

Independent Auditor's Report



羅兵咸永道

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

Opinion

What we have audited

The consolidated financial statements of The Hong Kong and China Gas Company Limited (the “Company”) and its subsidiaries (the “Group”), which are set out on pages 99 to 207, comprise:

- the consolidated income statement for the year ended 31st December 2022;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of financial position as at 31st December 2022;
- the consolidated cash flow statement for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the consolidated financial statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key audit matters

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

Key audit matters (Continued)

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

- Valuation of investment in certain equity interests of an unlisted company
- Impairment assessment of (i) coal mine and oil properties, (ii) property, plant and equipment of a chemical production project and (iii) interest in an associate, Shanghai Gas Co., Ltd. (“Shanghai Gas”)

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of investment in certain equity interests of an unlisted company</p> <p>Refer to notes 3, 4(g) and 24 to the consolidated financial statements</p> <p>The Group’s investment in certain equity interests of an unlisted company which owned a coking coal mine and related coke production and coke-gas conversion facility in Inner-Mongolia, and its related derivative (the “Investment”), were accounted for entirely as a financial asset at fair value through profit or loss and it was subject to fair value revaluation at each reporting date. The Investment at 31st December 2022 was valued by an independent professional valuer. With reference to the valuation, management had estimated the fair value of the Investment at HK\$2.9 billion at year end.</p> <p>Given the valuation involves significant management judgements, it is considered as one of the key audit matters.</p> <p>The fair value was determined based on the discounted cash flow model and relevant option pricing models. The valuation involved significant judgements and estimates from management, including coking coal reserves, future business growth driven by future expansion plan, future products selling prices and production costs of the investee, discount rate, marketability discount and minority discount and expected fair value volatility, where applicable.</p>	<p>Our procedures in relation to management’s valuation of the Investment include:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the management’s control procedures of valuation of the Investment and assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors; • Evaluating the independent professional valuer’s competence, capabilities and objectivity; • Assessing the valuation methodology used by the independent professional valuer to estimate the fair value of the Investment; • Checking, on a sample basis, the accuracy and reasonableness of the input data provided by management to the independent professional valuer, to supporting evidence, such as approved budgets and considering the reasonableness of these budgets by comparing the budgets to the historical results and market data; • Assessing the reasonableness of cash flows projection, challenging and performing audit procedures on management’s assumptions such as coking coal reserves, the future business growth driven by future expansion plan, future products selling prices and production costs, discount rate by comparing the assumptions to historical results and published market and industry data and comparing the current year’s results with the prior year forecast and other relevant information. Internal valuation expert has been engaged to assist the review on valuation methodology, discount rate, marketability discount, minority discount and expected fair value volatility, where applicable. In addition, we had communicated with the management of the Investment to understand the business and assessed if there was any inconsistency in the assumptions used in the cash flows projection; and • Testing the mathematical accuracy of the cash flows projection. <p>Based on the audit procedures performed, we found the assumptions made by management in relation to the valuation were supported by available evidence.</p>

Key audit matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<p>Impairment assessment of (i) coal mine and oil properties, (ii) property, plant and equipment of a chemical production project and (iii) interest in an associate, Shanghai Gas Co., Ltd. (“Shanghai Gas”)</p> <p>Refer to notes 4(a), 16, and 21 to the consolidated financial statements</p> <p>In relation to the new energy business segment, the Group owned a coal mine in Chinese mainland and oil properties in Thailand which are engaged in the exploration, drilling and sale of crude oil. The Group also operated a chemical production project in Chinese mainland which is engaged in production of coal related chemical products. The carrying values of the coal mine and oil properties are mainly included under “mining and oil properties” of HK\$1.9 billion of property, plant and equipment and the carrying value of the property, plant and equipment of the chemical production project was HK\$2.6 billion as at 31st December 2022. In consideration of the financial results of these projects and the prices of the primary inputs/outputs (where applicable) of these projects, namely coal, oil, and coal related chemical products were volatile during the year, management considered there were impairment indicators and performed impairment assessments on these assets. Based on the results of the impairment assessment, no provision for impairment against (i) coal mine and oil properties and (ii) property, plant and equipment for the chemical production project were recognised in the consolidated income statement for the year ended 31st December 2022.</p>	<p>Our procedures in relation to management’s impairment assessment include:</p> <ul style="list-style-type: none">• Understanding the management’s impairment assessment process and assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors;• Evaluating the independent professional valuer’s and consultant’s competence, capabilities and objectivity, where applicable;• Assessing the methodology used by management to estimate the recoverable amounts;• Checking, on a sample basis, the accuracy and relevance of the input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets by comparing the budgets to the historical results and the market data;

Key audit matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<p>In relation to (iii) the Group’s 25% interest in Shanghai Gas, the carrying value of the investment as at 31st December 2022 amounting to HK\$4.7 billion included under “Associates” in the consolidated statement of financial position. In consideration of the operating losses of Shanghai Gas, management considered there were impairment indicators and performed impairment assessment on this investment. Based on the result of the impairment assessment on the investment, no provision for impairment against the carrying value of interest in Shanghai Gas were recognised in the consolidated income statement for the year ended 31st December 2022.</p> <p>Under the impairment assessments, management calculated the recoverable amounts under value-in-use or fair value less cost of disposal method. As the calculations require the use of significant management judgement and estimates, including the coal and oil reserves, future business growth, future products selling price and production costs, discount rate, terminal value etc., we consider it was one of the key audit matters.</p>	<ul style="list-style-type: none"> • Assessing the appropriateness of cash flows projections in calculation of the recoverable amount of the coal mine, oil properties and the chemical production project, challenging the reasonableness of management’s assumptions such as the coal and oil reserves, future business growth, future products selling prices and production costs, discount rate, terminal value, where applicable based on our knowledge of the business and industry by comparing the assumptions to historical results and published market and industry data and comparing the current year’s actual results with the prior year forecast, where applicable. Internal valuation expert had been engaged to assist the review on the methodology of the recoverable amount calculations and discount rates; and • Performing sensitivity analysis in consideration of potential impact of reasonably possible downside changes in the key assumptions. <p>Based on the audit procedures performed, we found that the assumptions made by management were supported by available evidence.</p>

Other information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor’s report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors and those charged with governance for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- 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.

Auditor's responsibilities for the audit of the consolidated financial statements

(Continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Pong Fei Ho.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 17th March 2023