中國基礎能源控股有限公司
China Primary Energy Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 8117)

Annual Report
2017

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This annual report, for which the directors (the "Directors") of CHINA PRIMARY ENERGY HOLDINGS LIMITED (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this annual report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this annual report misleading.

Contents

Expressed in Hong Kong dollars ("HK$")

\# The English translation of Chinese names or words in this annual report, where indicated, is included for information purpose only, and should not be regarded as the official English translation of such Chinese names and words.

Corporate Information

Board of directors

Executive Directors

Ms. Ma Zheng *(Chairman)*
Mr. Wong Pui Yiu

Independent Non-Executive Directors

Mr. Wan Tze Fan Terence
Mr. Chung Chin Keung
Mr. Wang Xiao Bing

Registered office, head office and principal place of business

Registered office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Head office and principal place of business

Suite 701
Ocean Centre
5 Canton Road
Tsim Sha Tsui
Kowloon
Hong Kong

Company secretary

Mr. Wong Chun Sing

Compliance officer

Mr. Wong Pui Yiu

Audit committee

Mr. Wan Tze Fan Terence *(Chairman)*
Mr. Chung Chin Keung
Mr. Wang Xiao Bing

Nomination committee

Mr. Wan Tze Fan Terence *(Chairman)*
Mr. Chung Chin Keung
Mr. Wang Xiao Bing

Remuneration committee

Mr. Wan Tze Fan Terence *(Chairman)*
Mr. Chung Chin Keung
Mr. Wang Xiao Bing

Authorised representatives

Ms. Ma Zheng
Mr. Wong Pui Yiu

Principal bankers

China Construction Bank (Asia) Corporation Limited
The Hongkong and Shanghai Banking Corporation Limited

Share registrar and transfer office

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

Stock code

8117

Website

http://china-p-energy.etnet.com.hk

Cayman Islands assistant secretary

Conyers Trust Company (Cayman) Limited

Auditor

BDO Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

Hong Kong branch share registrar

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Chairman's Statement

It is my pleasure to present the annual results of China Primary Energy Holdings Limited (the "Company") together with its subsidiaries (collectively referred to as the "Group"), for the year ended 31 December 2017.

Operation

With the continue growth of the economy of The People's Republic of China (the "PRC"), the business environment of PRC and the Asia region continued to improve in 2017. Under the rapid change of the global economy, the demand of clean energies like natural gas in the world, especially PRC, has been increasing. As a result, it has positive impact on the Group's clean energy business. For the Company and the Group, 2017 was a year of changes. In 2017, we paid additional effort on the operation of natural gas business and explored new business opportunity of clean energy investments that will provide synergy effect with existing natural gas operation. Moreover, new segments in trading of electronic products and property investment started in 2017.

Our energy segment was performing well and the transmission and distribution of natural gas continued to be the core business segment of the Group in 2017. Natural gas is a kind of clean energy that most large countries, include PRC, in the world are using and the extent of usage is growing rapidly. In recent years, the PRC government has announced its policy to encourage businesses and citizens to use clean energy and natural gas is the most promoted energy of all. The policy has benefited the Group's natural gas business in the PRC. In 2017, we made some restructure in the natural gas business that we disposed a subsidiary so as to concentrate the resources of the Group on certain core areas in PRC like Wuhu and Fujian.

The manufacturing and selling of Polyethylene pipes ("PE pipes") continue to be a major business segment of the Group in 2017. In view of the fierce competition of the market of PE pipes, we were able to maintain our market share in 2017. After years of investigation, we noted that there was great demand of factories and offices in Yichang and in order to fully utilize our land and buildings in Yichang, the Group has let out part of its land and buildings to generate rental income and property investment become a new operating segment of the Group.

Hong Kong is a free and well developed economy. Trading business has been one of the successful elements in past years. We have investigated the possibility of doing business in Hong Kong for a few years and in 2017, we were able to commence our trading business. The gross margin was not very profitable but we believe it was a good starting point.

Chairman's Statement

Results

Although the Group did not achieve profit in 2017, revenue was maintained even we disposed an operating subsidiary. Gross margin of the Group slightly improved but was still not enough to cover the fixed costs, include share based payments and revaluation deficit of the financial asset, of the Group. We believe that increase revenue and improve effectiveness in the near future can definitely improve the results of the Group.

Future Development

Definitely, after years of changes, the Group is like an arrow in the bow. Clean energy business will be our core business from 2018 onwards. With the continuing growth of the natural gas business, we are expanding our market share in the industry and at the same time were looking for every opportunity to growth.

The trading and property investment business will grow steadily. For the manufacturing sector, the Group maintained the market share of the PE pipes business in 2017 and we are looking to maintain market share of PE pipes in such a competitive market.

Being the Chairman of the Company, I will continue to lead the Board and the Company to achieve our goal. I strongly believe that with the continuous efforts and support of the management team and business partners, the target of the Group to develop into a large clean energy service provider in the PRC can be achieved. In the meantime, as mentioned several times before, we are still exploring for possible investing opportunities to increase the Company's value. In this respect, I can assure you that the shareholders' return will be increased in the near future.

Appreciation

On behalf of the Board, I would like to express my sincere gratitude to our shareholders, fellow directors, staff, customers, suppliers, professional advisers and business partners for their ongoing support and contributions. 2018 will be a challenging year but, with the strong commitment and contribution from all of you, I believe the Group can achieve its goal.

MA ZHENG
Chairman

Hong Kong, 22 March 2018

Management Discussion and Analysis

OPERATION REVIEW

Revenue of the Group for the year ended 31 December 2017 increased when compared to the corresponding period in 2016. Such increase was mainly because in 2017, the natural gas business was stable and there were new income from trading and rental businesses. The board (the "Board") of directors (the "Director(s)") believes that revenue of the Group will be further improved with the further development of the natural gas business and the trading business. Therefore, the results of the Group will be improved accordingly.

After years of business transformation, the natural gas business was the core business of the Group. Operating performance of the natural gas business segment continued to grow in 2017. In view of the People's Republic of China (the "PRC") government has implemented the policy to use clean energy in the PRC, the prospect of natural gas business is very bright. The Group operated the natural gas business in various areas and provinces in the PRC in 2017. Our customers include industrial and domestic customers. During the year under review, the Group disposed of a subsidiary so as to concentrate on resources. The Group is also exploring clean energy business and natural gas related areas such as electricity generating business so as to fully use the synergy effect on current natural gas business. The Group is of the view that the natural gas business is still growing and is now the most significant business of the Group.

The manufacturing segment has been the major business segment of the Group in previous years and continued as one of the businesses of the Group in 2017. The Polyethylene pipes (the "PE pipes") are the major products of the manufacturing segment and include both water pipes and gas pipes. They are products used for construction and city development in the PRC. The Group's major customers are the government and public entities, or their suppliers, from different provinces and cities in the PRC. After years of investigation, the Group started its letting business in Yichang. Rental income became a new business segment of the Group.

From November 2017 onwards, the Group commenced its trading business segment. With the international trading platform in Hong Kong and the built up business relationship of the Group, the trading segment is anticipated to grow with variety of trading products such as natural gas, and electronic components.

In view of the unstable global political environment and the pressure on economic downturn, the Board and management will be more careful and prudent in managing the operations of the Group. In the meantime, the Board has been exploring possible investing opportunities to increase the Company's value.

Management Discussion and Analysis

Discloseable transaction – Disposal of a subsidiary

On 29 August 2017, China Primary Energy (Shenzhen) Limited (the "Vendor"), indirect wholly-owned subsidiary of the Company and the registered holder of 寧國中基能源有限公司 (Ningguo China Primary Energy Limited#) ("Ningguo CP"), entered into the sale and purchase agreement with 寧國安順燃氣有限公司 (Ningguo Anshun Gas Limited#) (the "Purchaser"), an independent third party, pursuant to which the Vendor agreed to sell and the Purchaser agreed to acquire 100% registered capital of Ningguo CP for a consideration of RMB43,000,000. Upon completion, Ningguo CP ceased to be a subsidiary of the Company and the financial results of Ningguo CP were not consolidated into the financial statements of the Group.

EVENTS AFTER THE REPORTING DATE

Subscription of new shares by Winmaxi (BVI) Company Limited

On 12 February 2018, the Company entered into the subscription agreement (the "Winmaxi Subscription Agreement") with Winmaxi (BVI) Company Limited ("Winmaxi") as subscriber, pursuant to which Winmaxi has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 93,089,767 new Shares (the "Winmaxi Subscription Shares(s)") at the subscription price of HK$0.8183 per Winmaxi Subscription Share (the "Winmaxi Shares Subscription").

The subscription price of HK$0.8183 per Winmaxi Subscription Share represented a discount of approximately 16.50% to the closing price of HK$0.98 per Share as quoted on the Stock Exchange on 12 February 2018, being the date of the Winmaxi Subscription Agreement. The net subscription price, after deduction of relevant expenses, is approximately HK$0.8156 per Winmaxi Subscription Share.

By entering into the Winmaxi Subscription Agreement, the Group can broaden its capital base and further strengthen the financial position of the Group. Furthermore, the Winmaxi Shares Subscription will broaden the shareholder base of the Company as the shareholder of Winmaxi is a well-developed listed company.

The gross proceeds of the Winmaxi Shares Subscription of approximately HK$76.2 million will generally be used as the working capital of the Group in the future.

Management Discussion and Analysis

The completion of the Winmaxi Shares Subscription has taken place on 9 March 2018 pursuant to the terms of the Winmaxi Subscription Agreement and all the 93,089,767 Winmaxi Subscription Shares have been issued and allotted to Winmaxi in accordance with the terms and conditions of the Winmaxi Subscription Agreement. The Winmaxi Subscription Shares rank equally in all respects among themselves and with all other ordinary shares of HK$0.0625 each.

Details are set out in the announcements dated 12 February 2018, 15 February 2018, 22 February 2018 and 9 March 2018 of the Company.

Subscription of new shares by Asia Bravo Limited

On 12 February 2018, the Company entered into the subscription agreement (the "Asia Bravo Subscription Agreement") with Asia Bravo Limited ("Asia Bravo") as subscriber, pursuant to which Asia Bravo has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 53,900,000 new Shares (the "Asia Bravo Subscription Shares(s)") at the subscription price of HK$0.8183 per Asia Bravo Subscription Share (the "Asia Bravo Shares Subscription").

The subscription price of HK$0.8183 per Asia Bravo Subscription Share represented a discount of approximately 16.50% to the closing price of HK$0.98 per Share as quoted on the Stock Exchange on 12 February 2018, being the date of the Asia Bravo Subscription Agreement. The net subscription price, after deduction of relevant expenses, is approximately HK$0.8155 per Asia Bravo Subscription Share.

By entering into the Asia Bravo Subscription Agreement, the Group can broaden its capital base and further strengthen the financial position of the Group. Furthermore, the Asia Bravo Shares Subscription will broaden the shareholder base of the Company.

The gross proceeds of the Asia Bravo Shares Subscription of approximately HK$44.1 million will generally be used as the working capital of the Group in the future.

As at the date of this annual report, Asia Bravo Subscription Shares have not been issued and allotted and are anticipated to be issued and allotted on or before 29 March 2018. The Company will make a further announcement when completion takes place.

Details are set out in the announcements dated 12 February 2018, 15 February 2018 and 22 February 2018 of the Company.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue was approximately HK$194,908,000 for the year ended 31 December 2017, which represented an increase of approximately 6.6% when compared with last year's revenue of approximately HK$182,800,000. The Board believes that revenue of the Group will be further improved with the growing of the natural gas business and anticipated improvement of the manufacturing business.

During the year under review, audited loss before income tax was approximately HK$18,214,000 (2016: loss of approximately HK$58,038,000). The loss attributable to owners of the Company was approximately HK$20,732,000 (2016: loss of approximately HK$59,567,000). Significant loss is mainly due to insufficient revenue generated in the reporting period. In the current economic environment, the Board will continue to exercise stringent cost control and maintain a low and effective overheads structure and prudently utilise the Group's corporate resources to create wealth for the shareholders.

BUSINESS OUTLOOK AND PROSPECTS

From 2018 onwards, the Board is optimistic that the Group will perform much better with the expansion of the energy segment, the trading segment and the property investment segment. Currently, the energy segment mainly consists of the natural gas business. The Group has developed a strong natural gas sales network. The network is still expanding and with the clean energy policy carried out by the PRC government, the management believes the natural gas business will grow steadily under the current economic environment and significant revenue will be contributed by the natural gas business. The energy segment will become the core business segment of the Group in the near future.

The PE pipes business of the manufacturing segment will continue to sustain in 2018. The land and buildings in Yichang will continue to be let out to generate rental income.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, net assets of the Group were approximately HK$344,208,000 (2016: approximately HK$315,685,000) while its total assets were approximately HK$617,670,000 (2016: approximately HK$476,956,000) including cash and bank balances of approximately HK$10,841,000 (2016: approximately HK$17,512,000).

Management Discussion and Analysis

FUNDING ACTIVITIES DURING THE YEAR

The Company did not carry out any fund raising activities during the year under review.

GEARING RATIO

As at 31 December 2017, current assets of the Group amounted to approximately HK$214,727,000 which included cash and bank balances of approximately HK$3,444,000 and approximately RMB6,160,000 (equivalent to HK$7,397,000), while current liabilities stood at approximately HK$254,199,000. The Group has borrowings of approximately HK$45,625,000. Equity attributable to owners of the Company amounted to approximately HK$313,676,000. In this regard, the Group was in a net assets position and had a gearing ratio of approximately 14.5% (borrowings to equity attributable to owners of the Company) as as 31 December 2017.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Sales and payment of the Group are denominated in Hong Kong dollars and Renminbi ("RMB"). The Group's cash and bank deposits were mainly denominated in Hong Kong dollars and RMB, and the business is mainly operated in the PRC. The only foreign currency exposure comes mainly from the funds movement between Hong Kong and the PRC. Exchange risk is not significant as the Group conducts business in PRC and does not have import and export business. No hedging or other alternatives had been implemented for foreign currency exposure. However, the Group will continue to monitor closely the exchange rate movements and will enter into hedging arrangements in future if necessary.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2017, no assets of the Group were pledged and the Group did not have any significant contingent liabilities.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 7 to the financial statements.

CAPITAL STRUCTURE

The ordinary shares of the Company were initially listed on GEM of the Stock Exchange on 13 December 2001. As at 31 December 2017, the issued share capital of the Company was made up of 930,897,672 ordinary shares of HK$0.0625 each.

Management Discussion and Analysis

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save as disclosed above, there was no other material acquisition or disposal of subsidiaries and affiliated companies during the year.

SIGNIFICANT INVESTMENTS/FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group did not made any significant investment during the year ended 31 December 2017. No material plan for future investment was noted as at the date of this annual report.

EMPLOYEE INFORMATION

As at 31 December 2017, the Group had 8 full-time employees working in Hong Kong and 203 full-time employees working in the PRC. Total employees' remuneration (including Directors' remuneration) for the year under review amounted to approximately HK$38,072,000. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Biographical Details of Directors and Senior Management

Directors

Ms. Ma Zheng, aged 51

Chairman and Executive Director

Ms. Ma joined the Group in February 2004. She is currently the chairman and the major shareholder of the Company. Ms. Ma has over 28 years of experience in international trade, electronic industry and corporation management. She graduated from Wuhan University majoring in construction structure engineering.

Mr. Wong Pui Yiu, aged 55

Executive Director

Mr. Wong joined the Group in February 2008. He has over 17 years of experience in business administration and corporate management. He is currently the general manager of Smart Honest Group Limited which has been a distributor of semiconductors since 2004.

Mr. Wan Tze Fan Terence, aged 53

Independent Non-executive Director

Mr. Wan joined the Group in March 2004. Mr. Wan holds a bachelor degree in commerce and a master degree in business administration. Mr. Wan has years of experience in accounting and financial management. He had worked for international accounting firms and listed companies in Hong Kong. He is a fellow member of The Hong Kong Institute of Certified Public Accountants and a Certified Practicing Accountant of CPA Australia. Currently, he is an executive director of Sino Oil and Gas Holdings Limited and an independent non-executive director of Eagle Legend Asia Limited, both companies are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Biographical Details of Directors and Senior Management

Mr. Chung Chin Keung, aged 50

Independent Non-executive Director

Mr. Chung joined the Group in February 2008. Mr. Chung holds a bachelor degree of Business Administration from the Hong Kong Baptist University and a master degree in Business Administration from Manchester Business School. Mr. Chung is a fellow member of The Association of Chartered Certified Accountants, a fellow member of The Hong Kong Institute of Certified Public Accountants, a fellow member of The Institute of Chartered Accountants in England and Wales and a member of The Taxation Institute of Hong Kong. He has more than 25 years of experience in finance, accounting and management. Mr. Chung is currently the financial controller and company secretary of China Financial Services Holdings Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Mr. Wang Xiao Bing, aged 50

Independent Non-executive Director

Mr. Wang joined the Group in March 2012. Mr. Wang holds a bachelor degree in law from China University of Political Science and Law. He used to work for several famous corporations and law office in China. He has over 16 years of experience in corporation law counselor. Mr. Wang has the lawyer's license of China and he is a member of Shenzhen lawyer association. Currently, Mr. Wang is a lawyer and one of the partners of Guangdong C&B Law Office, which is a new style and professional law office.

Senior management

Mr. Wong Chun Sing, aged 47

Financial Controller and Company Secretary

Mr. Wong joined the Group in April 2008. Mr. Wong holds a master degree in business administration. He is a fellow member of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. Mr. Wong has over 24 years of management experience in the accounting and finance sector and he had worked for an international accounting firm, listed companies and securities and finance companies in Hong Kong.

Directors' Report

The directors of the Company (the "Director(s)") herein present their report and the audited financial statements for the year ended 31 December 2017.

Principal activities

The principal activity of the Company is investment holding. The principal activities of its major subsidiaries are transmission and distribution of natural gas, manufacture and sale of PE pipes, trading of electronic components and property investment. Details of the principal activities of its subsidiaries are set out in Note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the Group's performance for the year by business and geographical segment is set out in Note 7 to the financial statements.

Business review and future development

Business review of the operations of the Group for the year ended 31 December 2017 and outlook and future prospects are set out in the sections headed "Chairman's Statement", "Management Discussion and Analysis", "Corporate Governance Report" and "Environmental, Social and Governance Report" of this annual report.

Results and appropriations

The results of the Group for the year ended 31 December 2017 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 76 to 174.

The Board does not recommend the payment of any dividend.

Share capital

Details of the movements in share capital of the Company during the year are set out in Note 36 to the financial statements.

Reserves

Details of the movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and Note 48 to the financial statements, respectively.

Distributable reserves

As at 31 December 2017 and 2016, the Company had no retained profit available for distribution to shareholders of the Company. However, in accordance with the laws of the Cayman Islands and the Company's articles of association ("Articles of Association"), the share premium account of HK$644,131,000 is, subject to solvency test, available for distribution to shareholders of the Company.

Directors' Report

Property, plant and equipment

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

Particulars of investment properties

A summary of the particulars of investment properties is set out on page 175.

Pre-emptive rights

There is no provision for pre-emptive rights under the Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands, which will oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 176.

Purchase, sale or redemption of securities

The Company had not redeemed any of its ordinary shares during the year ended 31 December 2017. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's ordinary shares during the year ended 31 December 2017.

Directors

The Directors during the year and up to the date of this annual report were as follows:

Executive Directors

Ms. Ma Zheng
Mr. Wong Pui Yiu

Independent Non-Executive Directors

Mr. Wan Tze Fan Terence
Mr. Chung Chin Keung
Mr. Wang Xiao Bing

In accordance with article 87(1) of the Articles of Association, Ms. Ma Zheng and Mr. Wang Xiao Bing, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Directors' Report

All other remaining Directors will continue in office.

All Directors are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the provisions of the Articles of Association and code provision as set out in paragraph A.4.3 of Appendix 15 of the GEM Listing Rules.

Mr. Wan Tze Fan Terence is an independent non-executive Director serving the Company for more than 9 years. Any future re-appointment of Mr. Wan Tze Fan Terence will follow the requirements of paragraph A.4.3 of Appendix 15 of the GEM Listing Rules. The Board considers that Mr. Wan Tze Fan Terence continues to be independent as he has satisfied all the criteria for independence set out in Rule 5.09 of the GEM Listing Rules.

Mr. Wan Tze Fan Terence is an independent non-executive Director and was appointed without a specific term.

Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on pages 12 and 13.

Directors' service contracts

Ms. Ma Zheng and Mr. Wong Pui Yiu, both are executive Directors, have renewed their service contracts with the Company for a term of two years commenced on 1 January 2018 and 1 February 2018 respectively. They are subject to termination by either party giving not less than three months' written notice. These service contracts are exempt from the shareholders' approval requirement under Rule 17.90 of the GEM Listing Rules.

Independence of independent non-executive directors

Each of the independent non-executive Directors has confirmed his independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers the independent non-executive Directors to be independent.

Directors' Report

Directors' interests

No contract of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation

As at 31 December 2017, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

The approximate percentage of interests set out below is based on 930,897,672 ordinary shares in issue as at 31 December 2017.

(i) Long position in the ordinary shares of HK$0.0625 each in the Company as at 31 December 2017:

	Number of ordinary shares held		
Name of Director	**Type of interests**	**Number of ordinary shares**	**Approximate percentage of interests**
Ms. Ma Zheng	Beneficial	371,051,632	39.86%

Directors' Report

(ii) Long position in the underlying shares or debentures of the Company as at 31 December 2017:

Name of Directors	Type of interests	Description of securities	Number of underlying shares	Approximate percentage of interests
Ms. Ma Zheng	Beneficial	Share options (Note)	820,000	0.09%
Mr. Wong Pui Yiu	Beneficial	Share options (Note)	3,500,000	0.38%
Mr. Wan Tze Fan Terence	Beneficial	Share options (Note)	700,000	0.08%
Mr. Chung Chin Keung	Beneficial	Share options (Note)	700,000	0.08%
Mr. Wang Xiao Bing	Beneficial	Share options (Note)	700,000	0.08%

Note: On 10 April 2015, a total of 6,420,000 share options were granted to Directors as to 820,000 share options to Ms. Ma Zheng, as to 3,500,000 share options to Mr. Wong Pui Yiu, as to 700,000 share options to Mr. Wan Tze Fan Terence, as to 700,000 share options to Mr. Chung Chin Keung and as to 700,000 share options to Mr. Wang Xiao Bing. For further details of the share options granted, please refer to the announcement dated 10 April 2015 of the Company and under the heading "Share option" below.

