	468	488
At 31 December 2018	10,722	–	2,497	4,539	2,491	876	21,125

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:

	2019 **RMB million**	2018 RMB million
Nature of transaction		
Associates:		
– Sales of gas to	**576**	482
– Sales of materials to	**284**	237
– Purchase of gas from	**282**	311
– Purchase of equipment from	**3**	–
– Loan interest received from	**24**	22
– Provision of gas transportation services to	**1**	–
– Provision of gas transportation services by	**28**	9
– Lease of vehicles to	**–**	1
– Deposit interest paid to	**2**	2
– Provision of supporting services to	**8**	2
– Provision of construction and installation services to	**32**	–
– Purchase of equity interest from	**52**	–
Joint ventures:		
– Sales of gas to	**1,546**	1,580
– Sales of materials to	**281**	220
– Purchase of gas from	**3,961**	3,308
– Provision of gas transportation services to	**388**	379
– Loan interest received from	**42**	60
– Loan interest paid to	**4**	36
– Provision of supporting services to	**21**	33
– Purchase of equipment from	**23**	6
– Deposit interest paid to	**13**	12
– Provision of proprietary services to	**–**	20
– Provision of construction services by	**23**	29
– Provision of supporting services by	**2**	2
– Lease of premises from	**–**	1
– Lease of vehicles to	**2**	2
– Provision of energy efficiency technology services to	**2**	–
– Provision of technology services by	**7**	–

55. RELATED PARTY TRANSACTIONS *(continued)*

	2019 RMB million	2018 RMB million
Companies controlled by Mr. Wang:		
Transactions exempt from shareholders' approval under Chapter 14A of the Listing Rules:		
– Provision of energy efficiency technology services by	–	188
– Purchase of equipment from	52	122
– Provision of construction services by	1,263	1,079
– Provision of information technology services by	139	279
– Purchase of LNG from	1,313	669
– Provision of LNG terminal usage services by	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	13	12
– Sales of materials to	43	42
– Provision of construction and installation services to	7	11
– Provision of property management services by	17	17
– Provision of property management services to	1	–
– Lease of premises to	4	3
– Lease of premises from	7	3
– Provision of supporting services by	51	56
– Provision of supporting services to	54	9
– Provision of outsourcing services by	55	44
– Provision of electronic business services by	4	1
– Provision of technology services to	52	42
– Provision of research and development services to	10	–
– Provision of energy efficiency technology services to	6	–

Note: During the current year, 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, 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 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 2019 and 2018 was disclosed in Note 12.

Financial guarantee contracts

As at 31 December 2019, the guaranteed facilities amount utilised by the joint ventures were RMB726 million (2018: RMB203 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 2019 and 31 December 2018 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 2019, a related company has provided guarantees to the Group to the extent of RMB140 million (2018: RMB1,344 million), the guaranteed facilities amount utilised by the Group were RMB120 million (2018: RMB1,326 million).

As at 31 December 2019, no personal guarantee was provided by Mr. Wang and Ms. Zhao Baoju, spouse of Mr Wang to the Group (2018: RMB620 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 2019	2018	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
晋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
湘潭新奧燃氣有限公司 Xiangtan Xinao Gas Company Limited*	PRC	RMB70,000,000	**85.00%**	85.00%	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

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 2019	2018	Principal activities
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
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%**	95.50%	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）燃氣投資有限公司 Xinao (China)#	PRC	USD231,778,124	**100.00%**	100.00%	Investment holding

* Sino-foreign equity joint venture

\# Wholly-owned foreign enterprise

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 2019 or at any time during the year except for Xinao (China) which has issued the following debt securities.

	2019	2018
	RMB million	RMB million
Corporate bonds	**2,094**	2,497

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**	
		2019	2018	**2019**	2018	**2019**	2018
		%	%	**RMB million**	RMB million	**RMB million**	RMB million
Quanzhou City Gas*	PRC	**40**	40	**112**	96	**300**	278
Shijiazhuang Xinao*	PRC	**40**	40	**82**	78	**289**	259
Individually immaterial subsidiaries with non-controlling interest						**4,563**	3,632

* 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	**2019 RMB million**	2018 RMB million
Non-current assets	**1,201**	1,062
Current assets	**611**	612
Current liabilities	**1,062**	977
Revenue	**4,560**	3,948
Profit and total comprehensive income for the year (note)	**279**	239
Dividends paid to non-controlling interests	**90**	81
Net cash inflow from operating activities	**267**	395
Net cash (outflow) inflow from investing activities	**(176)**	31
Net cash outflow from financing activities	**(158)**	(334)
Net cash (outflow) inflow	**(67)**	92

Note: Included in the amount for the year ended 31 December 2019 is dividends income from Quanzhou City Gas's subsidiaries and joint venture of RMB177 million (2018: RMB193 million).