Save as disclosed above, as at 31 December 2017, none of the Directors and chief executive of the Company had any other interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations, within the meaning of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Directors' Report

Share option

On 8 May 2012, a new share option scheme (the "Share Option Scheme") was adopted by the shareholders of the Company. The purpose of the Share Option Scheme is to provide incentives and rewards to eligible participants who would contribute to the success of the Group's operations. Under the terms of the Share Option Scheme, the Board may, at its discretion, grant share options to any full-time employee and any Director of the Company or its subsidiaries, including any executive, non-executive or independent non-executive directors. The total number of shares which may fall to be issued upon exercise of all of the outstanding share options granted and yet to be exercised under the Share Option Scheme and other schemes of the Company must not exceed 30% of the shares in issue from time to time. The Share Option Scheme will remain in force for a period of ten years commencing the date on which the scheme becomes unconditional.

The Share Option Scheme was adopted by the shareholders of the Company at the annual general meeting of the Company held on 8 May 2012.

The definition of eligible person in the Share Option Scheme include any suppliers, consultants, agents, advisors and distributors who, in the sole discretion of the Board, have contributed or may contribute to the Group. The total number of shares in respect of which share options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of approval of the Share Option Scheme, without prior approval from the Company's shareholders. The number of shares in respect of which share options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders.

Where options are proposed to be granted to a connected person who is also a substantial shareholder or an independent non-executive Director or their respective associates and if such grant would result in the total number of shares issued and to be issued upon exercise of the share options granted and to be granted (including share options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant to such person representing in aggregate over 0.1% of the total issued shares and having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK$5 million, then the proposed grant must be subject to the approval of shareholders of the Company taken on a poll in a general meeting. All connected persons of the Company must abstain from voting at such general meeting.

Directors' Report

The exercise price for shares under the Share Option Scheme may be determined by the Board at its absolute discretion but in any event will not be less than the highest of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a Business Day, (ii) the average of the closing prices of the shares as stated in the daily quotations sheets of the Stock Exchange for the five Business Days immediately preceding the date of grant; and (iii) the nominal value of the share on the date of grant. Any share options granted under the Share Option Scheme shall end in any event not later than ten years from the Commencement Date (as defined in the Share Option Scheme). A nominal value of HK$1.00 is payable on acceptance of each grant of share options.

On 10 April 2015, share options of 81,720,000 were granted by the Company to certain individuals at exercise price of HK$0.87 per share.

As at 31 December 2017, total number of share options can be granted to qualified grantees or granted but not yet lapsed or cancelled were 167,559,767. As a result, 167,559,767 shares of the Company could be issued which represented about 18% of the issued share capital of the Company as at 31 December 2017 if all the share options were granted and exercised.

Details of the share options granted by the Company under the Share Option Scheme to eligible persons and movement in such holding during the year are as follows:

				Number of share options		
Name or category of participant	**Date of grant**	**Exercise period**	**Exercise price per share** *HK$*	**Outstanding as at 1 January 2017**	**Lapsed during the year**	**Outstanding as at 31 December 2017**
Directors						
Ms. Ma Zheng	10 April 2015	1 April 2018 – 7 May 2022	0.87	820,000	–	820,000
Mr. Wong Pui Yiu	10 April 2015	1 April 2018 – 7 May 2022	0.87	3,500,000	–	3,500,000
Mr. Wan Tze Fan Terence	10 April 2015	1 April 2018 – 7 May 2022	0.87	700,000	–	700,000
Mr. Chung Chin Keung	10 April 2015	1 April 2018 – 7 May 2022	0.87	700,000	–	700,000
Mr. Wang Xiao Bing	10 April 2015	1 April 2018 – 7 May 2022	0.87	700,000	–	700,000
Sub-total				**6,420,000**	**–**	**6,420,000**
Others						
Employees	10 April 2015	1 April 2018 – 7 May 2022	0.87	69,950,000	(1,900,000)	68,050,000
Sub-total				**69,950,000**	**(1,900,000)**	**68,050,000**
Total				**76,370,000**	**(1,900,000)**	**74,470,000**

Directors' Report

Substantial shareholders' interests and short positions in the shares and underlying shares of the Company

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 December 2017, the Company had been notified that the following substantial shareholders having the following interests and short positions, being 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, in the Company. These interests are shown in addition to those disclosed above in respect of the Directors and chief executives:

The approximate percentage of interests set out below is based on 930,897,672 ordinary shares in issue as at 31 December 2017.

(i) Long position in the ordinary shares of HK$0.0625 each in the Company as at 31 December 2017:

Name of shareholders	Type of interests	Number of the shares held	Approximate percentage of interests
Ms. Guo Xiuqin	Corporate	123,867,678	13.31%
Tung Shing Energy Investment Limited	Corporate	123,867,678	13.31%
Excel Sino Investments Limited	Beneficial (Note 1)	123,867,678	13.31%
Mr. Ji Shengzhi	Corporate	110,000,000	11.82%
Ms. Lu Ke	Corporate	110,000,000	11.82%
Ultra Vantage Holdings Limited	Beneficial (Note 2)	110,000,000	11.82%

Directors' Report

Notes:

1. Excel Sino Investments Limited, a company incorporated in the British Virgin Islands with limited liability, is beneficially owned as to 80% by Tung Shing Energy Investment Limited, a company incorporated in the British Virgin Islands (which in turn is 100% beneficially owned by Ms. Guo Xiuqin), and as to the remaining 20% by an independent investor. Tung Shing Energy Investment Limited and Ms. Guo Xiuqin are deemed to be interested in these underlying shares under SFO.

2. Ultra Vantage Holdings Limited, a company incorporated in Samoa with limited liability, is jointly owned by Ms. Lu Ke and Mr. Ji Shengzhi. Ms. Lu Ke and Mr. Ji Shengzhi are deemed to be interested in these underlying shares under SFO.

(ii) Long position in the underlying shares or debentures of the Company as at 31 December 2017:

Name	Type of interests	Description of derivatives	Number of underlying shares	Approximate percentage of interests
Golden Peak Minerals Limited	Beneficial	Convertible Bonds in the principal amount of HK$60,000,000 (Note)	60,000,000	6.45%

Note:

On 17 February 2015, the Company entered into the conditional subscription agreement with Golden Peak Minerals Limited (the "CB Subscriber"), a company incorporated in the British Virgin Islands with limited liability, pursuant to which the CB Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to issue the five-year 4.5% coupon unlisted convertible bonds in principal amount of HK$60,000,000 (the "Convertible Bonds"). Details are set out in the announcements dated 17 February 2015 and 8 April 2015, the circular dated 11 March 2015 of the Company. As at the date of this annual report, Golden Peak Minerals Limited is jointly owned by Mr. He Xiaoyang and Mr. Yao Ge, both are independent third parties.

The Convertible Bonds were issued on 8 May 2015.

Directors' Report

Save as disclosed above, as at 31 December 2017, the Directors are not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or who had an interest, directly or indirectly, in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or any other substantial shareholders whose interests or short position were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Directors' rights to acquire shares

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Management contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

Major customers and suppliers

Sales to the Group's five largest customers accounted for approximately 56% of the total sales for the year, and sales to the largest customer included therein amounted to approximately 20%.

Purchases from the Group's largest supplier accounted for approximately 37% of the total purchases for the year and the five largest suppliers accounted for approximately 58% of the Group's total purchases for the year.

None of the Company's Directors or their respective associates (as defined in the GEM Listing Rules) or the existing shareholders, which, to the knowledge of the Directors holding more than 5% of the Company's issued share capital, had any interests in the Group's five largest customers or suppliers at any time during 2017.

Corporate governance

A report on the principal corporate governance practice adopted by the Company is set out on pages 28 to 38 of this annual report.

Directors' Report

Audit committee

The Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The primary role and function of the Audit Committee, among other things, are to (i) review the financial controls, internal controls and risk management systems of the Group; (ii) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; and (iii) review the financial statements and the quarterly, interim and annual reports of the Group. During the year under review, the Audit Committee comprises three members, Mr. Wan Tze Fan Terence, Mr. Chung Chin Keung and Mr. Wang Xiao Bing who are the independent non-executive Directors of the Company. During the year under review, the Audit Committee held four meetings and performed duties including reviewing the Group's quarterly, interim and annual reports and announcements. After reviewing the Group's financial statements for the year ended 31 December 2017, the Audit Committee is of the opinion that the financial statements of the Group for the year ended 31 December 2017 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

Remuneration committee

The remuneration committee of the Company (the "Remuneration Committee") was established on 1 June 2005. The primary role and function of the Remuneration Committee is to consider and recommend to the Board on the Group's remuneration policy and structure for the remuneration of all executive Directors and senior management and to review and determine the remuneration packages of the executive Directors and senior management. During the year under review, the Remuneration Committee comprises three members, Mr. Wan Tze Fan Terence, Mr. Chung Chin Keung and Mr. Wang Xiao Bing who are the independent non-executive Directors of the Company.

Nomination committee

The nomination committee of the Company (the "Nomination Committee") was established on 22 March 2012. The primary role and function of the Nomination Committee, among other things, are to (i) review the structure, size and composition of the Board at least once a year and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (ii) assess the independence of the independent non-executive Directors; and (iii) make recommendations to the Board on appointment and re-appointment of Directors. During the year under review, the Nomination Committee comprises three members, Mr. Wan Tze Fan Terence, Mr. Chung Chin Keung and Mr. Wang Xiao Bing who are the independent non-executive Directors of the Company.

Directors' Report

Connected and related party transactions

Details of the related party transactions during the year are included in Note 43 to the financial statements. The Directors are of the opinion that the related party transactions were conducted on normal commercial terms and in the ordinary course of business and did not require reporting pursuant to Chapter 20 of the GEM Listing Rules.

Competition and conflict of interests

During the year under review, none of the Directors, significant shareholders, substantial shareholders and any of their respective associates had engaged in any business that competed or might compete directly or indirectly, with the business of the Group, or had or might have any other conflicts of interest with the Group.

Principal risks and uncertainties

The Group's financial condition, results of operations, business and prospects would be affected by a number of risks and uncertainties including business risks, operational risks and financial management risks.

Starting from 2014, the Group operated natural gas business in the PRC. The demand of the natural gas business mainly relies on the PRC government policy on energy and the supply of natural gas from natural gas producers. The natural gas price fluctuates and is determined by the global environment which is a major uncertainty of the natural gas business of the Group.

Details of the financial risk management are disclosed in Note 45 to the financial statements.

Environmental policies and performance

As a responsible listed company, the Board ensures the Group is committed to support the environmental sustainability. The Group endeavours to comply with laws and regulations regarding environmental protection and adopts effective measures to achieve efficient use of resources, energy saving and waste reduction. The manufacturing segment and natural gas segment of the Group are non-polluting businesses and do not produce much waste and polluted materials. The management ensures that environmental protection remains a major element of our operations.

Directors' Report

Besides the above two operating segments, generally, the Group is committed to maintain an environmental friendly corporation to conserve natural resources. The Group strives to minimise our environmental impacts by saving electricity and encouraging recycle of office supplies and other materials. For details, please refer to the Environmental, Social and Governance Report in this annual report.

Compliance with relevant laws and regulations

As far as the Board is aware, the Group has complied in all material aspects of relevant laws and regulations that may have significant impacts on the business and operation of the Group. During the year under review, there was no material breach of or non-compliance with applicable laws and regulations by the Group.

Relationship with employees, customers and suppliers

The Group believes that employees are valuable assets. The Group provides competitive remuneration packages to attract and motivate the employees and such packages are reviewed regularly. The Company also grants share options to employees with good performance.

The Group understands the importance of maintaining good relationship with our suppliers and customers to meet our corporate goals. The Group communicates with suppliers and customers constantly to exchange ideas and views. We provide information on development of the Group to suppliers and customers so that they are confident with the Group's prospects so as to maintain a strong relationship.

Permitted indemnity provision

The Articles of Association provides that the Directors shall be indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duties, or supposed duties, in their respective offices or trusts.

The Company has taken out and maintained directors' liability insurance which provides appropriate cover for the Directors.

Directors' Report

Sufficiency of public float

The Company had maintained sufficient public float throughout the year ended 31 December 2017.

Contingent liabilities

As at 31 December 2017, the Directors were not aware of any material contingent liabilities.

Significant event after the reporting date

Save as disclosed in the "Events after the reporting date" of the Management Discussion and Analysis, there is no significant event after the reporting date up to the date of this annual report.

Auditor

The financial statements have been audited by BDO Limited who will retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as the auditor of the Company. There has been no change in auditor of the Company in any of the preceding three years.

On behalf of the Board

Ma Zheng
Chairman

Hong Kong, 22 March 2018

Corporate Governance Report

(A) Corporate governance practices

The Company has applied the principles and complied with all the code provisions set out in the Corporate Governance Code (the "Code") for the year ended 31 December 2017 contained in Appendix 15 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (collectively referred as the "GEM Listing Rules"), with the exception of two deviations as set out under section (D) and (F) below. The application of the relevant principles and the reasons for the abovementioned deviations are contained in this report.

The Company strives to attain and maintain high standards of corporate governance to enhance shareholder value and safeguard shareholder interests. The Company's corporate governance principles emphasise the need to have a quality Board, effective internal control and accountability to shareholders.

(B) Directors' securities transactions

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. All Directors confirmed they had complied with the required standard of dealings and the code of conduct regarding securities transactions by the Directors throughout the year.

(C) Board of directors

The Company is governed by the Board, which has the responsibility for leading and controlling the Company. The Directors are collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. More specifically, the Board formulates strategy, monitors its financial performance and maintains effective oversight over management. The Board delegates daily operations and administration of the Company to management.

The Board includes (up to the approval date of this financial statements) the Chairman together with one executive Director, and three independent non-executive Directors, and their biographical details have been set out in the "Biographical Details of Directors and Senior Management" section.

Corporate Governance Report

Board Meetings

The Company Secretary is responsible to the Board for providing with Board papers and related materials, for ensuring that all Board procedures and all applicable laws, rules and regulations are followed, and for reporting to the Chairman and/or the chief executive on governance matters. All Directors have unrestricted access to the advice and services of the Company Secretary. The Company Secretary also keeps minutes of all meetings which are available for inspection at any reasonable time on reasonable notice by any Director.

In case where a conflict of interest may arise involving a substantial shareholder or a director, such matter will be discussed through an actual meeting and will not be dealt with by written resolutions. Independent non-executive Directors with no conflict of interest will be present at meetings dealing with such conflict issues. The board committees, including the audit committee, the remuneration committee and the nomination committee, have all adopted the applicable practices and procedures used in board meetings for all committee meetings. If considered to be necessary and appropriate by the Directors, they may retain independent professional advisors at the Group's expense.

The Board meets regularly and held 9 Board meetings in 2017. At least 14 days' notice of the regular Board meetings were given to all Directors, who were all given an opportunity to include matters in the agenda for discussion. Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each regular board meeting or committee meeting to keep Directors apprised of the latest development and financial position of the Company and to enable them to make informed decisions. The Directors attended the meetings in persons or through other means of electronic communication in accordance with the Articles of Association. During regular Board meetings, the Directors discussed and formulated the overall strategies of the Group, reviewed and approved the annual, interim and quarterly results, as well as discussed and decided on other significant matters of the Group. All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board. Individual attendance records of each Director at the respective Board and committee meetings are set out in the section of "Directors' Attendance Record at Meetings" of this report.

Continuous Professional Development

Pursuant to code provision A.6.5 of the Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Up to the date of this report, all Directors have participated in continuous professional development by attending seminars or programmes or studying relevant materials on the topics related to corporate governance and regulations.

Corporate Governance Report

The individual training record of each Director received for the year ended 31 December 2017 is summarised below:

Name of Directors	Attending seminar(s) or programme(s)/ studying relevant materials in relation to the business or directors' duties
	Yes/No
Executive Directors	
Ms. Ma Zheng *(Chairman)*	Yes
Mr. Wong Pui Yiu	Yes
Independent non-executive Directors	
Mr. Wan Tze Fan Terence *(Committee Chairman)*	Yes
Mr. Chung Chin Keung	Yes
Mr. Wang Xiao Bing	Yes

All Directors also understand the importance of continuous professional development and are committed to participate in any suitable training or study relevant materials in order to develop and refresh their knowledge and skills.

During the year under review, there was no conflict of interest in any matters with the substantial shareholders and Directors of the Company. In addition, if the Board considers a Director to be having a conflict of interest, that Director will be required to abstain from voting.

(D) Chairman and chief executive officer

For the year 2017, we still did not have an officer with the title of "Chief Executive Officer". The Code envisages that the management of the Board should rest with the Chairman, whereas the day-to-day management of the Company's business should rest with the Chief Executive. Ms. Ma Zheng, the Chairman, is also a director of some of the Company's operating subsidiaries. This constitutes a deviation of code provision A.2.1 of the Code. The Board holds the view that this arrangement is appropriate for the Company but we do not compromise accountability and independent decision making for this since we have an audit committee, all members of which are independent non-executive Directors, to help to ensure the accountability and independence of Ms. Ma Zheng.

Corporate Governance Report

(E) Appointment and re-election of directors

According to the Articles of Association (a) every director, including those appointed for a specific term, should be subjected to retirement by rotation at least once every three years; and (b) all directors appointed to fill casual vacancy should be subject to election by shareholders at the next following general meeting of the Company after their appointment.

(F) Independent non-executive directors

During the year under review, the Company had three independent non-executive Directors, they were Mr. Wan Tze Fan Terence, Mr. Chung Chin Keung and Mr. Wang Xiao Bing. Except for Mr. Chung Chin Keung and Mr. Wang Xiao Bing who are appointed for a specific term of two years, Mr. Wan Tze Fan Terence is not appointed for any specific terms. This constitutes a deviation of code provision A.4.1 of the Code which requires that non-executive Directors should be appointed for specific terms. However, he is subject to retirement by rotation at least once every three years in accordance with the Articles of Association. The Board has discussed and concluded that the current practice of appointing non-executive directors without specific terms but otherwise subject to retirement and re-election is fair and reasonable, and therefore will not change the terms of appointment of Mr. Wan Tze Fan Terence.

Mr. Wan Tze Fan Terence is an independent non-executive Director serving the Company for more than 9 years. Any future re-appointment of Mr. Wan Tze Fan Terence should follow the requirements of paragraph A.4.3 of Appendix 15 of the GEM Listing Rules. The Board considers that Mr. Wan Tze Fan Terence continues to be independent as he has satisfied all the criteria for independence set out in Rule 5.09 of the GEM Listing Rules.

(G) Responsibilities of directors

The Board will make sure every newly appointed director will receive the necessary information for his proper understanding of the operations and business of the Group and that he will be fully aware of his responsibilities under statute and common law, the GEM Listing Rules and other regulatory requirements and governance policies of the Company. The Directors will continually update themselves with legal and regulatory development, business and market changes and the development of the Company so as to facilitate the discharge of their responsibilities.

Corporate governance functions

The Board is responsible for performing the following corporate governance duties:

(1) To observe, and to charge employees with duty to observe, compliance with the GEM Listing Rules and applicable laws and regulations;

Corporate Governance Report

(2) To develop, review and monitor the Company's policies, procedures and practices on corporate governance and compliance with legal and regulatory requirements;

(3) To take and monitor the implementation of measures relating to:

(a) significant breach of compliance policies;

(b) significant compliance incidents; and

(c) disciplinary actions taken by authorities;

(4) To maintain sound communication with management and Company Secretary of the Company to ensure corporate governance and timely compliance;

(5) To pay attention to the CG Code and recommended best practices of the GEM Listing Rules and review disclosure in the corporate governance report of the Company from time to time; and

(6) To review, monitor and facilitate the training and continuous professional development of the Directors in relation to corporate governance.

During 2017, the Board discharged its duties by reviewing and monitoring the Company's compliance with the CG Code and other legal and regulatory requirements, reviewing and updating the policy for notifiable transactions, connected transactions and inside information and the code of conduct regarding securities transactions by Directors, reviewing, facilitating and monitoring the training and continuous professional development of the Directors and reviewing the disclosures in this Corporate Governance Report.

(H) Remuneration committee

The Board has established a remuneration committee with specific written terms of reference in compliance with the code provision B.1.2 of the Code. These terms of reference were already reviewed by all Directors before they were adopted. During the year under review, the remuneration committee comprised only of the independent non-executive Directors, namely Mr. Wan Tze Fan Terence, Mr. Chung Chin Keung and Mr. Wang Xiao Bing. Mr. Wan Tze Fan Terence is the chairman of the remuneration committee. The remuneration committee had held one meeting during 2017.

The role and function of the remuneration committee include determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration package. During the year under review, the remuneration committee adopted the approach under the code provision B.1.2(c)(ii) of the Code to make recommendations to the Board on the remuneration packages of executive Directors and senior management.

Corporate Governance Report

(I) Nomination committee

The Company established the nomination committee on 22 March 2012 with written terms of reference in compliance with the code provision A.5.2 of the Code. The primary role and function of the nomination committee, among other things, are to (i) review the structure, size and composition of the Board at least once a year and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (ii) assess the independence of independent non-executive Directors; and (iii) make recommendations to the Board on the appointment and re-appointment of Directors. During the year under review, the nomination committee comprises three members, Mr. Wan Tze Fan Terence, Mr. Chung Chin Keung and Mr. Wang Xiao Bing, all of them are independent non-executive Directors. Mr. Wan Tze Fan Terence is the Chairman of the nomination committee.

The nomination committee had held one meeting during the year under review. The nomination committee reviewed the structure, size and composition of the Board.

(J) Audit committee

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules and code provision C.3.3 of the Code. The primary role and function of the audit committee, among other things, are to (i) review the financial controls, internal controls and risk management systems of the Group; (ii) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; and (iii) review the financial statements and the quarterly, interim and annual reports of the Group. During the year under review, the audit committee comprises three members, Mr. Wan Tze Fan Terence, Mr. Chung Chin Keung and Mr. Wang Xiao Bing, all of them are independent non-executive Directors. Mr. Wan Tze Fan Terence is the chairman of the audit committee.

The audit committee had held four meetings during the year under review. The audit committee has reviewed and provided supervision over the financial reporting system and internal control procedures of the Group and reviewed the Company's annual report and financial statements, interim report and quarterly reports and to provide advice and comments thereon to the Board that such reports were prepared in accordance with the applicable accounting standards and requirements. The audit committee also met with the external auditor to discuss auditing, internal control, statutory compliance and financial reporting matters before recommending the annual financial reports to the Board for approval.

The audit committee is satisfied with their review of the audit fee and audit process and has recommended the Board to re-appoint the existing auditor at the forthcoming annual general meeting.

Corporate Governance Report

The Group's 2017 annual report, 2017 quarterly reports and 2017 interim report had been reviewed by the audit committee.

Directors' Attendance Record at Meetings

Details of the attendance of the Directors at the meetings of the Board and its respective committees during the year ended 31 December 2017 are as follows:

Name of Directors	**Board Meeting Attended/ Eligible to attend**	**Audit Committee Attended/ Eligible to attend**	**Remuneration Committee Meeting Attended/ Eligible to attend**	**Nomination Committee Meeting Attended/ Eligible to attend**	**General Meeting Attended/ Eligible to attend**
Number of meetings held during the financial year	9	4	1	1	1
Executive Directors					
Ms. Ma Zheng *(Chairman)*	8/9	4/4	0/1	0/1	1/1
Mr. Wong Pui Yiu	9/9	4/4	0/1	0/1	1/1
Independent non-executive Directors					
Mr. Wan Tze Fan Terence *(Committee Chairman)*	7/9	4/4	1/1	1/1	0/1
Mr. Chung Chin Keung	6/9	3/4	1/1	1/1	1/1
Mr. Wang Xiao Bing	4/9	1/4	0/1	0/1	0/1

Directors' and Auditor's Responsibilities in respect of the Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements of the Group for the year ended 31 December 2017.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the GEM Listing Rules and other regulatory requirements.

The management provides such explanations and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Group put to the Board for approval.

Corporate Governance Report

The responsibilities of the external auditor of the Company for reporting responsibilities on the financial statements are set out in the independent auditor's report on pages 55 to 61.

(K) Auditor's remuneration

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions can lead to any potential material adverse effect on the Company. During the year under review, an amount of approximately HK$1,420,000 (2016: approximately HK$1,350,000) was charged to the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017 for audit services provided by the external auditor. No non-audit services was provided by the external auditor in 2017.

(L) Risk management and internal control

The Board is responsible for overseeing and reviewing the effectiveness of the risk management and internal control systems of the Group on an ongoing basis. The Company has already adopted a well-designed internal control system to safeguard the assets of the Company and the shareholders' investments and to ensure the reliability of financial reporting as well as compliance with the relevant requirement of GEM Listing Rules. The Group has an internal audit team (the "IA Team") with direct reporting line to the Audit Committee, to carry out the internal audit function.

Risk management and internal control systems

The risk management and internal control systems of the Group are designed to manage rather than eliminate the risk of failure to achieve business objectives of the Company and the Group. Therefore, it can only provide reasonable and not absolute assurance against all risk issues. A bottom-up approach was employed for identification, assessment and mitigation of risk at all business unit levels and across all functional areas.

Process used to identify, evaluate and manage significant risks

During the process of risk assessment, the Audit Committee is responsible for identifying the risk of the Group and deciding on the risk levels and the Board is responsible for assessing and determining the nature and extent of the risks that are acceptable to the Group when achieving its strategic objectives. After discussing and taking into consideration the risk response, the relevant departments and business units shall be assigned to implement the risk management solutions in accordance with their respective roles and responsibilities. The identified risk together with the risk response will be recorded and subject to the Board's oversight.

Corporate Governance Report

Main features of risk management and internal control systems

The key elements of the risk management and internal control systems of the Company include the establishment of a register to keep track of and document identified risks, the assessment and evaluation of risks, the development and continuous updating of responsive procedures, and the ongoing testing of internal control procedures to ensure their effectiveness.

An ongoing risk assessment approach is adopted by the Company for identifying and assessing the key inherent risks that affect the achievement of its objectives. The judgement of the risk is mainly determined in accordance with the likelihood of occurrence and consequence of occurrence of the risk.

Process used to review the effectiveness of the risk management and internal control systems and to resolve material internal control defects

The IA Team performed review on the major operating units of the Group in the fourth quarter of 2017 in compliance with the requirements under Code Provision C.2 of the CG Code, according to the scope of review agreed and directed by the Audit Committee covering the Group's material controls in financial, operational and compliance aspects. The review identified certain internal control weaknesses and risks but none of them are significant. The IA Team reported to the Audit Committee and the Audit Committee is satisfied that although there were areas that need to be improved, there has been no major deficiency noted in the areas of the Company's risk management and internal control systems being reviewed after implementation of recommendations of the internal control defects reported by the IA Team. Accordingly, the Board considered the risk management and internal control systems to be effective and have been implemented with adequate resources.

Procedures and internal control for the handling and dissemination of inside information

The Board has established a policy to handle the dissemination of inside information. The policy stipulated the obligations of the Group, restriction on sharing non-public information, handling of rumours, unintentional selective disclosure, exemptions and waiver to the disclosure of inside information, external communication guidelines and compliance and reporting procedures. The Board and the management of the Company takes all reasonable measures from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Company. They must promptly bring any possible leakage or divulgence of inside information to the attention of the Financial Controller who will notify the Board as soon as reasonably practicable accordingly for taking the appropriate prompt action. In the event that there is evidence of any material violation of the policy, the Board will decide, or designate appropriate persons to decide the course of actions for rectifying the problem and avoiding the likelihood of its recurrence.

Corporate Governance Report

In addition, employees who, because of his/her office or employment, is likely to be in possession of inside information in relation to the Company, are required to strictly adhere to the policy of management of inside information and are required to comply with the securities transaction rules adopted by the Company which are on terms no less exacting than those required under the GEM Listing Rules.

Effectiveness of the system

In the view of the Board, the Group's system of risk management and internal control systems are effective and there is no material deficiency in the effectiveness of the Group's internal control system.

(M) Company secretary

Mr. Wong Chun Sing is the Company Secretary of the Company. As an employee of the Company, he is responsible to the Board for ensuring the board procedures are followed and that the Board is briefed on legislative, regulatory and corporate governance development. During the year under review, Mr. Wong confirmed that he undertook no less than 15 hours of relevant professional training. His biography is set out in the "Biographical Details of Directors and Senior Management" of this annual report.

(N) Communication with shareholders

Communication with shareholders is given a high priority. The Company aims to provide its shareholders with high standards of disclosure and financial transparency through the publication of annual, interim and quarterly reports, announcements and circulars made through websites of the Company and of GEM.

The Board also maintains an on-going dialogue with shareholders and make use of general meetings to communicate with shareholders. The Company encourages all shareholders to attend general meetings which provides a useful forum for shareholders to exchange views with the Board. The Chairman of the Board and members of relevant committees and senior management of the Company are available to answer shareholders' questions in all general meetings.

Corporate Governance Report

(O) Investor relations

The Company disclosed all necessary information to shareholders in compliance with GEM Listing Rules. The Company will also reply to enquires from shareholders on request.

During the year under review, there was no significant change in the Articles of Association.

(P) Shareholders' rights

As one of the measures to safeguard shareholders' interest and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. All resolutions put forward at shareholders' meeting will be voted by poll pursuant to the GEM Listing Rules and the poll voting results will be posted on the GEM website and the Company's website after the relevant shareholders' meeting.

(Q) Right to convene extraordinary general meeting

Extraordinary general meeting may be convened by the Board on requisition of shareholders holding not less than one-tenth of the paid up capital of the Company or by such shareholders who made the requisition (the "Requisitionists") (as the case may be) pursuant to Article 58 of the Articles of Association. Such requisition must state the object of business to be transacted at the meeting and must be signed by the Requisitionists and deposited at the registered office of the Company or the Company's principal place of business in Hong Kong. Shareholders should follow the requirements and procedures as set out in such Article for convening an extraordinary general meeting. Shareholders may put forward proposals at general meeting of the Company by sending the same to the Company's head office and principal place of business in Hong Kong.

For putting forward any enquiries to the Board, shareholders may send written enquiries to the Company. Shareholders may send their enquiries or requests in respect of their rights to the Company's head office and principal place of business in Hong Kong.

Environmental, Social and Governance ("ESG") Report

I. About this report

Being one of the prominent brands in the natural gas industry and polyethylene pipe in the People's Republic of China (the "PRC"), China Primary Energy Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") stringently adhere to their environmental and social responsibilities.

The Group has developed its sustainability strategy with aims to create sustainable values for its stakeholders and to lower its impact on the environment and society. In order to carry out the sustainability strategy from top to bottom, the Board of Directors (the "Board") of the Group has ultimate responsibility for ensuring the effectiveness of the Group's environmental, social and governance ("ESG") policies. The Board has established dedicated teams to manage ESG issues within each business division of the Group. Designated staff has been assigned to enforce and supervise the implementation of the relevant ESG policies. The Group is also committed to constantly reviewing and adjusting the Group's sustainability policies to satisfy the ever-changing needs of its stakeholders. Details of its management approach in the environmental and social aspects can be found in different sections of this ESG Report. The Group believes that sustainability is essential to the long-term development of the Group.

II. Reporting Period and Scope of the Report

This ESG Report covers the environmental and social performance within the operational boundaries of the Group that includes the business of transmission and distribution of natural gas in Fujian, manufacture and sales of polyethylene ("PE") pipes in Yichang City, Yunnan and Anhui Province of the PRC and property rental in Yichang City and the Group's offices located in Hong Kong and Shenzhen. The reporting period of this ESG Report is the financial year from 1 January 2017 to 31 December 2017 ("FY2017"), unless specifically stated otherwise. This ESG Report is prepared in both Chinese and English. If there is any conflict or inconsistency, the English version shall prevail.

Environmental, Social and Governance ("ESG") Report

III. Stakeholder Engagement

With the goal to strengthen the sustainability approach and performance of the Group, the Group has put in tremendous efforts to listen to both its internal and external stakeholders. The Group actively collects feedback from its stakeholders to maintain a high standard of sustainability within the Group, while also building a trustful and supporting relationship with them. The Group connects with its stakeholders through their preferred communication channels as listed in the table below.

Stakeholders	Expectations and concerns	Communication Channels
Government and regulatory authorities	– Compliance with laws and regulations – Support economic development	– Supervision on complying with local laws and regulations – Routing reports and taxes paid
Shareholders	– Return on investments – Corporate governance – Business compliance	– Regular reports and announcements – Regular general meetings – Official website
Employees	– Employees' compensation and benefits – Career development – Health and safety working environment	– Performance reviews – Regular meetings and trainings – Emails, notice boards, hotline, caring activities with management
Customers	– High quality products and services – Protect the rights of customers	– Customer satisfaction survey – Face-to-face meetings and on-site visits – Customer service hotline and email
Suppliers	– Fair and open procurement – Win-win cooperation	– Open tendering – Suppliers' satisfactory assessment – Face-to-face meetings and on-site visits – Industry seminars
General public	– Involvement in communities – Business compliance – Environmental protection awareness	– Media conferences and responses to enquiries – Public welfare activities – Face-to-face interview

Environmental, Social and Governance ("ESG") Report

Materiality Assessment

The Group undertakes annual review in identifying and understanding its stakeholder's main concerns and material interests for the ESG Report. In FY2017, the Group has engaged its stakeholders to conduct a materiality assessment survey. Specifically, both internal and external stakeholders were selected based on their influence and dependence on the Group. Stakeholders with high level of influence and dependence on the Group were selected by the management of the Group and invited to express their views and concerns on a list of sustainability issues via an online survey. Hence, the Group was able to prioritise the issues for discussion according to the survey. The result from the materiality assessment survey has been mapped and presented as below.

Environmental, Social and Governance ("ESG") Report

1 Air and greenhouse gas emissions
2 Sewage treatment
3 Land use, pollution and restoration
4 Solid waste treatment
5 Energy use
6 Water use
7 Use of other raw/packaging materials
8 Mitigation measures to protect natural resources
9 Composition of employees
10 Employee remuneration and benefits
11 Occupational health and safety
12 Employee development and training
13 Preventing child and forced labour
14 Suppliers by geographical region
15 Selection of suppliers and assessment of their product/services
16 Environmental protection assessment of the suppliers
17 Social risks assessment of the suppliers
18 Procurement Practices
19 Health and safety relating to products/services
20 Customer's satisfaction
21 Marketing and promotion
22 Observing and protecting intellectual property rights
23 Product quality assurance and recall percentage
24 Protection of consumer information and privacy
25 Labelling relating to products/services
26 Preventing bribery, extortion, fraud and money laundering
27 Anti-corruption policies and whistle-blowing procedure
28 Understanding local communities' need
29 Public welfare and charity

Environmental, Social and Governance ("ESG") Report

The Group has built a materiality analysis matrix and prioritised the 29 issues accordingly. With respect to this ESG Report, the Group has identified mitigation measures to protect natural resources, customer's satisfaction, energy and water use, and health and safety relating to products/services as issues of highest importance to both the Group and its stakeholders. This review has helped the Group to prioritise its corresponding sustainability issues and highlight the material and relevant aspects, so as to align them with stakeholders' expectations.

Stakeholders Feedback

As the Group strives for excellence, stakeholders' feedback is always welcomed, especially on topics listed as the highest importance in the materiality assessment and its ESG approach and performance. Readers are also welcome to share your views with the Group at info@china-p-energy.com.

IV. ENVIRONMENTAL SUSTAINABILITY

The Group is committed to the long-term sustainability of the environment and community in which it operates. The Group stringently controls its emissions and consumption of resources, and complies with all relevant environmental laws and regulations in Hong Kong and the PRC in its daily operations. All offices, manufacturing factories, and natural gas transmission stations of the Group have implemented effective energy conservation measures to reduce emissions and resource consumption.

This section mainly includes the policies and practices of the Group along with the quantitative data on emissions, use of resources, the environment and natural resources during FY2017.

A.1. Emissions

In FY2017, the Group's air emission amounted to a total of 1.0 kg sulphur oxides ("SO_x") and 17.3 kg nitrogen oxides ("NO_x"). The total greenhouse gases ("GHGs") emissions form the Group were 970.4 tonnes CO^2-e ("equivalent carbon dioxide emission") with a carbon intensity of 5.8 tonnes CO^2-e per employee. No other hazardous emission was generated in FY2017. Non-hazardous wastewater and non-hazardous solid wastes were recorded as 7,039m^3 and 113.8 tonnes respectively. The emissions from offices and property rental business is insignificant. The Group's total emissions are summarized in Table 1 below.

Environmental, Social and Governance ("ESG") Report

Transmission and distribution of the natural gas business

The natural gas transmission and distribution is the core segment of the Group business due to its continuous improvement on its operating performance in recent years and the great importance attached to clean energy by the PRC government. The Group endeavours to develop its natural gas business in an environmentally sustainable manner and promote clean energy to reduce air pollution and tackle climate change.

The Group strictly adheres to emission-related laws and regulations, including but not limited to the Environmental Protection Law of the PRC (中華人民共和國環境保護法), Provisions on the Administration of the Transport of Dangerous Chemicals of the PRC (危險化學品運輸管理規定) and the Waste Disposal Ordinance (廢物處置條例), set out in the PRC and Hong Kong. The Group's policy also incorporates the measures to alleviate the impacts of these emissions on the environment such as control of the Group's energy consumption and special treatment of wastewater and solid wastes.

Air Emissions

In this segment, the air emissions are mainly generated from the car use in the daily operations. The Group has made tremendous efforts such as using special sealed vehicles to transport natural gas to prevent the gas leakage in the transmission or distribution. Besides, tetrahydrothiophene, known as THT, is generally used as an odorant as the warning agent in the natural gas industry in China. The Group has used THT with great caution and in strict compliance with relevant regulations by PRC government.

GHG Emissions

GHG emissions from the Group's natural gas segment are mainly generated from the purchased electricity consumed by daily operations. To reduce the amount of GHG emissions, the Group has implemented several practical measures to save energy such as replacing diesel with natural gas in the transportation of LNG. Further description can be found in the next section "Use of Resources".

Wastes

The wastewater and solid wastes generated from the Group are mainly domestic sewage and garbage by its staff from daily operating activities. The amount of sewage and garbage is insignificant compared with that from the manufacturing of PE pipes business, and the Group has implemented simple policies on preserving water resources and separately collecting garbage for appropriate recycling and reusing processes to reduce the amount of sewage and garbage during daily operations.

Environmental, Social and Governance ("ESG") Report

PE pipes business

The Group's PE pipes business includes the manufacture and sales of PE pipes in Hubei Province. The Group conducted regular treatments on the wastes during the manufacturing process, and kept meticulous monitoring and controlling various emissions including air, wastewater, solid waste and noise, to guarantee all the emissions are in compliance with the corresponding discharge standards of the PRC. The Group's PE pipe business was operated in compliance with the Environmental Protection Law of the PRC (中華人民共和國環境保護法) and other relevant laws.

Air Emissions

Air emissions are mainly generated from the manufacturing process. Since the Group used diesel as the fuel for production activities, the exhaust gases generated from the combustion process are mainly nitrogen oxides ("NOx"). To reduce the amount of atmospheric pollutants, the Group has installed advanced equipment to remove the nitrogen oxides ("NOx"), sulphuric oxides ("SOx") and other hazardous substances in the exhaust gas.

Greenhouse Gases

The GHG emissions of the Group's manufacture and sales of PE pipes are mainly generated from its purchased electricity consumed by the daily operation. As GHG emissions are positively correlated with electricity consumption, the Group has tried to reduce the electricity consumption in its daily operations through specific measures, which will be further explained in the subsection headed "Electricity" under section A.2. "Use of Resources" of this ESG Report.

Wastewater

There is no industrial wastewater generated from the manufacturing process as the only consumption of water during the Group's manufacturing process is the product cooling water, which the Group keeps recycling at all time. The only wastewater is the domestic sewage generated from the daily usage of its staff, which is discharged to the municipal wastewater treatment plant located in Hubei Province.

Environmental, Social and Governance ("ESG") Report

Solid Wastes

The main solid waste is the domestic garbage generated from its daily operations. The Group has continuously performed the separate collection method on its daily domestic garbage to ensure the reuse of the recyclable waste, such as paper, cans, glass and metals. The wastes are then collected by the municipal sanitation department for further treatment. Apart from the daily domestic garbage, there still existed small amounts of industrial solid waste such as PE plastic. To avoid unnecessary wastes, crushing and further treatment of those PE plastic wastes were adopted until they reach the requirement that can be recycled and reused in production line. No hazardous waste was generated during the manufacturing process.

Noise

As the Group's manufacturing plant is far away from the residential area, the mechanical noise is decayed by the absorption of greenbelts and natural air, and reached the Level 2 of the PRC noise emission control standard. There was no noise influence on the surroundings.

Table 1 Total emissions of the Group by category in FY2017

Item	Type of emissions		Unit	Amount	Intensity (Per employee)
Air emissions	Stationary combustion	NOx	kg	0.1	–
	Vehicles	SOx	kg	0.9	–
		NOx	kg	17.2	0.1
GHG emission	Scope 1	Stationary combustion	Tonnes CO_2-e	17.2	0.1
		Mobile combustion	Tonnes CO_2-e	156.1	0.9
	Scope 2	Purchased electricity	Tonnes CO_2-e	786.7	4.7
	Scope 3	Paper waste landfill	Tonnes CO_2-e	10.3	0.1
	Total		Tonnes CO_2-e	970.4	5.8
Non-hazardous waste	Non-hazardous solid waste		tonnes	113.8	0.7
	Non-hazardous wastewater		M^3	7,039	41.9

Environmental, Social and Governance ("ESG") Report

During the year under review, the Group was not in violation of any relevant laws and regulations that have a significant impact on the Group in terms of emissions.

A.2. Use of Resources

The Group has complied with the relevant laws and regulations with regards to its use of resources, including but not limited to Energy Conservation Law of the PRC (中華人民共和國節約能源法) and Provisions on the Management of Water Conservation in Cities (城市節約用水管理規定) during the year under review. Resources used by the Group mainly include electricity, natural gas, water, paper and raw materials. Due to the nature of the business, the Group has consumed no packaging material.

Transmission and distribution of the natural gas business

The Group strives to save energy and resources through persistent implementation of internal policies and advanced technologies in order to ensure the resources are consumed in a responsible manner.

Water

The Group has educated its employees to save water in the daily working hours. The amount of water consumed is minimal and need-based. To improve the utilization efficiency of water resources, the Group has formulated the internal regulation as below:

- Perform regular propaganda and education work on saving every drop of water among its staff;
- Place "Saving Water Resource" posters in prominent places to encourage water conservation;
- Collect used water for cooling purposes, floor cleaning and yard washing if possible;
- Carry out regular leakage tests on water tap, washers and other defects in the water supply system;
- Fix dripping taps immediately; and
- Turn off the water supply system at night and on holidays.

Environmental, Social and Governance ("ESG") Report

Electricity

The Group has kept a detailed record of its electricity consumption. All subsidiaries of the Group stringently comply with the Group's policy of saving energy. The Group is committed to saving electricity from both production lines and daily operation in office by executing the following measures:

- Switch off the lights and air-conditioning when not in use;
- Maintain a constant temperature of the air-conditioners in office;
- Place "Saving Electricity, turn off the Light when Leaving" posters in prominent places to remind employees;
- Keep the office equipment clean (such as refrigerator, air-conditioner and paper shredder) and ensure that they run efficiently;
- Replace high electricity consumption lamps with the electricity saving lamps for office lighting; and
- Use of heating equipment and other electricity guzzling appliances are prohibited.