56. PARTICULAR OF PRINCIPAL SUBSIDIARIES *(continued)*

Shijiazhuang Xinao	2019 RMB million	2018 RMB million
Non-current assets	**1,930**	1,716
Current assets	**655**	1,229
Non-current liabilities	**155**	123
Current liabilities	**1,706**	2,175
Revenue	**2,114**	2,189
Profit and total comprehensive income for the year	**206**	196
Dividends paid to non-controlling interests	**52**	47
Net cash inflow from operating activities	**476**	191
Net cash outflow from investing activities	**(167)**	(242)
Net cash outflow from financing activities	**(367)**	(7)
Net cash outflow	**(58)**	(58)

57. EVENT AFTER THE REPORTING PERIOD

The slump in international crude oil price in early March 2020 would enable the Group to benefit from lower procurement costs in accordance with the long-term LNG contracts, which would be partially mitigated by the negative effects on the Group's commodity derivative contracts. The Group will closely monitor the international crude oil market and perform detailed assessment instantly. Considering the unpredictability of crude oil market development and price trend, it is not practicable to provide a reasonable estimate of the effect on the Group's financial performance in the coming future.

58. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 RMB million	2018 RMB million
Non-current Assets		
Investment in subsidiaries	**8,183**	7,303
Investment in an associate	**39**	39
Financial assets at FVTPL	**379**	242
Amounts due from subsidiaries	**4,315**	4,622
	12,916	12,206
Current Assets		
Financial assets at FVTPL	**–**	464
Amounts due from subsidiaries	**5,779**	5,940
Cash and cash equivalents	**76**	453
	5,855	6,857
Current Liabilities		
Other payables	**132**	295
Taxation payables	**238**	226
Amounts due to subsidiaries	**1,613**	1,463
Bank loans – due within one year	**4,281**	4,356
Unsecured bonds	**–**	443
Financial liabilities at FVTPL	**–**	63
	6,264	6,846
Net Current (Liabilities) Assets	**(409)**	11
Total Assets less Current Liabilities	**12,507**	12,217
Capital and Reserves		
Share capital	**116**	116
Reserves	**3,550**	4,073
Total Equity	**3,666**	4,189
Non-current Liabilities		
Bank loans – due after one year	**2,093**	1,441
Senior notes	**2,539**	2,491
Unsecured bonds	**4,169**	4,096
Deferred tax liabilities	**40**	–
	8,841	8,028
	12,507	12,217

58. 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	Share options reserve RMB million	Retained earnings RMB million	Total RMB million
At 1 January 2018	112	–	72	74	1,157	1,415
Profit and total comprehensive income for the year	–	–	–	–	1,176	1,176
Recognition of equity-settled share-based payment (Note 45)	–	–	–	19	–	19
Issue of shares on conversion of convertible bonds	–	–	79	–	–	79
Issue of ordinary shares on acquisition of subsidiaries (Note 47)	4	–	2,493	–	–	2,497
Issue of ordinary shares upon exercise of share options (Notes 40 & 45)	–	–	48	(15)	–	33
Share repurchase (Note 40)	–	–	(78)	–	–	(78)
Dividends appropriation (Note 14)	–	–	–	–	(952)	(952)
At 31 December 2018 and 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 40 & 45)	–	–	76	(24)	–	52
Dividends appropriation (Note 14)	–	–	–	–	(1,176)	(1,176)
At 31 December 2019	116	(151)	2,690	128	883	3,666

ENN 新奥

Rooms 3101-04, 31/F., Tower 1, Lippo Centre,
No.89 Queensway, Hong Kong
Tel (852) 2528 5666
Fax (852) 2865 7204
Website www.ennenergy.com
E-mail enn@enn.cn

MIX
Paper from responsible sources
FSC™ C007445
FSC www.fsc.org