Energy

The Group's own vehicles consumed gasoline and natural gas for transportation purpose. The Group encourages energy saving through simple measures, such as making the best use of room to avoid unnecessary transport and replacing highly polluting vehicles with more environmentally-friendly ones. Apart from saving the amount of the energy consumed by the Group's own motor vehicles, the Group also highly encourages its staff to take public transportation or environmental-friendly buses instead of driving to work. The Group is dedicated to making contribution to the reduction of GHG emissions from transportation.

PE pipes business

In this business segment, the Group has taken various measures to save the resources consumption in the operation.

Environmental, Social and Governance ("ESG") Report

Electricity

Apart from the general basic policies which the Group continuously executes as above, more than 50% of the lightening systems and manufacturing machineries of the Group are energy saving and environmentally-friendly products. The Group regularly inspects its equipment to maintain the best use of every system and replaces high energy consuming facilities with eco-friendly ones. The Group strongly supports for sustainable development and invests in environmental protection.

Water

The water resource is mainly consumed by daily usage from its staff and for product cooling process during manufacturing. The Group has recycled the cooling water to diminish the water consumption. Besides, no industrial wastewater was generated from its production lines. The Group's PE pipes have been certified by the Xinhua water saving label as the qualified water saving product. During the whole manufacturing process, the Group has strictly followed water saving principles in production line and in staff daily usage. The Group has implemented water saving machineries and recycles industrial water. The Group has built a water reservoir in its plant to store rainwater and recycle water for water reuse. Evaporation of the reservoir was well controlled to avoid unnecessary loss of water. The Group has replaced the dust cleaning device with the vacuum dust collection system which does not consume any water, thereby preserving the precious water resource.

Energy

The energy consumption was mainly from diesel for production and gasoline during daily operations, amounting to 1,200 litres and 3,726 litres, respectively in FY2017. To reduce the diesel consumption, the Group has strictly controlled the use of production machine such as turning off the machine when it is vacant, which helps the Group to avoid prodigal diesel consumption

Environmental, Social and Governance ("ESG") Report

Offices and rental business

Paper

One of the main natural resources consumed by the Group is paper from its office printing machines. In FY2017, the total amount of paper consumption in the Group was 2,141.3 kg. To minimise the use of paper, the Group has put great efforts into the implementation of following policies:

- Choose suppliers with more environmentally-friendly paper source, so as to indirectly reduce the amount of tree losses while consuming the same amount of paper;
- Promote paperless office, and disseminate information by electronic means (i.e. via email or e-bulletin boards) as much as possible;
- Set duplex printing as the default mode for most network printers when printouts are needed;
- Instil the idea of "Think before print" by using posters and stickers in offices to remind the staff of avoiding unnecessary printings;
- Reconsider boxes and trays as containers beside photocopier to collect single-sided paper for reuse and recycling;
- Use the back of old single-sided documents for printing or as draft paper; and
- Recycle used stationery whenever possible.

Environmental, Social and Governance ("ESG") Report

Table 2 Total resource consumption of the Group by category in FY2017

Item	Types of Resources	Unit	Amount	Intensity (Per employee)
Energy consumption	Gasoline	L	66,190.97	394
	Diesel	L	2,236.93	13.3
	Natural Gas	m^3	5,316	31.6
Electricity		kWh	1,487,020.68	8,851.3
Paper		kg	2,141.3	12.7
Water consumption		m^3	135,545.2	806.8

A.3. The Environment and Natural Resources

The Group has strictly complied with the relevant laws and regulations, namely Law of the PRC on Circular Economy Promotion (中華人民共和國循環經濟促進法) and Environmental Impact Assessment Law of the PRC (中華人民共和國環境影響評價法), in relation to the environment and the use of natural resources during the year under review.

To eliminate the impact on the environment, the Group has implemented various measures in daily operations. For example, the Group has encouraged employees to reduce the energy consumption for transportation, which can reduce the emission of GHGs and other air emissions. Besides, the Group has also planted trees in the factories to assimilate GHGs and absorb noise.

Environmental, Social and Governance ("ESG") Report

V. SOCIAL SUSTAINABILITY

EMPLOYMENT AND LABOUR PRACTICES

B.1. Employment

The Group treasures employee's talent and sees it as the key to success and maintaining the sustainability of the Group. The Group strives to provide its employees with a safe and suitable platform for developing their career, professionalism and advancement.

Law compliance

The human resources policies of the Group strictly adhere to the applicable employment laws and regulations in Hong Kong and the PRC, including the Employment Ordinance (僱傭條例), the Mandatory Provident Fund Schemes Ordinance (強制性公積金計畫條例), Minimum Wage Ordinance (最低工資條例), Labour Law of the PRC (中華人民共和國), Group Law of the PRC (中華人民共和國公司法) and Labour Contract Law of the PRC (中華人民共和國勞動合同法). The Group has also complied with the laws and regulations in respect to the employees' social security schemes that are enforced by the local government, such as the social security fund in the PRC and Mandatory Provident Fund Scheme and Medical Insurance Scheme in Hong Kong. The human resources department of the Group and its subsidiaries are responsible for reviewing and updating the relevant Group policies regularly in accordance with the latest laws and regulations.

Recruitment and promotion

Talent acquisition is vital in ensuring the sustainable development of the business. The Group prepares the "Year Recruitment Plan" and adopts a variety of initiatives to facilitate the recruitment of staff, such as internet, institutions' recruitment seminar and agents, to attract talented employees. To attract high-calibre candidates, the Group offers fair, competitive remuneration and benefits based on the individuals' past performance, personal attributes, job experiences and career aspiration. The Group also references market benchmarks in determining its remuneration and benefit policies.

Environmental, Social and Governance ("ESG") Report

Compensation and dismissal

The Group constantly reviews its compensation packages and performs probationary and regular evaluations according to the overall market environment, profitability of the Group and employee's performance in the past. This ensures that employees are recognised by the Group appropriately with respect to their efforts and contributions. The Group will give bonus to employees according to their performance, and set share point scheme as a long-term incentive plan for key management and loyal staff. By improving the remuneration system and career paths, the Group expects to establish a comprehensive incentive system based on physical, mental, emotional and growth motivations to carry forward the harmonious and stable employment relationship.

Meanwhile, any appointment, promotion or termination of employment contract would be based on reasonable and lawful grounds along with internal policies, such as staff handbooks. The Group strictly prohibits any kind of unfair or unreasonable dismissals.

Working hours and rest period

The Group has formulated its own internal policies based on local employment laws to determine working hours and rest period for employees. In addition to basic paid annual leave and statutory holidays prescribed by the employment laws of the local governments, employees may also be entitled to additional leave entitlements such as marriage leave, maternity leave and compassionate leave.

Equal opportunity and anti-discrimination

As an equal opportunity employer, the Group is committed to creating a fair, respectful and diverse working environment by promoting anti-discrimination and equal opportunity in all its human resources and employment decisions. For instance, training and promotion opportunities, dismissals and retirement policies are based on factors irrespective of the employees' age, sex, marital status, pregnancy, family status, disability, race, colour, descent, national or ethnic origins, nationality, religion or any other non-job related factors in all business units of the Group. The equal opportunity policy allows zero tolerance in relation to any workplace discrimination, harassment or vilification in accordance with local ordinances and regulations, such as Disability Discrimination Ordinance (殘疾人歧視條例) and Sex Discrimination Ordinance (性別歧視條例). Employees are encouraged to report any incidents involving discrimination to the human resources department of the Group. The Group will take responsibility for assessing, dealing with, recording and taking any necessary disciplinary actions in relation to such incidents.

Environmental, Social and Governance ("ESG") Report

Other benefits and welfare

The Group provides additional benefits and welfare such as medical subsidies, hospitalisation scheme to its employees. For those employees working at a manufacturing facilities, additional employee benefits include the provision of well-equipped dormitories. The Group also hosts a series of activities for its employees to enhance their sense of belongings and relieve their stress, which exemplified the Group's corporate culture of enhancing the spirit of solidarity and cohesion among its employees.

In terms of internal coaching and communication, the effective two-way communication between the general staff and managerial staff is highly encouraged within the Group. The employees maintain timely and smooth communication with each other and with the management through a variety of ways including emails, regular meetings and social networks. Maintaining a barrier-free employer-employee relationship helps create a productive and pleasant working environment.

During the year under review, the Group was in compliance with relevant laws and regulations in relation to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, welfare and other benefits that have a significant impact on the Group.

B.2. Health and Safety

To provide and maintain good working conditions and a safe and healthy working environment for its employees, the Group has established internal safety and health policies, which are in line with various laws and regulations stipulated by the HKSAR Government and the State Council of the PRC. The specific laws and regulations include Occupational Safety and Health Ordinance (職業安全及健康條例), Production Safety Laws of the PRC (中華人民共和國安全生產法) and Occupational Disease Prevention Law in the PRC (中華人民共和國職業病防治法). Besides, the Group strictly follows several operating health and safety standards including GB/T29639-2013, GBZ 1-2010, GB12011-2009, GB2811-2007 and sets up different internal manuals such as production safety emergency plan (生產安全事故應急預案) in order to provide a healthy and safe working environment to employees.

Environmental, Social and Governance ("ESG") Report

Under those manuals, the Group has provided working uniforms to employees such as helmets, safety shoes, antifreeze gloves and cotton anti-static gloves. Besides, the installation of fire equipment such as automatic smoke spray system and powder fire extinguishers in the working place has been implemented as well. The Group has set the emergency leading group for collecting emergency information and providing trainings to employees on emergency management, hazardous material management, machinery safety and occupational health and safety. The Group has always been committed to providing a safe and healthy environment by incorporating a range of occupational health and safety measures for all the employees in the offices and production sites.

In addition, the Group prohibits smoking and drinking liquor in workplaces, carries out the cleaning of air-conditioning systems and disinfection treatment of carpets, and conducts safety inspection regularly with an aim to protect employees from occupational hazards. Regular inspections and reviews are carried out by administrative department to examine the health & safety measures' effectiveness. The Group has hosted emergency exercise annually and set safety signs to enhance employees' safety awareness. The Group targets to achieve accident-free workplace environment.

In FY2017, no work-related fatalities and no lost days due to work injury had occurred in the Group's related activities. During the year under review, the Group was not in violation of any of the relevant laws and regulations in relation to providing a safe working environment and protecting the employees from occupational hazards that have a significant impact on the Group,

B.3. Development and Training

The Group offers comprehensive training and development programmes to its staff in order to strengthen their work-related skills and knowledge. The purpose is to improve the Groups' overall operational efficiency and productivity through the intranet platform. The Group prepares the training course materials every year and provides in-house trainings to staff through network learning. The Group has emphasised staff's personal development. In FY2017, the Group held a range of occupational training and development programmes such as understanding of corporate law, project management training and financial training. For newly recruited staff, the Group provides training regarding to their roles, positions, Group policies and cultures. The Group aims to foster a learning culture that strengthens its employees' professional knowledge.

Environmental, Social and Governance ("ESG") Report

The Group also encourages outstanding employees to attend external trainings for enhancing their competitiveness and expanding their capability through continuous learning. The Group may arrange external training organisations and trainers to provide job-related trainings to its employees.

The Group aims to foster a learning culture that could strengthens its employees' professional knowledge, so as to benefit the Group as employees are expected to achieve better working performance after receiving appropriate training. Employees' performance in the trainings is considered in the employees' performance evaluations.

B.4. Labour Standards

The Group strictly abides by the Employment Ordinance of Hong Kong, Labour Law of the PRC (中華人民共和國勞動法), Prohibition of Child Labour of the PRC (中華人民共和國禁止使用童工規定), Protection of Minors Law of the PRC (中華人民共和國未成年人保護法) and other related labour laws and regulations in Hong Kong and the PRC to prohibit any child and/or forced labour employment.

To combat against illegal employment on child labour, underage workers and forced labour, the Group's human resources staff requires job applicants to provide valid identity documents before confirmation of employment to ensure that the applicants are lawfully employable. The human resources department of the Group is responsible to monitor and ensure compliance with the latest relevant laws and regulations that prohibit child labour and forced labour. In the recruitment process, the provision of personal information must be true and effective. If there is any concealment of the facts, the Group has right to terminate the employment in accordance with relevant laws and regulations.

During the year under review, the Group was not in violation of any of the relevant laws and regulations, in relation to the prevention of child and forced labour that have a significant impact on the Group.

Environmental, Social and Governance ("ESG") Report

OPERATING PRACTICES

B.5. Supply Chain Management

As a socially responsible enterprise, it is critical and vital for the Group to maintain and manage a sustainable and reliable supply chain that has minimal negative repercussions on the environment and society.

The Group has developed and implemented the "Supplier Evaluation Criteria" (供方評定準則) by conducting comprehensive evaluation of potential suppliers. Through the investigation of selected suppliers, the Group imposes strict standards on the quality of suppliers' goods and services, and reviews the suppliers' business license, previous track record, reputation, quality management system, production capacity, technical parameters, financial performance and their social and environmental responsibility annually so as to select appropriate suppliers as qualified suppliers. Qualified suppliers shall be reassessed every year. The past performance record is the most important factor in the assessment. Each of the operating subsidiaries within the Group monitors the quality of its suppliers and their supply chain practice on a strict and continuous basis.

The Group does its best in engaging with the suppliers who could lessen the environmental impacts in the sourcing activities. The Group has adopted a proactive approach by formulating "Measures for the Environmental Impacts of the Party" (對相關方施加環境影響的管理辦法) to their suppliers. The Group conducts suppliers' interviews on environmental behavior in addressing whether there is a significant environmental hazard in the products provided to the Group, number of pollution accidents occurred in the past and the environmental awareness on effectively control, reduce and prevent pollution. Through this policy, the Group has alerted its business partners to comply with laws, regulations, international treaties and other requirements relating to environmental protection, and provide an industry-recognised and environmentally friendly product. The Quality Control Department monitors the quality of suppliers' products and supply chain practice on a strict and continuous basis. For any non-compliance with the Group's requirements, the Group monitors the implementation of the remedial measures by the suppliers and ensures that they are carried out properly and effectively.

Environmental, Social and Governance ("ESG") Report

Transmission and distribution of the natural gas business

The main raw material used in natural gas business is liquefied natural gas ("LNG"). The Group is principally responsible for the sourcing of the LNG from upstream suppliers including state-owned enterprises to customers for industrial, commercial and household uses. The quality of LNG conforms to the national standard of GB17820. Since the LNG is a flammable and explosive gas, the safety of gas transportation is one of the major concerns about suppliers. Besides, the Group strictly audits the supplier qualification for the aforesaid criteria to manage the social risk and environment risk in the supply chain. The Group generally entered into a long-term gas supply contract and yearly supplemental agreement according to the actual demand with the selected gas suppliers. Petrochina Kunlun Gas Co., Ltd. (中石油昆侖公司), CNOOC Fujian New Energy Co., Ltd (中海石油福建新能源有限公司) and Fujian Province Minsheng Gas Co., Ltd. (福建省閩昇燃氣有限公司) are designed gas suppliers of the Group. Those companies have to provide the monthly natural gas quality testing report (天然氣氣質檢驗報告) to maintain a stable and reliable gas source in the compliance with national and local laws and regulations.

PE pipes business

The principal raw material used in the production for PE pipe business is high-density PE pellets. The Group has entered into an annual procurement contract with Sinopec Chemical Commercial Holding Group Limited (中國石化化工銷售有限公司) and PetroChina Company Limited (中國石油天然氣股份有限公司) since 2012. The supplied products shall provide relevant quality certificates, warranty and testing reports. Besides, Quality Control Department performs sampling checks before the acceptance of raw materials. To facilitate better cooperation and communication between the Group and its suppliers, suppliers promptly update stocks and prices to the Group via social networks, telephones and other tools.

The Group attaches great importance to the communication with the suppliers to build internal trust. To ensure sufficient supply, the Group has kept close contact with the suppliers and reserved products in advance. Therefore, the suppliers are reliable after long-term cooperation. To enhance the effectiveness of the Group's risk management in terms of environmental and social aspects, the Group does its best to engage with suppliers that could lessen the environmental impacts engendered in the sourcing activities of the Group. For any non-compliance with our requirements, the Group would propose suppliers to take corrective actions immediately to rectify the deficiencies.

Environmental, Social and Governance ("ESG") Report

B.6. Product Responsibility

In order to protect the legitimate rights and interests of consumers and strengthen the supervision on the quality of products, the Group has complied with related law and regulations on products safety and health including Law of the PRC on Product Quality (中華人民共和國產品品質法), Law of the PRC on the Protection of Consumer Rights and Interests (中華人民共和國消費者權益保護法), Law of the PRC on the Protection of Production Safety (中華人民共和國安全生產法), Fire Prevention Law of the PRC (中華人民共和國消防法) and Regulations on the Safety Administration of Dangerous Chemicals (危險化學品安全管理條例) for both business segments. During the year under review, the Group was not in violation of any relevant laws and regulations regarding health and safety, advertising, labelling and privacy matters of its products that may have a significant impact on the Group.

Transmission and distribution of the natural gas business

The Group has strictly complied with Regulation on the Administration of Urban Gas (城鎮燃氣管理條例) and Standard for Construction of City Gas Station (城市燃氣場站建設規範). Safety Operation Management Policy (安全運營部管理制度) has been set up to assess the gas safety operation which includes station gas supply maintenance system, incident and hidden danger management, combustible gas leakage alarm management system and operational procedures for station workers and gas supply equipment. The gas supply engineering has met the national standard of GB50028.

To ensure the hidden dangers to be addressed in a timely manner, the Group conducts comprehensive safety inspection (綜合性安全檢查) regularly by carrying out indoor safety checks and comprehensive emergency rescue drill to promote gas safety. Semi-annual anti-static testing and pressure safety testing should be conducted on station facilities and qualified test report obtained. Besides, gas suppliers provide monthly gas inspection reports to the Group to maintain the quality of the gas.

PE pipes business

The Group pays great importance on the product quality by introducing several pipe production equipment from Germany. With a leading technology development and high standards in product safety and health, the Group has obtained the international certifications such as ISO9001, ISO14001 and OHSAS18001 which are quality management system certification, environmental management system certification and occupational health and safety management system certification respectively. The products are also certified by the National Test Centre of Chemical Building Materials (國家化學建築材料檢測中心) and Xinhua Water Saving Products Certification (新華節水產品認證).

Environmental, Social and Governance ("ESG") Report

The Group is dedicated to producing environmentally-friendly products by obtaining the Environmental Labelling Product Certification (環境標誌產品認證). It indicates that the products which conform to specific environmental protection requirements are less toxic and harmful to the environment. The Group has formulated Inspection of Finished Products Manual (成品檢驗規程) and related quality control procedures to prevent the unqualified product release or delivery to the customers. The quality controllers monitor the colour, appearance, size specifications, technical standards and quantity of finished goods and perform sample testing to ensure that different types of PE pipes shall pass industry standards such as GB/T13663, GB/T19472.1, CJ/T225, GB15558.1 and GB/T13663.2. Besides, Quality Control Department generally appoints the third-party test centre to preform quality inspection every year.

The Group

The Group adopts a rapid approach in monitoring the satisfaction rate from the customers. Sales Department collects customers' opinions on product quality, pricing, delivery services via telephone, fax and market information. If the satisfactory rate is in large fluctuations and below management expectations, the Group will investigate and implement Improvement of control procedures (改進控制程序) to set up corrective and preventive measures with relevant departments immediately.

The Group has issued internal procedures to ensure that the marketing materials are in accurate and precise descriptions which comply with the local laws and regulations. Any misrepresentation or exaggeration of products is strictly prohibited. If there is any noncompliance with the internal procedures, the Group would carry out corrective action immediately. General Affairs Department is responsible for monitoring or vetting the sales and marketing materials before publication.

The Group is committed to abiding by the local privacy laws and regulations such as Hong Kong's Personal Data (Privacy) Ordinance (個人資料（隱私）條例). The Group's Privacy Policies such as Customer Property Control Procedures (顧客財產控制程式) and "File Management Regulation" (檔案管理規定) have been implemented to ensure customers' rights are strictly protected. The collected information would only be used for the purpose for which customers is told about what the data collected would be used. The Group prohibits the provision of consumer information to a third party without authorisation from the customers. All collected personal data is treated confidentially, kept securely, and accessible by designated personnel only. Through the internal training and confidential agreements with employees, the Group puts great emphasis on confidentiality obligations and the legal consequences of the breaches of obligations.

Environmental, Social and Governance ("ESG") Report

B.7. Anti-corruption

To maintain a fair, ethical and efficient business and working environment, the Group strictly adheres to the local laws and regulations relating to anti-corruption and bribery, irrespective of the area or country where the Group conducts its business, such as Law of the PRC on Anti-money Laundering (中華人民共和國反洗錢法) and the Prevention of Bribery Ordinance (防止賄賂條例).

The Group has formulated and strictly enforced its anti-corruption policies and comprehensive internal operating manuals, such as Employee Code of Conduct (員工行為準則). The Group will not tolerate any form of corruption. All employees are expected to discharge their duties with integrity and self-discipline, and they are required to abstain from engaging in bribery, extortion, fraud and money laundering activities or any activities which might exploit their positions against the Group's interests. Through the internal control policies, the Group has the effective and efficient division of power in business operation, and new business development must be approved by senior management and headquarters through detail assessment before implementation.

The Group has no tolerance to any corruption and has set whistle-blowing policy to report any corruption. Relevant evaluation, consultation, investigation and punishment have been written in the Whistle-blowing policy. Whistle-blowers can report verbally or in writing to the risk management and internal audit department or the senior management of the Group for any suspected misconduct with full details and supporting evidence. The management will conduct investigations against any suspicious or illegal behaviour to protect the Group's interests. The Group advocates a confidentiality mechanism to protect the whistle-blowers against unfair dismissal or victimisation through security regimes. When criminality is suspected, a report is made to the relevant regulators or law enforcement authorities when the management considers necessary.

During the year under review, the Group was not in violation of any of the relevant laws and regulations in relation to bribery, extortion, fraud and money laundering that have a significant impact on the Group.

Environmental, Social and Governance ("ESG") Report

COMMUNITY

B.8. Community Investment

The Group understands well the importance of making a positive contribution to the communities in which it operates, and sees the interests of such communities as one of its social responsibilities. It is the Group's policy to encourage the participation in social welfare activities and community care projects to gain an understanding of the needs of the communities in which it operates. Participation in such projects helps the Group formulate policies and objectives, which are in line with the interests of these communities reciprocally. The Group is keen to support social welfare activities and community care projects, and encourages its own employees to participate in these activities and projects.

To maintain the stabilization of the local community, the Group prefers to employ local employees in the community. This measure will not only increase the employment rate of the Group, but help maintain the harmony of the community where the Group operates as well.

Environmental, Social and Governance ("ESG") Report

VI. REPORT DISCLOSURE INDEX

Aspects	ESG Indicators	Description	Page
A. Environmental			
A1: Emissions	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	43
	KPI A1.1	The types of emissions and respective emission data.	44
	KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	45
	KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	46
	KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	46
	KPI A1.5	Description of measures to mitigate emissions and results achieved.	44
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	44

Environmental, Social and Governance ("ESG") Report

Aspects	ESG Indicators	Description	Page
A2: Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	47
	KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	49
	KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	49
	KPI A2.3	Description of energy use efficiency initiatives and results achieved.	47
	KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	47
	KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	N/A
A3: The Environment and Natural Resources	General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	51
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	51

Environmental, Social and Governance ("ESG") Report

Aspects	ESG Indicators	Description	Page
B. Social			
Employment and Labour Practices			
B1: Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	52
B2: Health and Safety	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	54
B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	55
B4: Labour Standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	56

Environmental, Social and Governance ("ESG") Report

Aspects	ESG Indicators	Description	Page
Operating Practices			
B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	57
B6: Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	59
B7: Anti-corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	61
Community			
B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	62

Independent Auditor's Report

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TO THE SHAREHOLDERS OF CHINA PRIMARY ENERGY HOLDINGS LIMITED
(中國基礎能源控股有限公司)
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of China Primary Energy Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 76 to 174, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "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.

Independent Auditor's Report

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.

(1) Valuation of investment properties

The Group's investment properties amounted to HK$42,839,000 as at 31 December 2017 and a fair value gain of HK$9,641,000 and HK$10,207,000 was accounted for under "gain arising from changes in fair value of investment properties" and "surplus on revaluation of properties transferred from property, plant and equipment and land use rights to investment properties" in the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of changes in equity respectively in relation to those investment properties. As a result of the transfer at fair values of the properties as at the date of change in use, there was also a reversal of impairment loss on these properties of HK$9,675,000 recognised under "other income and gains and losses" in the consolidated statement of profit or loss and other comprehensive income.

During the year, the Group transferred self-used properties to investment properties as a result of change in use of these properties and the fair values of the Group's investment properties as at the date of change in use and the end of the reporting period were assessed by the management based on independent valuations by an external property valuer.

We identified valuation of the Group's investment properties as at the date of change in use and the end of the reporting period as a key audit matter because of the significance of investment properties to the Group's consolidated financial statements and because the determination of the fair values involves significant judgement and estimation, including selecting the appropriate valuation methodology, capitalisation rates and market rents.

Refer to Notes 4(g), 4(i), 5(b), 8, 16(iii) and 17 to the consolidated financial statements.

Independent Auditor's Report

How the matter was addressed in our audit

Our audit procedures to assess the valuation of investment properties included the following:

(i) assessing management's determination of classification between investment properties and self-used properties based on related documentation including board resolution and tenancy agreements;

(ii) assessing the competence, capability, experience of the locations and types of properties subject to valuation, independence and objectivity of the external property valuer;

(iii) evaluating the valuation methodology used by the external property valuer based on our knowledge of other property valuer for similar types of properties;

(iv) comparing on a sample basis the tenancy information included in the valuation models, which included committed rents and occupancy rates, with underlying contracts and related documentation;

(v) discussing the valuations with the external property valuer and challenging key estimates adopted in the valuations, including those relating to market rents and capitalisation rates, by comparing them with historical rates and available market data, taking into consideration comparability and other local market factors, with the assistance of property valuation specialist engaged by us; and

(vi) checking that the reversal of impairment loss on the relevant properties is restricted to the amount previously charged to profit or loss.

Independent Auditor's Report

(2) Impairment testing

Goodwill

As at 31 December 2017, the carrying amount of goodwill amounted to approximately HK$29,575,000, which for impairment testing purposes was allocated to three cash-generating units ("CGUs") engaged in the Group's natural gas business.

We focused on this area as the balance was material to the Group's consolidated financial statements. In addition, the directors determined the recoverable amounts of these CGUs by estimating their respective fair value less costs of disposal which involves management judgements and estimates about the future results of the business, key assumptions including sales growth rate and gross profit margin, long-term growth rate and the discount rate applied to each future cash flow projection.

Refer to Notes 4(d), 5(c) and 20 to the consolidated financial statements.

Property, plant and equipment and land use rights related to the PE pipes business

The Group had property, plant and equipment and land use rights with aggregate carrying value of HK$57,252,000 in the manufacture and sale of PE pipes segment as at 31 December 2017.

As at 31 December 2017, management evaluated the financial performance of the Group's CGU which constituted the manufacture and sale of PE pipes segment in light of persistent net losses suffered by the Group from this segment and unutilised production. Management determined the recoverable amount of the CGU by estimating fair value less costs of disposal based on cash flow projection of the CGU from approved financial budgets covering a five-year period and concluded that there is no impairment in respect of the property, plant and equipment and land use rights related to this segment. The preparation of cash flow projections requires significant management judgment with respect to assumptions about discount rate and underlying cash flows, in particular future revenue growth.

Refer to Notes 4(i), 5(a) and 16 to the consolidated financial statements.

Independent Auditor's Report

How the matter was addressed in our audit

Our audit team included a valuation expert. Our audit procedures included the following:

(i) assessing the appropriateness of valuation methodologies used by management's expert;

(ii) checking the reasonableness of input data used in the Group's future cash flow projection of each CGU to supporting evidence, such as sales contracts and orders, and considering the reasonableness of these projections;

(iii) assessing the reasonableness of management's key assumptions used including sales growth rate and gross profit margin by comparing the current year's actual results with the 2017 figures included in the prior year's forecast, by reference to future plans and by performing independent market analysis;

(iv) checking the appropriateness of the long term growth rate and discount rate applied to each future cash flow projection; and

(v) considering the potential impact of a reasonably possible downside change in management's key assumptions and input data.

Independent Auditor's Report

(3) Valuation of derivative component of convertible bonds

The Group's balance of financial liabilities at fair value through profit or loss included derivative component of convertible bonds of HK$5,091,000, measured at fair value, as at 31 December 2017.

Valuation techniques and models used can be subjective in nature and involve various assumptions. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value.

Refer to Notes 4(l)(iii), 5(g) and 31 to the consolidated financial statements.

How the matter was addressed in our audit

Our audit team included a valuation expert. Our audit procedures included the following:

(i) challenging the assumptions and critical judgement made by management in utilising those unobservable inputs to determine the fair value of the derivative component of convertible bonds; and

(ii) performing sensitivity analysis by focusing on those significant unobservable inputs to which the outcome of the fair value assessment is most sensitive and assess if their impact on the determination of the fair value are within a reasonable and acceptable range.

Other Information in the Annual Report

The directors are responsible for the other information. The other information comprises the information included in the Company's 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.

Independent Auditor's Report

Directors' Responsibilities for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the disclosure requirements of 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.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

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. This report is made solely to you, as a body, in accordance with the terms of our 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.

Independent Auditor's Report

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.

Independent Auditor's Report

We communicate with the Audit Committee 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 the Audit Committee 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 the directors, 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.

BDO Limited
Certified Public Accountants

Li Pak Ki
Practising Certificate Number: P01330

Hong Kong, 22 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	6	**194,908**	182,800
Other income and gains and losses	8	**16,661**	449
Cost of sales		**(161,581)**	(152,079)
Staff costs, including directors' remuneration	14	**(37,172)**	(39,787)
Depreciation		**(8,139)**	(6,824)
Amortisation of land use rights	18	**(671)**	(724)
Amortisation of other intangible assets	21	**(983)**	(1,391)
Gain arising from changes in fair value of investment properties	17	**9,641**	–
Reversal of impairment loss/(impairment loss) on trade receivables		**3,546**	(5,663)
Bad debt expenses		**–**	(164)
Other operating expenses		**(29,373)**	(30,372)
Share of losses of associates		**(692)**	(930)
Finance costs	9	**(4,359)**	(3,353)
Loss before income tax	10	**(18,214)**	(58,038)
Income tax	11	**(5,069)**	(2,165)
Loss for the year		**(23,283)**	(60,203)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Surplus on revaluation of properties transferred from property, plant and equipment and land use rights to investment properties, net of tax	16(iii)	**7,656**	–
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**30,267**	(26,138)
Share of other comprehensive income of associates		**746**	(361)
Items reclassified to profit or loss:			
Exchange differences reclassified to profit or loss upon disposal of subsidiaries	41	**64**	11
Other comprehensive income for the year		**38,733**	(26,488)
Total comprehensive income for the year		**15,450**	(86,691)
Loss attributable to:			
Owners of the Company		**(20,732)**	(59,567)
Non-controlling interests		**(2,551)**	(636)
		(23,283)	(60,203)
Total comprehensive income attributable to:			
Owners of the Company		**10,765**	(85,263)
Non-controlling interests		**4,685**	(1,428)
		15,450	(86,691)
Basic and diluted loss per share *(HK$)*	13	**(0.022)**	(0.064)

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	16	**292,837**	234,067
Investment properties	17	**42,839**	–
Land use rights	18	**30,536**	27,637
Goodwill	20	**29,575**	29,364
Other intangible assets	21	**2,380**	19,077
Interests in associates	22	**4,743**	5,218
Available-for-sale investments	23	**33**	33
Total non-current assets		**402,943**	315,396
Current assets			
Inventories	24	**13,844**	9,285
Trade receivables	25	**108,939**	53,580
Other receivables, deposits and prepayments	26	**80,703**	79,922
Investments held for trading	27	**400**	1,261
Cash and cash equivalents	28	**10,841**	17,512
Total current assets		**214,727**	161,560
Total assets		**617,670**	476,956
Current liabilities			
Trade payables	29	**95,694**	33,378
Other payables and accruals	30	**84,902**	59,759
Customers' deposits		**7,235**	6,656
Financial liabilities at fair value through profit or loss	31	**8,011**	232
Amount due to a director	32	**420**	–
Obligations under finance leases	33	**10,634**	7,931
Borrowings	34	**45,625**	3,906
Tax payable		**1,678**	1,503
Total current liabilities		**254,199**	113,365
Net current (liabilities)/assets		**(39,472)**	48,195

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Amount due to a director	32	**3,782**	–
Deferred tax liabilities	35	**8,396**	6,392
Obligations under finance leases	33	**7,085**	8,031
Borrowings	34	**–**	33,483
Total non-current liabilities		**19,263**	47,906
Total liabilities		**273,462**	161,271
NET ASSETS		**344,208**	315,685
Equity			
Share capital	36	**58,181**	58,181
Reserves		**255,495**	234,104
Equity attributable to owners of the Company		**313,676**	292,285
Non-controlling interests		**30,532**	23,400
TOTAL EQUITY		**344,208**	315,685

These financial statements were approved and authorised for issue by the board of directors on 22 March 2018.

Ma Zheng
Director

Wong Pui Yiu
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2017

	Equity attributable to owners of the Company										
	Share capital HK$'000	Share premium account HK$'000 (Note a)	Convertible bonds equity reserve HK$'000 (Note 31)	Statutory surplus reserve HK$'000 (Note b)	Exchange translation reserve HK$'000 (Note c)	Share option reserve HK$'000 (Note d)	Property revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2016	58,181	657,018	80,179	5,240	44,081	7,976	–	(485,982)	366,693	21,356	388,049
Loss for the year	–	–	–	–	–	–	–	(59,567)	(59,567)	(636)	(60,203)
Other comprehensive income	–	–	–	–	(25,696)	–	–	–	(25,696)	(792)	(26,488)
Total comprehensive income	–	–	–	–	(25,696)	–	–	(59,567)	(85,263)	(1,428)	(86,691)
Equity-settled share-based transactions (Note 37)	–	–	–	–	–	10,855	–	–	10,855	–	10,855
Lapse of share options (Note 37)	–	–	–	–	–	(306)	–	306	–	–	–
Capital contribution to a non-wholly owned subsidiary by a non-controlling shareholder	–	–	–	–	–	–	–	–	–	3,370	3,370
Disposal of non-controlling interests through disposal of subsidiaries (Note 41)	–	–	–	–	–	–	–	–	–	102	102
Balance at 31 December 2016 and at 1 January 2017	58,181	657,018	80,179	5,240	18,385	18,525	–	(545,243)	292,285	23,400	315,685

	Equity attributable to owners of the Company										
	Share capital HK$'000	**Share premium account HK$'000** (Note a)	**Convertible bonds equity reserve HK$'000** (Note 31)	**Statutory surplus reserve HK$'000** (Note b)	**Exchange translation reserve HK$'000** (Note c)	**Share option reserve HK$'000** (Note d)	**Property revaluation reserve HK$'000**	**Accumulated losses HK$'000**	**Total HK$'000**	**Non-controlling interests HK$'000**	**Total equity HK$'000**
Balance at 31 December 2016 and at 1 January 2017	**58,181**	**657,018**	**80,179**	**5,240**	**18,385**	**18,525**	**–**	**(545,243)**	**292,285**	**23,400**	**315,685**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(20,732)**	**(20,732)**	**(2,551)**	**(23,283)**
Other comprehensive income	**–**	**–**	**–**	**–**	**23,841**	**–**	**7,656**	**–**	**31,497**	**7,236**	**38,733**
Total comprehensive income	**–**	**–**	**–**	**–**	**23,841**	**–**	**7,656**	**(20,732)**	**10,765**	**4,685**	**15,450**
Equity-settled share-based transactions (Note 37)	**–**	**–**	**–**	**–**	**–**	**10,626**	**–**	**–**	**10,626**	**–**	**10,626**
Lapse of share options (Note 37)	**–**	**–**	**–**	**–**	**–**	**(626)**	**–**	**626**	**–**	**–**	**–**
Acquisition of a subsidiary (Note 42)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,447**	**2,447**
Release of statutory reserve upon disposal of a subsidiary	**–**	**–**	**–**	**(131)**	**–**	**–**	**–**	**131**	**–**	**–**	**–**
Balance at 31 December 2017	**58,181**	**657,018**	**80,179**	**5,109**	**42,226**	**28,525**	**7,656**	**(565,218)**	**313,676**	**30,532**	**344,208**

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2017

Notes:

(a) The share premium account of the Group includes: (i) the premium arising from the issue of shares of the Company at a premium less share issue expenses; and (ii) the difference between the nominal value of the share capital and share premium of the subsidiaries acquired pursuant to the reorganisation scheme (the "Group Reorganisation") in preparation for the public listing of the Company's shares on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") over the nominal value of the shares of the Company issued in exchange therefor.

(b) Subsidiaries of the Company established in the People's Republic of China (the "PRC") are required to transfer 10% of their profit after income tax calculated in accordance with the PRC accounting regulations to the statutory surplus reserve until the reserve reaches 50% of their respective registered capital, upon which any further appropriation will be at the recommendation of the directors of subsidiaries. Such reserve may be used to reduce any loss incurred by the subsidiaries or be capitalised as paid-up capital of the subsidiaries.

(c) Exchange translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. This reserve is dealt with in accordance with the accounting policy in Note 4(q).

(d) Share option reserve comprises cumulative expenses recognised on the granting of share options to the employees over the vesting period. This reserve is dealt with in accordance with the accounting policy in Note 4(s).

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
Cash flows from operating activities			
Loss before income tax		**(18,214)**	(58,038)
Adjustments for:			
Depreciation	16	**18,050**	22,296
Amortisation of land use rights	18	**671**	724
Amortisation of intangible assets	21	**983**	1,391
Equity-settled share-based payment expenses	14	**10,626**	10,855
Bank interest income	8	**(92)**	(102)
Finance costs	9	**4,359**	3,353
Fair value loss on investments held for trading	8	**860**	343
Loss on disposal of property, plant and equipment	8	**105**	24
Change in fair value of financial liabilities at fair value through profit or loss	8	**7,779**	1,904
Written off of property, plant and equipment	8	**1,611**	1,440
Reversal of write down of inventories	10	**(2,926)**	–
(Reversal of impairment loss)/impairment loss on inventories	10	**(1,948)**	470
Reversal of impairment loss on property, plant and equipment	8	**(9,675)**	–
Gain arising from changes in fair value of investment properties	17	**(9,641)**	–
Share of losses of associates		**692**	930
Reversal of impairment loss/(impairment loss) on trade receivables	25	**(3,546)**	5,663
Bad debt expenses		**–**	164
Gain on disposal of subsidiaries	41	**(13,751)**	(879)
Operating loss before working capital changes		**(14,057)**	(9,462)
Increase in inventories		**(390)**	(2,730)
(Increase)/decrease in trade receivables		**(57,821)**	10,156
(Increase)/decrease in other receivables, deposits and prepayments		**(9,526)**	8,094
Decrease in amounts due from associates		**–**	1,052
Increase in investments held for trading		**–**	(1,598)
Increase in trade payables		**62,316**	2,113
Increase in other payables and accruals		**33,948**	2,519
Increase in customers' deposits		**1,988**	7,073
Effect of foreign exchange differences		**12,980**	(5,243)
Cash generated from operations		**29,438**	11,974
Income tax paid		**(249)**	(906)
Bank interest income received		**92**	102
Net cash from operating activities		**29,281**	11,170

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
Cash flows from investing activities			
Purchases of property, plant and equipment		**(84,566)**	(56,173)
Disposal of subsidiaries, net of cash disposed	41	**61,050**	625
Acquisition of a subsidiary, net of cash acquired	42	**(11,025)**	–
Proceeds from disposal of property, plant and equipment		**2,410**	8,039
Net cash used in investing activities		**(32,131)**	(47,509)
Cash flows from financing activities	40		
Proceeds from bank borrowings		**48,026**	–
Repayment of bank borrowings		**(41,389)**	(1,674)
Repayment of obligations under finance leases		**(10,768)**	(5,924)
Advance from a director		**4,202**	–
Capital contribution to a non-wholly owned subsidiary by a non-controlling shareholder		**–**	3,370
Interest paid		**(4,359)**	(3,353)
Net cash used in financing activities		**(4,288)**	(7,581)
Net decrease in cash and cash equivalents		**(7,138)**	(43,920)
Cash and cash equivalents at beginning of year		**17,512**	62,263
Effect of foreign exchange rate changes		**467**	(831)
Cash and cash equivalents at end of year		**10,841**	17,512
Analysis of the balances of cash and cash equivalents			
Cash at banks and in hand		**10,841**	17,512

Notes to the Financial Statements

31 DECEMBER 2017

1. ORGANISATION AND OPERATIONS

The Company is a limited liability company incorporated in the Cayman Islands, as an exempted company under the Companies Law (2001 Revision) of the Cayman Islands on 5 September 2001. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Suite 701, Ocean Centre, 5 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong. The Company's shares are listed on the GEM of the Stock Exchange.

The principal activity of the Company is investment holding. The Group engages in the manufacture and sale of Polyethylene pipes ("PE pipes"), transmission and distribution of natural gas, trading of electronic components and property investment primarily in the PRC. The activities of the principal subsidiaries are set out in Note 19.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective on 1 January 2017

In the current year, the Group has adopted the following new/revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for the current accounting period.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

Amendments to HKAS 7 – Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financial activities.

The adoption of the amendments has resulted in additional disclosure presented in Note 40 to the consolidated financial statements.

Notes to the Financial Statements

31 DECEMBER 2017

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) Adoption of new/revised HKFRSs – effective on 1 January 2017 *(Continued)*

Amendments to HKAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured at fair value.

The adoption of the amendments has no impact on the financial statements as the clarified treatment is consistent with the manner in which the Group has previously recognised deferred tax assets.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[1]
HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
HK(IFRIC)–Int 22	Foreign Currency Transactions and Advance Consideration[1]
HKFRS 16	Leases[2]
HK(IFRIC)–Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

Notes to the Financial Statements

31 DECEMBER 2017

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

HKFRS 9 – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

Notes to the Financial Statements

31 DECEMBER 2017

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

HKFRS 9 – Financial Instruments (Continued)

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The adoption of HKFRS 9 might have an impact on the Group's financial performance and financial position, including the measurement of the financial assets and disclosures. In particular, the directors of the Company expect that the adoption of an expected credit losses impairment model will result in earlier recognition of credit losses of the Group's trade receivables.

HKFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

Notes to the Financial Statements

31 DECEMBER 2017

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

Amendments HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The Group does not expect that the adoption of HKRFS 15 will have an impact on the pattern of revenue and profit recognition as there is only one performance obligation identified in the contracts with customers and the performance obligation is satisfied at point of time. The impact to the Group is expected to include more comprehensive disclosure as required by the new standard.

Amendments to HKAS 40, Investment Property – Transfers of Investment Property

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change in use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred.

The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)–Int 22 – Foreign Currency Transactions and Advance Consideration

The interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The interpretation specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Group expects to adopt the interpretation on 1 January 2018 and does not expect its adoption will have significant impact on the Group's financial position and performance.

Notes to the Financial Statements

31 DECEMBER 2017

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 Leases and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As set out in Note 38, total operating lease commitments of the Group in respect of its office premises held under operating leases as at 31 December 2017 amounted to HK$3,788,000. The Group does not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in a significant impact on the Group's results but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statements of financial position as right-of-use assets and lease liabilities.

Notes to the Financial Statements

31 DECEMBER 2017

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

HK(IFRIC)–Int 23 – Uncertainty over Income Tax Treatments

The interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

The Group does not expect the adoption of this interpretation will result in a significant impact on the Group's results and financial position.

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

The Group expects to adopt the amendments on its mandatory effective date of adoption and does not expect its adoption will have significant impact on the Group's financial position and performance.

Notes to the Financial Statements

31 DECEMBER 2017

3. BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

(b) Basis of measurement and going concern assumption

These financial statements have been prepared under the historical cost convention except for certain properties and financial instruments, which are measured at fair values as explained in the accounting policies set out below.

During the year, the Group has incurred a loss of HK$23,283,000 and at the end of the reporting period, its current liabilities exceeded its current assets by HK$39,472,000. This situation indicates the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

On 12 February 2018, the Company entered into two subscription agreements with two subscribers, who are independent third parties, to allot and issue 93,089,767 and 53,900,000 new shares at HK$0.8183 per new share to the subscribers respectively. The net proceeds of these two shares subscription amounted to approximately HK$76 million and HK$44 million respectively which will be applied towards the potential investment opportunities of the Group and as the working capital of the Group. The subscription of 93,089,767 shares was completed on 9 March 2018 and the subscription of 53,900,000 shares will be completed on or before 31 March 2018. This enables the Group to have sufficient funds to meet its liabilities as they fall due and to carry on its business without a significant curtailment of operations. Accordingly, the financial statements have been prepared on a going concern basis.

Notes to the Financial Statements

31 DECEMBER 2017

4. PRINCIPAL ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRS. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Notes to the Financial Statements

31 DECEMBER 2017

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Business combination and basis of consolidation *(Continued)*

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal 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 of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Company considers all relevant facts and circumstances, including:

Notes to the Financial Statements

31 DECEMBER 2017

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(b) Subsidiaries *(Continued)*

- The size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;

- Substantive potential voting rights held by the Company and other parties who hold voting rights;

- Other contractual arrangements; and

- Historic patterns in voting attendance.

Investments in subsidiaries are stated in the Company's statement of financial position at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits or losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits or losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Notes to the Financial Statements

31 DECEMBER 2017

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Associates *(Continued)*

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

(d) Goodwill

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

Notes to the Financial Statements

31 DECEMBER 2017

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Other intangible assets

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is provided on a straight-line basis over their estimated useful lives as follows:

Customer relationships	10 years
Exclusive rights of natural gas operations	23 years

The amortisation expense is recognised in profit or loss. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses.

(ii) Impairment

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years.

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired (see Note 4(i)).

Notes to the Financial Statements

31 DECEMBER 2017

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(f) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy in Note 4(t). In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation. Depreciation of property, plant and equipment commences when the assets are ready for their intended use. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment.

Depreciation is charged so as to write off the cost of assets 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. The principal annual rates are as follows:

Leasehold land and buildings	Over the lease terms
Leasehold improvements	Over the remaining term of the lease but not exceeding 4 years
Computer equipment	20% – 33%
Natural gas pipelines	Over the remaining term of the exclusive rights of natural gas operations (23 years ending 2038)
Plant and machinery	10%
Furniture, fixtures and office equipment	20% – 33%
Motor vehicles	20%

Notes to the Financial Statements

31 DECEMBER 2017

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Property, plant and equipment *(Continued)*

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(g) Investment property

Investment property is property held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

(h) Land use rights

Land use rights represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

Notes to the Financial Statements

31 DECEMBER 2017

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (other than financial assets)

At the end of each reporting period, the Group/Company reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment under cost model;
– land use rights under operating leases;
– interests in subsidiaries; and
– interests in associates

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount to the extent 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 cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Notes to the Financial Statements

31 DECEMBER 2017

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost, including an appropriate portion of overhead expenses, is assigned to inventories by the method most appropriate to the particular class of inventories, is calculated using weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and cost necessary to make the sale.

(k) Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, are initially measured at fair value, plus transaction costs that are directly attributable to the acquisition of the financial assets, except for those financial assets classified at fair value through profit or loss, which are initially measured at fair value. The Group's financial assets are subsequently accounted for as follows, depending on their classification:

(i) Loans and receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any identified impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(ii) Available-for-sale investments

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

For available-for-sale equity investments that do not have quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

Notes to the Financial Statements

31 DECEMBER 2017

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(k) Financial assets *(Continued)*

(iii) Financial assets at fair value through profit or loss

These assets include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which is managed and its performance evaluated on a fair value basis according to a documented management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Notes to the Financial Statements

31 DECEMBER 2017

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Financial assets *(Continued)*

(iv) Impairment

The Group assesses, at the end of each reporting period, whether there is any objective evidence that a financial asset is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– granting concession to a debtor because of debtor's financial difficulty;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; or

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other current receivables, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which has been determined had no impairment loss been recognised in prior years.

Notes to the Financial Statements

31 DECEMBER 2017

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Financial assets *(Continued)*

(iv) Impairment (Continued)

– For available-for-sale equity investments carried at fair value, where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

– For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(v) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

Notes to the Financial Statements

31 DECEMBER 2017

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Financial assets *(Continued)*

(vi) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. 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.

(l) Financial liabilities and equity instruments issued by the Group

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Notes to the Financial Statements

31 DECEMBER 2017

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Financial liabilities and equity instruments issued by the Group *(Continued)*

(i) Financial liabilities at fair value through profit or loss (Continued)

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

(ii) Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, customers' deposits, obligations under finance leases and borrowings are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iii) Convertible bonds

Convertible bonds issued by the Group that contain both the financial assets/liabilities at fair value through profit or loss and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the financial assets/liabilities at fair value through profit or loss component is determined using the Trinominal Tree Model. The difference between the proceeds of the issue of the convertible bonds and the liability component including the fair value of the financial assets/liabilities at fair value through profit or loss is included in equity (convertible bonds equity reserve).

Subsequent to initial recognition, financial assets/liabilities at fair value through profit or loss are measured at fair value with changes in fair value recognised in profit or loss in the period in which they arise.

(iv) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Notes to the Financial Statements

31 DECEMBER 2017

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Financial liabilities and equity instruments issued by the Group *(Continued)*

(v) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(n) Leases

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

The Group as lessor

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 recognised as an expense on the straight-line basis over the lease term.

Notes to the Financial Statements

31 DECEMBER 2017

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Leases *(Continued)*

The Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rental payable under the operating leases are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense 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, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the Financial Statements

31 DECEMBER 2017

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) Income taxes

Income taxes for the year comprise current tax and deferred tax.

(i) Current tax

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

(ii) Deferred tax

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

The carrying amount of deferred tax assets is reviewed at the end of each 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 liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and an associate, 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.

Notes to the Financial Statements

31 DECEMBER 2017

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(p) Income taxes *(Continued)*

(ii) Deferred tax (Continued)

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 realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of 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 reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Income tax is recognised in profit or loss except when it relates to items recognised in other comprehensive income in which case the income tax is recognised in other comprehensive income.

(q) Foreign currencies

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of monetary items and from the translation at year end exchanges rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the retranslation of monetary items in respect of which gains or losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

Notes to the Financial Statements

31 DECEMBER 2017

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) Foreign currencies *(Continued)*

Transactions and balances (Continued)

On consolidation, the statements of financial position of the group entities denominated in foreign currencies are translated into HK$ at the applicable rates of exchange ruling at the end of reporting period while income and expenses items are translated at an average rate for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. The resulting translation differences are recognised in other comprehensive income and accumulated in the exchange translation reserve. Exchange differences recognised in profit or loss of group entities' individual financial statements on translation of long-term monetary items forming part of the Group's net investment in foreign operations are reclassified to other comprehensive income and accumulated in equity as exchange translation reserve. Such accumulated translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate at the end of reporting period. Exchange differences arising are recognised in the exchange translation reserve.

(r) Employees' benefits

(i) Short term benefits

Salaries, annual bonuses, paid annual leaves and the cost of non-monetary benefits (other than termination benefits) are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present value.

(ii) Pension obligations

Contributions to the Mandatory Provident Fund scheme as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to profit or loss when incurred. The Group has no further payment obligations once the contribution has been made.

The employees of the Group's entities which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentages of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Notes to the Financial Statements

31 DECEMBER 2017

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(r) Employees' benefits *(Continued)*

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

(s) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the employee share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised. For cash-settled share based payments, a liability is recognised at the fair value of the goods or services received.

(t) Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing cost capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the Financial Statements

31 DECEMBER 2017

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(u) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Notes to the Financial Statements

31 DECEMBER 2017

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(u) Related parties *(Continued)*

(b) An entity is related to the Group if any of the following conditions apply: (Continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

(v) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

(i) Revenue from sale of products is reduced for estimated customer returns, rebates and other similar allowances and excluded value-added tax or other sales related taxes. It is recognised when the Group has delivered the products to the customer and the customer has accepted the products and collectability of the related receivable is reasonably assured.

(ii) Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

(iii) Interest income is accrued on a time-apportioned basis by reference to the principal outstanding at the applicable interest rate.

Notes to the Financial Statements

31 DECEMBER 2017

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

(a) Carrying value of non-current assets and impairment of assets

Non-current assets, including property, plant and equipment, land use rights and other intangible assets, are carried at cost less accumulated depreciation and amortisation, where appropriate, and impairment losses. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position. Details of the assessment on impairment in property, plant and equipment are set out in Note 16 to the financial statements.

(b) Classification between investment properties and self-used properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Notes to the Financial Statements

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5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(c) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of fair value less costs of disposal of the cash-generating units to which goodwill has been allocated. The determination of fair value less costs of disposal requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

(d) Impairment of trade and other receivables

The Group's management determines impairment of trade and other receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the impairment of trade and other receivables at the end of each reporting period.

(e) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market conditions and the historical experience of selling products of a similar nature. It could change significantly as a result of competitors' actions in response to severe industry cycles. Management reassesses these estimations at the end of each reporting period to ensure inventories are shown at the lower of cost and net realisable value.

(f) Purchase price allocation for business combinations

Accounting for business combinations requires the Group to allocate the cost of the acquisition to the specific assets acquired and liabilities assumed based on estimated fair values at the date of acquisition. The Group undertakes a process to identify all assets and liabilities acquired, including any identified intangible assets where appropriate. The judgments made in identifying all acquired assets, determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as assets' useful lives, may materially impact the Group's financial position and results of operations. In determining the fair values of the identifiable assets acquired and liabilities assumed, valuations were conducted by an independent professional valuer and estimated fair values are based on information available near the acquisition date and on expectations and assumptions that have been deemed reasonable by management.`

Notes to the Financial Statements

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5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(g) Fair value measurement

The fair value measurement of certain of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "fair value hierarchy"):

- Level 1: Quoted prices in active markets for identical items (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs;
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group measures the below items at fair value:

– Investment properties (Note 17)

– Financial liabilities at fair value through profit or loss (Note 31)

For more detailed information in relation to the fair value measurement of the items above, please refer to applicable notes.

(h) Income tax

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. In addition, the realisation of the future income tax assets is dependent on the Group's ability to generate sufficient taxable income in future years to utilise income tax benefits and carry-forward income tax losses. Deviations of future profitability from estimates or in the income tax rate would result in adjustments to the value of future income tax assets and liabilities that could have a significant effect on earnings.

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6. REVENUE

Revenue represents the net invoiced amounts of goods sold and rental income earned by the Group. An analysis of the Group's revenue is as follows:

	2017	2016
	HK$'000	HK$'000
Sales of PE pipes	**42,377**	33,802
Transmission and distribution of natural gas	**135,581**	148,998
Sales of electronic components	**16,386**	–
Rental income	**564**	–
	194,908	182,800

7. SEGMENT REPORTING

The Group determines its operating segments based on the reports that are used by the chief operating decision-maker to make strategic decisions.

The Group has four reportable segments for the year ended 31 December 2017 and two reportable segments for the year ended 31 December 2016. The segments are managed separately as each business offers different products and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Manufacture and sale of PE pipes
- Transmission and distribution of natural gas
- Trading of electronic components
- Property investment

Segment assets exclude cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Inter-segment transfer of non-current assets are priced at net book value as at transfer date. There was no inter-segment sale or transfer during the years ended 31 December 2017 and 2016. Central revenue and expenses are not allocated to the operating segments as they are not included in the measurement of the segment result that is used by the chief operating decision-maker for assessment of segment performance.

Notes to the Financial Statements

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7. SEGMENT REPORTING (Continued)

(a) Reportable segments

For the year ended 31 December 2017

	Manufacture and sale of PE pipes HK$'000	Transmission and distribution of natural gas HK$'000	Trading of electronic components HK$'000	Property investment HK$'000	Total HK$'000
Revenue from external customers	42,377	135,581	16,386	564	194,908
Reportable segment (loss)/profit	(2,440)	(4,981)	(6,229)	14,487	837
Reportable segment assets	83,826	434,180	16,146	42,839	576,991
Reportable segment liabilities	(24,319)	(172,801)	(4,388)	(7,686)	(209,194)
Other segment information:					
Bank interest income	26	34	22	–	82
Unallocated					10
Total bank interest income					92
Share of losses of associates	–	(692)	–	–	(692)
Gain on disposal of subsidiaries	14,989	(1,238)	–	–	13,751
Depreciation	(6,170)	(10,502)	(839)	–	(17,511)
Unallocated					(539)
Total depreciation					(18,050)
Amortisation of land use rights	(517)	(128)	–	–	(645)
Unallocated					(26)
Total amortisation of land use rights					(671)
Amortisation of other intangible assets	–	(983)	–	–	(983)
Reversal of impairment loss/ (impairment loss) on trade receivables	5,135	(1,589)	–	–	3,546
Reversal of write down of inventories	2,926	–	–	–	2,926
Reversal of impairment loss on inventories	1,948	–	–	–	1,948
Loss on disposal of property, plant and equipment	(105)	–	–	–	(105)
Interests in associates	–	4,743	–	–	4,743
Additions to non-current assets	6,315	97,297	31	–	103,643
Unallocated					8,216
Total additions to non-current assets					111,859

Notes to the Financial Statements

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7. SEGMENT REPORTING *(Continued)*

(a) Reportable segments *(Continued)*

For the year ended 31 December 2016

	Manufacture and sale of PE pipes HK$'000	Transmission and distribution of natural gas HK$'000	Total HK$'000
Revenue from external customers	33,802	148,998	182,800
Reportable segment (loss)/profit	(22,502)	8,689	(13,813)
Reportable segment assets	103,383	299,066	402,449
Reportable segment liabilities	(14,637)	(91,686)	(106,323)
Other segment information:			
Bank interest income	17	63	80
Unallocated			22
Total bank interest income			102
Share of losses of associates	–	(930)	(930)
Depreciation	(11,404)	(9,723)	(21,127)
Unallocated			(1,169)
Total depreciation			(22,296)
Amortisation of land use rights	(686)	(38)	(724)
Amortisation of other intangible assets	–	(1,391)	(1,391)
Impairment loss on trade receivables	(5,663)	–	(5,663)
Written off of property, plant and equipment	(681)	(756)	(1,437)
Unallocated	–	–	(3)
Total written off of property, plant and equipment			(1,440)
Interest in associates	–	5,218	5,218
Additions to non-current assets	3,434	60,009	63,443
Unallocated			1,194
Total additions to non-current assets			64,637

Notes to the Financial Statements

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7. SEGMENT REPORTING (Continued)

(b) Reconciliation of reportable segment loss, assets and liabilities

	2017	2016
	HK$'000	HK$'000
Loss before income tax		
Total reportable segment's profit/(loss)	**837**	(13,813)
Unallocated other income and gains and losses	**(8,315)**	(382)
Corporate and other unallocated expenses	**(6,377)**	(40,490)
Finance costs	**(4,359)**	(3,353)
Consolidated loss before income tax	**(18,214)**	(58,038)

	2017	2016
	HK$'000	HK$'000
Assets		
Total reportable segment's assets	**576,991**	402,449
Cash and cash equivalents	**10,841**	17,512
Unallocated corporate assets	**29,838**	56,995
Consolidated total assets	**617,670**	476,956

	2017	2016
	HK$'000	HK$'000
Liabilities		
Total reportable segment's liabilities	**(209,194)**	(106,323)
Deferred tax liabilities	**(8,396)**	(6,392)
Unallocated corporate liabilities	**(55,872)**	(48,556)
Consolidated total liabilities	**(273,462)**	(161,271)

(c) Geographical information

Over 90% of the Group's revenue for the two years ended 31 December 2017 and 2016 was generated from customers located in the PRC and all non-current assets (other than financial instruments) were located in the PRC.

Notes to the Financial Statements

31 DECEMBER 2017

7. SEGMENT REPORTING (Continued)

(d) Information about major customers

For the year ended 31 December 2017, revenue from two customers (all in the transmission and distribution of natural gas segment) amounted to HK$39,745,000 (2016:HK$37,435,000) and HK$38,275,000 (2016:HK$36,217,000) and each contributed to 10% or more of the Group's total revenue.

For the year ended 31 December 2016, revenue from another two customers (all in the transmission and distribution of natural gas segment) amounted to HK$29,800,000, and HK$21,066,000 respectively and each contributed to 10% or more of the Group's total revenue.

8. OTHER INCOME AND GAINS AND LOSSES

	2017 HK$'000	2016 HK$'000
Sundry income	3,498	3,179
Bank interest income	92	102
Reversal of impairment loss on property, plant and equipment (Note 16(iii))	9,675	–
Written off of property, plant and equipment	(1,611)	(1,440)
Loss on disposal of property, plant and equipment	(105)	(24)
Fair value loss on investments held for trading	(860)	(343)
Change in fair value of financial liabilities at fair value through profit or loss (Note 31)	(7,779)	(1,904)
Gain on disposal of subsidiaries (Note 41(c) & (d))	13,751	879
	16,661	449

9. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on bank loans and other borrowings	2,794	2,010
Finance lease interest	1,565	1,343
	4,359	3,353

Notes to the Financial Statements

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10. LOSS BEFORE INCOME TAX

	2017 HK$'000	2016 HK$'000
Loss before income tax is arrived at after charging/(crediting):		
Cost of inventories sold	**151,223**	149,077
Reversal of write down of inventories	**(2,926)**	–
(Reversal of impairment loss)/impairment loss on inventories (Note 24)	**(1,948)**	470
Auditors' remuneration	**1,420**	1,350
Minimum operating lease payments in respect of land and buildings	**3,617**	4,251
Depreciation of property, plant and equipment		
– Owned	**14,509**	20,348
– Held under finance leases	**3,541**	1,948

Note: Depreciation charge included an amount of HK$9,911,000 (2016: HK$15,472,000) recognised as cost of inventories sold for the year.

11. INCOME TAX

	2017 HK$'000	2016 HK$'000
Current tax – PRC		
– tax for the year	**239**	2,162
– under provision in respect of prior years	**–**	34
	239	2,196
Deferred tax liabilities (Note 35)		
– current year	**4,830**	(31)
Income tax	**5,069**	2,165

No provision has been made for Hong Kong profits tax as the Group has no assessable profit arising from Hong Kong during the current and prior years.

Notes to the Financial Statements

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11. INCOME TAX (Continued)

In accordance with the PRC Enterprise Income Tax Law approved by the National People's Congress on 16 March 2007 and became effective from 1 January 2008, the Company's subsidiaries in the PRC are subject to enterprise income tax ("EIT") at the unified EIT rate of 25%.

Income tax for the year can be reconciled to accounting loss, at applicable tax rates:

	2017	2016
	HK$'000	HK$'000
Loss before income tax	**(18,214)**	(58,038)
Income tax credit calculated at the statutory PRC EIT tax rate of 25% (2016: 25%)	**(4,553)**	(14,510)
Effect of different tax rates of subsidiaries operating in Hong Kong	**2,618**	1,761
Tax effect of expenses not deductible for taxation purposes	**8,174**	10,254
Tax effect of non-taxable items	**(1,709)**	(1,292)
Tax effect on unused tax losses and other temporary differences not recognised	**4,281**	5,918
Utilisation of previously unrecognised tax losses	**(3,742)**	–
Under provision in respect of prior year	**–**	34
Income tax for the year	**5,069**	2,165

12. DIVIDEND

The board of directors does not recommend the payment of any dividend for the year ended 31 December 2017 (2016: Nil).

Notes to the Financial Statements

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13. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of HK$20,732,000 (2016: HK$59,567,000), and the weighted average number of ordinary shares of 930,898,000 (2016: 930,898,000) in issue during the year.

The computation of diluted loss per share for the years ended 31 December 2017 and 2016 does not assume the conversion of the Company's outstanding convertible bonds and the exercise of the Company's outstanding share options since their conversion and exercise had an anti-dilutive effect on the basic loss per share. Accordingly, the basic and diluted loss per share for the years ended 31 December 2017 and 2016 are the same.

14. STAFF COSTS, INCLUDING DIRECTORS' REMUNERATION

	2017	2016
	HK$'000	HK$'000
Salaries and allowances	**24,653**	26,361
Retirement benefit scheme contributions	**1,893**	2,571
Equity-settled share-based payment expenses	**10,626**	10,855
	37,172	39,787

Staff salaries of HK$900,000 (2016: HK$1,457,000) were included in cost of inventories sold for the year.

Notes to the Financial Statements

31 DECEMBER 2017

15. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Executive directors and non-executive directors

	Fees HK$'000	Salaries and allowances HK$'000	Share-based payment (Note(ii)) HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
2017					
Executive directors:					
Ms. Ma Zheng	–	1,202	129	18	1,349
Mr. Wong Pui Yiu	–	677	550	18	1,245
	–	1,879	679	36	2,594
Independent non-executive directors:					
Mr. Wan Tze Fan Terence	180	–	110	–	290
Mr. Chung Chin Keung	180	–	110	–	290
Mr. Wang Xiao Bing	180	–	110	–	290
	540	–	330	–	870

Notes to the Financial Statements

31 DECEMBER 2017

15. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

(a) Executive directors and non-executive directors *(Continued)*

	Fees HK$'000	Salaries and allowances HK$'000	Share-based payment (Note(ii)) HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
2016					
Executive directors:					
Ms. Ma Zheng	–	1,200	129	19	1,348
Mr. Wong Pui Yiu	–	674	552	18	1,244
	–	1,874	681	37	2,592
Independent non-executive directors:					
Mr. Wan Tze Fan Terence	180	–	110	–	290
Mr. Chung Chin Keung	180	–	110	–	290
Mr. Wang Xiao Bing	180	–	110	–	290
	540	–	330	–	870

Notes:

(i) During the current and prior years, no emolument was paid by the Group to any directors as an inducement to join, or upon joining the Group, or as compensation for loss of office. There were no arrangements under which a director waived or agreed to waive any remuneration during the current and prior years.

(ii) These amounts represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the accounting policy for share-based payments as set out in Note 4(s) to the financial statements. Further details of the options granted are set out in Note 37 to the financial statements.

(iii) Salaries, allowances and other benefits paid to or for the executive directors are generally emoluments in respect of those persons' other services in connection with the management of the affairs of the Company and its subsidiaries.

Notes to the Financial Statements

31 DECEMBER 2017

15. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(b) Five highest paid individuals

The five highest paid individuals during the year included two (2016: two) directors, details of whose remuneration are set out in Note 15(a) above. Details of the remuneration of the remaining three (2016: three) non-director, highest paid individuals for the year are as follows:

	2017 HK$'000	2016 HK$'000
Basic salaries, share options and other benefits	**4,391**	4,379
Discretionary bonuses	**145**	144
Retirement benefit scheme contributions	**50**	49
	4,586	4,572

Their emoluments fell within the following bands:

	Number of individuals	
	2017	2016
HK$1,000,001 – HK$1,500,000	**2**	2
HK$1,500,001 – HK$2,000,000	**–**	–
HK$2,000,001 – HK$2,500,000	**1**	1
	3	3

The emoluments paid or payable to members of senior management other than directors were within the following bands:

	Number of individuals	
	2017	2016
HK$1,000,001 – HK$1,500,000	**1**	1

Notes to the Financial Statements

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16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000 (Note)	Leasehold improvements HK$'000	Computer equipment HK$'000	Natural gas pipelines HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost									
As 1 January 2016	105,813	1,227	1,752	8,923	225,182	1,209	10,686	12,481	367,273
Additions	280	211	15	–	2,128	65	343	61,595	64,637
Disposal	–	–	(9)	–	(7,415)	(143)	–	(2,175)	(9,742)
Write off	(913)	–	(13)	(755)	–	–	(155)	–	(1,836)
Disposal of subsidiaries (Notes 41(a) & (b))	–	–	–	–	(6,388)	(78)	(2,044)	(853)	(9,363)
Reclassification	2,633	–	–	3,446	1,698	–	10,950	(18,727)	–
Exchange realignment	(6,787)	–	(101)	(577)	(14,404)	(36)	(606)	(604)	(23,115)
At 31 December 2016 and 1 January 2017	101,026	1,438	1,644	11,037	200,801	1,017	19,174	51,717	387,854
Acquired through business combination (Note 42)	–	–	–	–	–	25	–	2,403	2,428
Additions	2,273	–	132	–	2,255	72	2,539	93,877	101,148
Disposal	–	–	–	–	(24,888)	(6)	–	(2,447)	(27,341)
Write off	–	–	(243)	(606)	(2,497)	–	(35)	–	(3,381)
Disposal of subsidiaries (Notes 41(c) & (d))	(4,031)	–	–	(12,295)	(7,260)	(77)	(151)	(5,127)	(28,941)
Reclassification		–	–	1,171	125,799	–	985	(127,955)	–
Transfer to investment properties (Note (iii))	(24,376)	–	–	–					(24,376)
Exchange realignment	7,541	16	109	693	15,242	29	1,295	4,074	28,999
At 31 December 2017	82,433	1,454	1,642	–	309,452	1,060	23,807	16,542	436,390
Accumulated depreciation and impairment									
At 1 January 2016	50,981	35	1,004	221	86,575	209	3,497	–	142,522
Depreciation	4,494	420	296	399	14,980	340	1,367	–	22,296
Disposal	–	–	(4)	–	(1,600)	(75)	–	–	(1,679)
Write off	(246)	–	(10)	–	–	–	(140)	–	(396)
Disposal of subsidiaries (Notes 41(a) & (b))	–	–	–	–	(1,163)	(49)	(675)	–	(1,887)
Exchange realignment	(2,512)	–	(63)	(62)	(4,246)	(11)	(175)	–	(7,069)
At 31 December 2016 and 1 January 2017	52,717	455	1,223	558	94,546	414	3,874	–	153,787
Depreciation	3,143	414	236	249	11,856	331	1,821	–	18,050
Disposal	–	–	–	–	(20,324)	–	–	–	(20,324)
Write off	–	–	(320)	–	(1,226)	–	(224)	–	(1,770)
Reclassification	–	–	–	–	(148)	–	148	–	–
Disposal of subsidiaries (Notes 41(c) & (d))	(596)	–	–	(847)	(1,678)	(44)	(115)	–	(3,280)
Transfer to investment properties (Note (iii))	(18,250)	–	–	–	–	–	–	–	(18,250)
Exchange realignment	4,757	2	92	40	9,365	18	1,066	–	15,340
At 31 December 2017	41,771	871	1,231	–	92,391	719	6,570	–	143,553
Net book value									
At 31 December 2017	40,622	583	411	–	217,061	341	17,237	16,542	292,837
At 31 December 2016	48,309	983	421	10,479	106,255	603	15,300	51,717	234,067

Notes to the Financial Statements

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16. PROPERTY, PLANT AND EQUIPMENT (Continued)

Note:

(i) Since the land lease prepayment cannot be allocated reliably between the land and buildings elements at the inception of the lease, the entire lease prepayment is included in the cost of land and buildings as a finance lease in property, plant and equipment.

(ii) The carrying amounts of the Group's assets held under finance leases included in the total amounts of plant and machinery and motor vehicles at 31 December 2017 were HK$28,530,000 (2016: 18,934,000) and HK$939,000 (2016: HK$1,550,000) respectively.

(iii) During the year ended 31 December 2017, the use of certain properties previously held for own use has been changed to long term leasing purpose, as evidenced by commencement of long term operating leases. These properties, with total carrying amounts of HK$12,096,000 (including HK$5,970,000 classified as land use rights) and total fair values as at the date of change in use of HK$32,418,000 (including the land use rights), were transferred from "leasehold land and buildings" in property, plant and equipment and "land use rights" to "investment properties" (Note 17) accordingly. As a result of the transfer at fair values of the properties as at the date of change in use, a revaluation surplus of HK$7,656,000 has been recognised in other comprehensive income and accumulated in the property revaluation reserve and a reversal of impairment loss of HK$9,675,000 has been recognised in consolidated profit or loss.

(iv) As at 31 December 2017, the directors performed impairment review on property, plant and equipment relating to the Group's cash generating unit of manufacture and sale of PE pipes (the "CGU") in light of the persistently net loss suffered by the Group. The directors determined the recoverable amount of the CGU from its fair value less costs of disposal based on the business valuation performed by an independent firm of professional valuers using the income approach. The income approach is based on the projected cash flows of the CGU from the financial budgets covering a five-year period plus a five-year period extrapolated cash flow projections by applying a long-term growth rate of 3%. An average gross margin of 23–24% is applied to the cash flow projections for the budget periods. The projected cash flows are discounted using post-tax discount rate of 17.1%. The key assumptions have been determined based on past performance and management expectations of market development. The discount rate used reflects specific risks relating to this business. The fair value on which the recoverable amount is based on is categorised as a Level 3 measurement. Based on the results of this impairment review, the directors considered no impairment on the property, plant and equipment related to the CGU is required for the year.

17. INVESTMENT PROPERTIES

	HK$'000
Fair value	
At 1 January 2016, 31 December 2016 and 1 January 2017	–
Fair values of property, plant and equipment and land use rights as at date of transfer into investment properties	32,418
Gain from remeasurement to fair value	9,641
Exchange realignment	780
At 31 December 2017	42,839

Notes to the Financial Statements

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17. INVESTMENT PROPERTIES (Continued)

Property interests held by the Group under operating leases are classified and accounted for as investment properties.

The Group's investment properties are industrial properties in the PRC. The fair value of the Group's investment properties at 31 December 2017 have been arrived at on market value basis carried out by Greater China Appraisal Limited, an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment properties being valued.

The investment properties are leased to third parties under operating leases, further summary details of which are included in Note 38.

The fair value of investment properties is a level 3 recurring fair value measurement. A reconciliation of the opening and closing fair value balance is provided below:

	2017 **HK$'000**
Opening balance	**–**
Fair values of property, plant and equipment and land use rights as at date of transfer into investment properties	**32,418**
Gain from remeasurement to fair value	**9,641**
Exchange realignment	**780**
Closing balance	**42,839**

Fair value is determined by applying the income approach, using the investment method whereby the rentals receivable during the term of the tenancies are capitalised at appropriate yield with due allowance for the reversionary value upon expiring of tenancies.

Significant unobservable inputs

Term yield	6%
Reversionary yield	6.5%
Market rental	RMB7 per square meter

The higher the term yield and reversionary yield, the lower the fair value. The higher the rental growth rate, the higher the fair value.

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17. INVESTMENT PROPERTIES (Continued)

There were no changes to the valuation techniques during the period.

The fair value measurement is based on the above properties' highest and best use, which does not differ from their actual use.

During the year ended 31 December 2017 there were no transfers into or out of Level 3 or any other Level. The Group's policy is to recognise transfers between Levels of the fair value hierarchy as at the end of the reporting period in which they occur.

18. LAND USE RIGHTS

The Group's interest in land use rights represents prepaid operating lease payments and movements in the year are analysed as follows:

	2017 **HK$'000**	2016 HK$'000
Outside Hong Kong, held under medium-term lease	**30,536**	28,361
At 1 January	**28,361**	31,171
Acquired through business acquisition (Note 42)	**8,687**	–
Disposal of a subsidiary (Note 41(c))	**(2,153)**	–
Transfer to investment properties (Note 16(iii))	**(5,970)**	–
Amortisation	**(671)**	(724)
Exchange difference	**2,602**	(2,086)
At 31 December	**30,856**	28,361
Less: Current portion included in other receivables, deposits and prepayments	**(320)**	(724)
Non-current portion	**30,536**	27,637

Certain leasehold land held by the Group with total carrying amount of approximately HK$16,618,000 as at 31 December 2017 was temporarily idle. The directors intended to lease out the idle land in 2018.

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19. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2017 were as follows:

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Principal activity
e-gameasia.com Ltd	BVI/Hong Kong	10,279,450 ordinary shares of HK$1 each	100%	100%	–	Investment holding
Billybala Software (BVI) Limited	BVI/Hong Kong	1 ordinary share of US$0.01 each	100%	100%	–	Investment holding
China Primary Energy Holdings Limited	BVI/Hong Kong	20,000,000 ordinary shares of US$1 each	100%	100%	–	Investment holding
Billybala iGame Limited	Hong Kong	7 ordinary shares of US$1 each	100%	–	100%	Provision of administrative services to group companies
China Primary Sky Valley (Yichang) Composites Co. Ltd. (Note (iii))	PRC	HK$74,360,000	100%	–	100%	Production of PE pipes and trading of composite materials
China Primary Energy (Shenzhen) Limited (Note (iii))	PRC	HK$250,000,000	100%	–	100%	Investment holding
China Primary (Shenzhen) Energy Technology Co. Ltd. (Note (iii))	PRC	HK$17,850,000	80.23%	–	80.23%	Provision of administrative services to group companies
Fujian China Primary Energy Limited ("Fujian CP Energy") (Note (iii))	PRC	RMB20,000,000	70%	–	70%	Transmission and distribution of natural gas
Wuhu Shengyuteng Natural Gas Pipeline Company Limited ("Wuhu Shengyuteng") (Note (iii))	PRC	RMB50,000,000	75%	–	75%	Transmission and distribution of natural gas
Zhongshan China Primary Energy Limited (Note (iii))	PRC	RMB20,000,000	75%	–	75%	Transmission and distribution of natural gas
Tengchong China Primary Energy Limited (Note (iii))	PRC	RMB20,000,000	100%	–	100%	Transmission and distribution of natural gas
Three Gorges Changgang New Energy (Yichang) Company Limited (Note (iii))	PRC	RMB3,616,000	100%	–	100%	Development and use of new energy technology
China Primary (Yichang) Plastic Pipes Company Limited (Note (iii))	PRC	HK$26,560,000	100%	–	100%	Production of PE pipes and trading of composite materials

Notes to the Financial Statements

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19. PARTICULARS OF SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Principal activity
China Primary (Yichang) New Energy Company Limited (Note (iii))	PRC	HK$8,710,000	100%	–	100%	New energy technology promotion services and technical consulting service
China Primary (Yichang) New Materials Company Limited (Note (iii))	PRC	HK$12,750,000	100%	–	100%	Production of PE pipes and trading of composite materials
Yichang Yiliang China Primary Thermal Power Company Limited (Note (iii))	PRC	RMB78,000	100%	–	100%	Production of PE pipes and trading of composite materials
Anquing China Primary Energy Company Limtied (Note (iii))	PRC	RMB2,268,460	100%	–	100%	Transmission and distribution of natural gas
Huaining China Primary Energy Company Limtied (Note (iii))	PRC	RMB10,000,000	100%	–	100%	Transmission and distribution of natural gas
China Primary (Yichang) Thermal Power Company Limited (Note (iii))	PRC	RMB10,000,000	100%	–	100%	Transmission and distribution of natural gas
Wuhu Shi Da New Energy Technology Company Limited (Note (iii))	PRC	RMB10,000,000	75%	–	75%	Transmission and distribution of natural gas
Ningguo China Primary Eco-Tech Company Limited (Note (iii))	PRC	RMB1,905,900	70%	–	70%	New energy technology promotion services and technical consulting service
Nanping China Primary Natural Gas Logistics Company Limited (Note (iii))	PRC	RMB10,000,000	70%	–	100%	Transmission and distribution of natural gas
China Primary Yuan Dian (Beijing) Green Tech Company Limited (Note (iii))	PRC	RMB1,293,531	70%	–	70%	New energy technology promotion services and technical consulting service

Notes:

(i) The business structure of each of these subsidiaries is corporation.

(ii) None of the subsidiaries had issued any debt securities at the end of the year.

(iii) The English name of the subsidiary represents the best effort by the Company's management to translate from its Chinese name as this subsidiary has no official English name

In the opinion of the directors, the above subsidiaries principally affected the results of the Group for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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20. GOODWILL

	2017 HK$'000	2016 HK$'000
At 1 January	**29,364**	32,814
Acquired through business combination (Note 42)	**3,940**	–
Derecognised on disposal of a subsidiary (Note 41(c))	**(6,165)**	–
Exchange realignment	**2,436**	(3,450)
At 31 December	**29,575**	29,364

Impairment testing on goodwill

The Group recognised goodwill in total of HK$29,575,000 (2016: HK$29,364,000) arising from its acquisition of three businesses engaged in transmission and distribution of natural gas business in the PRC. For goodwill impairment testing purposes, the goodwill carrying amounts were allocated to three cash generating units ("CGUs") represented by three businesses acquired as follows:

	HK$'000
CGU 1	17,513
CGU 2	7,839
CGU 3	4,223
At 31 December 2017	29,575

For the purpose of the goodwill impairment test, the directors determined the recoverable amounts of the CGUs from their fair value less costs of disposal based on the business valuations performed by an independent firm of professional valuers using the income approach. The income approach was adopted to arrive at fair value of the CGUs, based on cash flow projections from the financial budgets covering a five-year period plus extrapolated cash flow projections by applying a long-term growth rate of 3% (2016: 3%) beyond the five-year. Post-tax discount rates of 12.39% (2016: 12.36%), 17.2% (2016: 17.35%) and 21.42% (2016: Nil) and gross margins of 17-24% (2016: 27%), 95-96% (2016: 29%) and 13-26% (2016: Nil) were used for cash flow projections of the three CGUs respectively.

The key assumptions were determined based on past performance and management's expectations of market developments. The discount rates used reflect specific risks relating to the three businesses.

The directors concluded that the CGUs demonstrate sufficient cash flows to justify the carrying value of the goodwill and no impairment of goodwill was necessary as at the end of reporting period.

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21. OTHER INTANGIBLE ASSETS

	Customer relationships HK$'000	Exclusive rights of natural gas operations HK$'000	Total HK$'000
Cost			
At 1 January 2016	5,239	19,616	24,855
Disposal of subsidiaries (Notes 41(a) & (b))	(1,600)	–	(1,600)
Exchange realignment	(239)	(1,249)	(1,488)
At 31 December 2016 and 1 January 2017	3,400	18,367	21,767
Disposal of subsidiaries (Note 41(c))	–	(19,509)	(19,509)
Exchange realignment	258	1,142	1,400
At 31 December 2017	3,658	–	3,658
Amortisation			
At 1 January 2016	813	956	1,769
Amortisation	508	883	1,391
Disposal of subsidiaries (Notes 41(a) & (b))	(355)	–	(355)
Exchange realignment	(115)	–	(115)
At 31 December 2016 and 1 January 2017	851	1,839	2,690
Amortisation	394	589	983
Disposal of subsidiaries (Note 41(c))	–	(2,344)	(2,344)
Exchange realignment	33	(84)	(51)
At 31 December 2017	1,278	–	1,278
Net book value			
At 31 December 2017	2,380	–	2,380
At 31 December 2016	2,549	16,528	19,077

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31 DECEMBER 2017

21. OTHER INTANGIBLE ASSETS (Continued)

Customer relationships and exclusive rights of natural gas operations were recognised by the Group upon the acquisition of Fujian CP Energy and Ningguo CP respectively in 2014.

Customer relationships is amortised on a straight-line method over the period of 10 years. Ningguo CP obtained an operating license for a period of 30 years from 12 May 2008 to 11 May 2038 and the operating license was amortised on a straight-line method over the remaining term of 23 years from the date of acquisition up to the date of disposal of this company on 29 August 2017 (Note 41(c)).

The Group's goodwill (Note 20) and the other intangible assets listed above which arose from the business acquisition of Fujian CP Energy in 2014 are allocated to the CGU in relation to the Group's natural gas business for impairment testing as detailed in Note 20.

22. INTERESTS IN ASSOCIATES

	2017 **HK$'000**	2016 HK$'000
Share of net assets	**4,743**	5,218

Details of the associate is as follows:

Name	**Form of business structure**	**Place of establishment and operation**	**Percentage of paid up capital held indirectly by the Company**	**Principal activity**
Minsheng Natural Gas Company Limited ("Minsheng")	Corporation	PRC	30%	Transmission and distribution of natural gas

The English name of the associate represents the best effort by the Company's management to translate from its Chinese name as the associate has no official English name.

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22. INTERESTS IN ASSOCIATES (Continued)

Summarised financial information of Minsheng

	2017 HK$'000	2016 HK$'000
As at 31 December		
Current assets	**5,713**	5,181
Non-current assets	**30,163**	28,702
Current liabilities	**(19,475)**	(20,398)
Non-current liabilities	**(591)**	(573)

	2017 HK$'000	2016 HK$'000
Year ended 31 December		
Revenue	**20,142**	11,838
Loss for the year	**(1,979)**	(2,524)
Other comprehensive income	**746**	(203)
Total comprehensive income	**(1,233)**	(2,727)

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23. AVAILABLE-FOR-SALE INVESTMENTS

	2017 HK$'000	2016 HK$'000
Listed outside Hong Kong	**33**	33

The Group acquired approximately an equity interest of 1% in the investee through share subscription in 2011. The investee succeeded to have its shares listed and traded on the OTC Bulletin Board ("OTC") in the United States on 7 August 2012. The Group intends to hold this investment for long term purpose.

There was a significant decline in the market value of this investment in the year 2014. The directors considered that such a decline indicated that the investment had been impaired and an impairment loss of HK$3,863,000 had been recognised in profit or loss for the year ended 31 December 2014. The carrying amount of the investment approximates its quoted market price as at 31 December 2017 and 2016.

24. INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	**1,333**	5,331
Work in progress	**805**	1,563
Finished goods (net of provision of HK$2,344,000 (2016: HK$4,064,000))	**11,706**	2,391
	13,844	9,285

During the year ended 31 December 2017, the Group made a reversal of provision of HK$1,948,000 (2016:provision of HK$470,000) to increase the carrying amount of finished goods to their net realisable value. During the year ended 31 December 2016, the directors had also written off obsolete inventories of HK$3,629,000 which were determined to be worthless and the amount was fully offset against the provision for inventories.

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25. TRADE RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	**145,770**	91,249
Less: Provision for impairment	**(36,831)**	(37,669)
	108,939	53,580

(a) The Group's trading terms from sales of PE pipes and composite materials with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month and can be extended to three months or more for major customers. For the business of transmission and distribution of natural gas, payment in advance is normally required and some customers are on credit terms within 30 days. The Group sets a maximum credit limit for each customer and seeks to maintain strict control over its outstanding receivables. The sales department and the management of the responsible department for the sales together perform the credit control function to minimise credit risk. Overdue balances are reviewed and followed up regularly by senior management.

(b) The table below reconciled the provision for impairment loss of trade receivables for the year:

	2017 HK$'000	2016 HK$'000
At 1 January	**37,669**	34,220
Impairment loss recognised	**4,065**	5,663
Recovery of impairment loss previously recognised	**(7,611)**	–
Exchange realignment	**2,708**	(2,214)
At 31 December	**36,831**	37,669

At 31 December 2017, the Group's trade receivables of HK$36,831,000 (2016: HK$37,669,000 were individually determined to be impaired. These receivables have been long outstanding and management assessed them to be irrecoverable. The Group does not hold any collateral over these balances.

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25. TRADE RECEIVABLES (Continued)

(c) An ageing analysis of the trade receivables (net of impairment loss) as at the end of reporting period, based on the invoice dates, is as follows:

	2017	2016
	HK$'000	HK$'000
Within 30 days	**93,654**	31,974
31 – 60 days	**4,889**	2,549
61 – 90 days	**1,561**	2,918
Over 90 days	**8,835**	16,139
	108,939	53,580

(d) An ageing analysis of trade receivables (net of impairment loss) that are neither individually nor collectively considered to be impaired is as follows:

	2017	2016
	HK$'000	HK$'000
Not past due	**6,752**	36,263
Less than 31 days past due	**88,833**	2,297
31 – 60 days past due	**1,911**	6,896
61 – 90 days past due	**1,420**	581
Over 90 days but less than 1 year past due	**4,545**	4,680
More than 1 year past due	**5,478**	2,863
	102,187	17,317
	108,939	53,580

Trade receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default. Trade receivables that were past due but not impaired related to customers that have a good track record with the Group. Based on past experience, management believes that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

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26. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2017 HK$'000	2016 HK$'000
Other receivables and deposits	**61,420**	43,727
Finance lease deposits	**4,853**	3,028
Value added tax recoverable	**4,066**	3,794
Prepayments	**21,689**	39,901
	92,028	90,450
Less: Provision for impairment loss on other receivables and prepayments	**(11,325)**	(10,528)
	80,703	79,922

The below table reconciled the provision for impairment loss on other receivables and prepayments for the year:

	2017 HK$'000	2016 HK$'000
At 1 January	**10,528**	11,256
Exchange realignment	**797**	(728)
At 31 December	**11,325**	10,528

27. INVESTMENTS HELD FOR TRADING

	2017 HK$'000	2016 HK$'000
Listed equity securities held at fair value – listed in Hong Kong	**400**	1,261

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28. CASH AND CASH EQUIVALENTS

At the end of the reporting period, cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$7,396,000 (2016: HK$14,737,000). RMB is not freely convertible into other currencies. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of cash and cash equivalents approximate their fair values.

29. TRADE PAYABLES

An ageing analysis of trade payables, based on the invoice dates, is as follows:

	2017 **HK$'000**	2016 HK$'000
Within 30 days	**91,412**	14,873
31 – 60 days	**317**	8,436
61 – 90 days	**25**	5,279
Over 90 days	**3,940**	4,790
	95,694	33,378

30. OTHER PAYABLES AND ACCRUALS

	2017 **HK$'000**	2016 HK$'000
Other payables (Note (i))	**82,681**	57,031
Accruals	**2,221**	2,505
Natural gas tank deposits	**–**	223
	84,902	59,759

Note:

(i) These mainly relate to amount payable for acquisition of property, plant and equipment and construction cost payable to contractors.

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31. CONVERTIBLE BONDS

As detailed in the Company's announcement dated 17 February 2015, the Company entered into the conditional subscription agreement (the "CB Subscription Agreement") with an independent third party, Golden Peak Minerals Limited (the "CB Subscriber" or the "Bondholder"), on 17 February 2015 pursuant to which the CB Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to issue the five-year 4.5% coupon unlisted convertible bonds in principal amount of HK$60,000,000 (the "Convertible Bonds" or the "Bonds"). Interest is payable at the anniversary of the issue date each year. As further detailed in the Company's announcement dated 8 April 2015, the Company's proposed resolution for the issue of Convertible Bonds was duly passed by the shareholders in the extraordinary general meeting held on 8 April 2015 and the Convertible Bonds was executed and issued by a resolution of the board of directors of the Company on 8 May 2015.

Based on the initial conversion price of HK$1.00 (the "Conversion Price") per conversion share, a maximum number of 60,000,000 conversion shares (the "Conversion Share(s)") will be allotted and issued upon exercise of the conversion rights attached to the Convertible Bonds in full.

The Convertible Bonds shall not be converted into Conversion Shares for the period from the date of issue of the Convertible Bonds to the date falling three years after the issue of the Convertible Bonds.

The Conversion Price is initially HK$1.00 per Conversion Share, subject to adjustment for subdivision or consolidation of shares, rights issue, stock or cash distribution other than out of distributable profits of the Company, and other dilutive events (which are general anti-dilution adjustments).

Upon receiving a conversion notice from the Bondholder, the Company shall at its discretion be entitled to redeem the whole amount of outstanding Convertible Bonds or such amount of the Bonds to be converted as set out in that conversion notice (at principal plus interest to be settled in cash, rather than at fair value of the shares that would be converted), rather than to issue the relevant number of Conversion Shares by giving written notice to the Bondholder within 3 business days from the date of the giving of the relevant conversion notice.

At any time before the maturity date, the Company, by serving at least 14 days' prior written notice, can redeem the Convertible Bonds (in whole or in part) at 100% of the outstanding principal amount of the Convertible Bonds together with interest accrued to be settled in cash but unpaid up to the date of redemption. Issuer's redemption option starts on 8 May 2015 and ends on 24 April 2020 (taking into account at least 14 days' prior written notice before the maturity date on 8 May 2020).

At the absolute discretion of the Company, any outstanding Convertible Bonds shall be either (i) redeemed at 100% of its principal amount; or (ii) converted into Conversion Shares at the then conversion price; or (iii) any combination of redemption and conversion, on the maturity date.

The Convertible Bonds were issued on 8 May 2015. The net proceeds of the subscription of approximately HK$59,799,000 in which issue cost of HK$201,000 was set off from the face value of the Convertible Bonds of HK$60,000,000.

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31. CONVERTIBLE BONDS (Continued)

Given there is a debt (i.e unavoidable obligation to pay the interest coupon) and equity (i.e. principal of the loan, settlement mechanism of which is at the issuer's option) element to this hybrid instrument, it is a compound instrument. The liability component of the Convertible Bonds are measured first, at the fair value of a similar liability that does not have an associated equity conversion feature, but including derivatives (i.e. the issuer's early redemption option). An independent professional valuer, Greater China Appraisal Limited, determined the fair value of the derivatives as at grant date of HK$31,297,000 and as at 31 December 2017 and 2016 of HK$5,091,000 and HK$12,047,000 respectively. The equity component is determined as the residual amount, essentially the issue proceeds of the Convertible Bonds less the liability component including derivatives as at grant date.

The respective values of the financial assets/(liabilities) at fair value through profit or loss and equity component of the Convertible Bonds are as follows:

	Financial assets/ (liabilities) at fair value through profit or loss	**Convertible bonds equity reserve**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2016	1,672	(80,179)	(78,507)
Change in fair value	(1,904)	–	(1,904)
At 31 December 2016 and 1 January 2017	(232)	(80,179)	(80,411)
Change in fair value	(7,779)	–	(7,779)
At 31 December 2017	(8,011)	(80,179)	(88,190)

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32. AMOUNT DUE TO A DIRECTOR

	2017 HK$'000	2016 HK$'000
Amount due to a director comprised of:		
– Current portion	420	–
– Non-current portion	3,782	–
	4,202	–

Amount due to a director, who is also a major shareholder of the Company, is unsecured, interest-bearing at 0.4552% per month and repayable by instalments the last of which is due on 26 May 2020.

33. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payment 2017 HK$'000	Present value 2017 HK$'000	Minimum lease payment 2016 HK$'000	Present value 2016 HK$'000
Not later than one year	11,646	10,634	9,014	7,931
Later than one year and not later than five years	7,426	7,085	8,505	8,031
	19,072	17,719	17,519	15,962
Less: Future finance charges	(1,353)		(1,557)	
Present value of lease obligations	17,719		15,962	
Less: Due within one year, included under current liabilities		(10,634)		(7,931)
Due in the second to fifth years, included under non-current liabilities		7,085		8,031

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33. OBLIGATIONS UNDER FINANCE LEASES (Continued)

The Group entered into finance leases for a motor vehicle and Liquefied natural gas ("LNG") tanks (included in the plant and machinery class of property, plant and equipment) with lease terms of 2 to 3 years. Interest rates under the leases ranged from 6.59% to 8.92% (2016: from 8.26% to 8.92%) per annum. The leases do not have options to renew or any contingent rental provisions. Under the lease terms, the Group has the option to purchase the leased assets at prices that at initial recognition were expected to be sufficiently lower than the fair value of the leased assets at the end of the leases.

Finance lease liabilities are secured by the underlying assets where the lessors have the rights to obtain repossession of the leased assets in event of default. The carrying amounts of the finance lease liabilities are denominated in Renminbi and approximate their fair values.

34. BORROWINGS

	2017	2016
	HK$'000	HK$'000
Current		
Secured bank loan I due for repayment within one year (i)	**–**	3,906
Secured bank loan II due for repayment on demand (ii)	**43,223**	–
Unsecured bank loan III due for repayment within one year (iii)	**2,402**	–
Total current	**45,625**	3,906
Non-current		
Secured bank loan I due for repayment within two to five years (i)	**–**	33,483
Total non-current	**–**	33,483
Total	**45,625**	37,389

34. BORROWINGS (Continued)

(i) Bank loan I of HK$37,389,000 as at 31 December 2016 was secured by the Group's equity interest of two subsidiaries, namely Wuhu Shengyuteng and Ningguo CP, certain properties of a director and a director's family member, the corporate guarantee of the Company and a director's personal guarantee. Bank loan I bears interest at base rate of People's Bank of China plus 20% of the base rate per annum and was repayable within five years. The weighted average base rate of People's Bank of China plus 20% of the base rate per annum in respect of the bank loan I is 6.18% (2016: 5.7%) during the year ended 31 December 2017. Bank loan I was fully refinanced by Bank loan II on 14 June 2017.

(ii) Bank loan II is repayable in 60 monthly instalments, commencing in July 2017 and contains repayable on demand clause. Bank loan II is secured by legal charge for RMB52,966,900 over two properties belonging to Ms. Ma Zheng, director and a major shareholder of the Company and Mr. Lin Jian Dong, related party of Ms. Ma Zheng, and personal guarantee by Ms. Ma Zheng. Bank loan II is interest-bearing at 6.22% per annum on monthly rests. The average interest rates of the Group's bank borrowing is 5.95% during the year ended 31 December 2017.

(iii) The revolving loan is denominated in RMB and is unsecured. It bears interest rate at 7.18% per annum as at 31 December 2017 and will be repayable on maturity on 15 December 2018.

(iv) The Group's borrowings are denominated in RMB.

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35. DEFERRED TAX

Below set out the details of the deferred tax liabilities recognised and movements during the year:

	Accelerated tax depreciation	Fair value adjustments arising from acquisition of subsidiaries	Fair value adjustments on investment properties	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2016	(930)	(6,519)	–	(7,449)
Disposal of subsidiaries	–	545	–	545
Credited to profit or loss for the year (Note 11)	31	–	–	31
Exchange realignment	60	421	–	481
At 31 December 2016 and 1 January 2017	(839)	(5,553)	–	(6,392)
Disposal of subsidiaries	892	5,261	–	6,153
Charged to profit or loss for the year (Note 11)	–	–	(4,830)	(4,830)
Charged to other comprehensive income for the year			(2,551)	(2,551)
Exchange realignment	(53)	(419)	(304)	(776)
At 31 December 2017	–	(711)	(7,685)	(8,396)

As at 31 December 2017, the Group had unused tax losses arising in Hong Kong of HK$1,733,000 (2016: HK$1,733,000) and the PRC of HK$98,576,000 (2016: HK$96,420,000) which are available for offset against future taxable profits of the group companies in which the losses arose for an indefinite period and for a period of five years respectively. Deferred tax assets have not been recognised in respect of these losses as they have arisen in the group companies that have been loss-making for some years.

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36. SHARE CAPITAL

	Number of Shares	Amount
	'000	HK$'000
Authorised:		
Ordinary shares of HK$0.0625 each at 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	1,920,000	120,000
Issued and fully paid:		
Ordinary shares of HK$0.0625 each at 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	930,898	58,181

37. SHARE OPTION SCHEME

The Group maintained a share options scheme for employee compensation. All share-based employee compensation was settled in equity. The Group had no legal or constructive obligations to repurchase or settle the options.

On 8 May 2012, a share option scheme (the "Share Option Scheme") was adopted by the shareholders of the Company. The purpose of the Share Option Scheme is to provide incentives and rewards to eligible participants who would contribute to the success of the Group's operations. Under the terms of the Share Option Scheme, the Board may, at its discretion, grant options to any full-time employee and any director of the Company or its subsidiaries, including any executive, non-executive or independent non-executive directors. The total number of shares which may fall to be issued upon exercise of all of the outstanding options granted and yet to be exercised under the Share Option Scheme and other schemes of the Company must not exceed 30% of the shares in issue from time to time. The Share Option Scheme will remain in force for a period of ten years commencing the date on which the scheme becomes unconditional. The Share Option Scheme was adopted by the shareholders of the Company at the annual general meeting of the Company held on 8 May 2012.

Notes to the Financial Statements

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37. SHARE OPTION SCHEME (Continued)

The definition of eligible person in the Share Option Scheme include any suppliers, consultants, agents, advisors and distributors who, in the sole discretion of the Board, have contributed or may contribute to the Group. The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of approval of the Share Option Scheme, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders.

Options granted to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Any grant of options to a connected person (including but not limited to a Director, chief executive or substantial shareholder) or its associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).

Where options are proposed to be granted to a connected person who is also a substantial shareholder or an independent non-executive Director or their respective associates and if such grant would result in the total number of Shares issued and to be issued upon exercise of the options granted and to be granted (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant to such person representing in aggregate over 0.1% of the total issued Shares and having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK$5 million, then the proposed grant must be subject to the approval of shareholders of the Company taken on a poll in a general meeting. All connected persons of the Company must abstain from voting at such general meeting.

The exercise price for shares under the Share Option Scheme may be determined by the Board at its absolute discretion but in any event will not be less than the highest of: (i) the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a Business Day, (ii) the average of the closing prices of the Shares as stated in the daily quotations sheets of the Stock Exchange for the five Business Days immediately preceding the date of grant; and (iii) the nominal value of the Share on the date of grant. Any options granted under the Share Option Scheme shall end in any event not later than ten years from the Commencement Date (as defined in the Share Option Scheme). A nominal value of HK$1.00 is payable on acceptance of each grant of options.

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37. SHARE OPTION SCHEME (Continued)

On 10 April 2015, the Company granted share options to eligible participants to subscribe for a total of 81,720,000 ordinary shares of HK$0.0625 each (with exercise price of HK$0.87 per share) in the share capital of the Company under the Share Option Scheme. Details of the share options granted and movement in such holding during the year are as follows:

2017				Number of share options		
Name or category of participant	Date of grant	Exercise period	Exercise price	Outstanding as at 1 January 2017	Lapsed during the year	Outstanding as at 31 December 2017
			HK$			
Directors						
Ms. Ma Zheng	10 April 2015	1 April 2018 – 7 May 2022	0.87	820,000	–	820,000
Mr. Wong Pui Yiu	10 April 2015	1 April 2018 – 7 May 2022	0.87	3,500,000	–	3,500,000
Mr. Wan Tze Fan Terence	10 April 2015	1 April 2018 – 7 May 2022	0.87	700,000	–	700,000
Mr. Chung Chin Keung	10 April 2015	1 April 2018 – 7 May 2022	0.87	700,000	–	700,000
Mr. Wang Xiao Bing	10 April 2015	1 April 2018 – 7 May 2022	0.87	700,000	–	700,000
Sub-total				**6,420,000**	**-**	**6,420,000**
Others						
Employees	10 April 2015	1 April 2018 – 7 May 2022	0.87	69,950,000	(1,600,000)	68,350,000
Sub-total				**69,950,000**	**(1,600,000)**	**68,350,000**
Total				**76,370,000**	**(1,600,000)**	**74,770,000**

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37. SHARE OPTION SCHEME (Continued)

2016

Name or category of participant	Date of grant	Exercise period	Exercise price	Number of share options: Outstanding as at 1 January 2016	Lapsed during the year	Outstanding as at 31 December 2016
			HK$			
Directors						
Ms. Ma Zheng	10 April 2015	1 April 2018 – 7 May 2022	0.87	820,000	–	820,000
Mr. Wong Pui Yiu	10 April 2015	1 April 2018 – 7 May 2022	0.87	3,500,000	–	3,500,000
Mr. Wan Tze Fan Terence	10 April 2015	1 April 2018 – 7 May 2022	0.87	700,000	–	700,000
Mr. Chung Chin Keung	10 April 2015	1 April 2018 – 7 May 2022	0.87	700,000	–	700,000
Mr. Wang Xiao Bing	10 April 2015	1 April 2018 – 7 May 2022	0.87	700,000	–	700,000
Sub-total				6,420,000	–	6,420,000
Others						
Employees	10 April 2015	1 April 2018 – 7 May 2022	0.87	72,200,000	(2,250,000)	69,950,000
Sub-total				72,200,000	(2,250,000)	69,950,000
Total				78,620,000	(2,250,000)	76,370,000

1,600,000 (2016: 2,250,000) share options were lapsed upon resignation of certain employees during the year. Accordingly, HK$626,000 (2016: HK$306,000) was transferred from share option reserve to accumulated losses upon lapse of share options during the year.

The fair value of the share options granted to the directors and employees on 10 April 2015 was HK$3,005,000 (HK$0.4681 each) and HK$30,986,000 (HK$0.4115 each), of which the Group recognised the share-based payment of HK$10,626,000 (2016: HK$10,855,000) during the year ended 31 December 2017 (Note 14).

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37. SHARE OPTION SCHEME (Continued)

The following information is relevant in the determination of the fair value of options granted at 10 April 2015 under the Share Option Scheme:

Grant date	10 April 2015
Option pricing model used	Binomial Tree Model
Share price at grant date	HK$0.87
Exercise price	HK$0.87
Sub-optimal factor	2.80(directors)/ 1.50(employees)
Contractual life	7.0795 years
Expected volatility	55.2530%
Expected dividend rate	–
Risk-free interest rate	1.6961%

38. OPERATING LEASE

As lessor

At the end of each reporting period, the Group had total future minimum lease receivables in respect of leased properties under non-cancellable lease as follows:

	2017 **HK$'000**	2016 HK$'000
Within one year	**2,749**	–
After one year but within five years	**12,458**	–
	15,207	–

At 31 December 2017, the Group leases its properties (Note 16) under operating lease arrangements which run for an initial period of five years.

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38. OPERATING LEASE (Continued)

As lessee

The Group is the lessee in respect of certain of its office premises held under operating leases. The leases run for an initial period of one to three years at fixed rental. None of the leases includes contingent rentals.

At the end of reporting period, the Group had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:

	2017 **HK$'000**	2016 HK$'000
Within one year	**3,160**	2,723
After one year but within five years	**628**	1,649
	3,788	4,372

39. CAPITAL COMMITMENTS

	2017 **HK$'000**	2016 HK$'000
Contracted for but not provided:		
– acquisition of property, plant and equipment	**12,242**	69,741

40. NOTES SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financing activities:

	Convertible bonds (Note 31) HK$'000	Amount due to a director (Note 32) HK$'000	Obligations under finance leases (Note 33) HK$'000	Borrowings (Note 34) HK$'000
At 1 January 2017	232	–	15,962	37,389
Changes from cash flows:				
Proceeds from new bank loans	–	–	–	48,026
Repayment of bank loans	–	–	–	(41,389)
Interest expense	–	(121)	–	(2,673)
Advance from a director	–	4,202	–	–
Disposal of a subsidiary (Note 41(c))	–	–	(528)	–
Repayment of finance leases	–	–	(10,768)	–
Finance lease interest	–	–	(1,565)	–
Total changes from financing cash flows	–	4,081	(12,861)	(3,964)
Exchange adjustments	–	–	1,150	1,599
Changes in fair value	7,779	–	–	–
Other changes:				
Interest expense	–	121	–	2,673
Finance lease interest	–	–	1,565	–
New finance leases	–	–	11,903	–
Total other changes	–	121	13,468	2,673
At 31 December 2017	8,011	4,202	17,719	45,625

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41. DISPOSAL OF SUBSIDIARIES

(a) On 21 June 2016, the Group entered into a sale and purchase agreement with an independent third party pursuant to which the Group agreed to sell all of the Group's 70% equity interest of a subsidiary, Ningde Zhongchen Natural Gas Investment Company Limited ("Ningde Zhongchen"), to the purchaser at a consideration of RMB1. The disposal of Ningde Zhongchen was completed on 30 June 2016. The net assets of Ningde Zhongchen at the disposal date were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	1,876
Other intangible assets – customer relationships	81
Inventories	275
Trade receivables	8
Other receivables, deposits & prepayments	201
Amount due from a related company	292
Cash and cash equivalents	93
Trade payables	(84)
Other payables and accruals	(644)
Customers' deposits	(837)
Amounts due to related companies	(999)
Deferred tax liabilities	(146)
Non-controlling interests	(59)
	57

	HK$'000
Consideration	–
Less: Net assets disposed of	(57)
Exchange translation reserve released to profit or loss upon disposal	4
Loss on disposal	(53)

Net cash outflow arising on disposal:

	HK$'000
Cash and cash equivalents disposed of	(93)

Notes to the Financial Statements

31 DECEMBER 2017

41. DISPOSAL OF SUBSIDIARIES (Continued)

(b) On 28 November 2016, the Group entered into a sale and purchase agreement with a purchaser pursuant to which the Group agreed to sell all of the Group's 71% equity interest of a subsidiary, Nanjing Zhongchen Natural Gas Investment Company Limited ("Nanjing Zhongchen"), to the purchaser, who was the registered holder of 10% of the registered capital of Nanjing Zhongchen before completion, at a consideration of RMB700,000. The disposal of Nanjing Zhongchen was completed on 28 November 2016. The net assets of Nanjing Zhongchen at the disposal date were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	5,600
Other intangible assets – customer relationship	1,164
Inventories	1,707
Other receivables, deposits & prepayments	191
Amount due from a related company	59
Cash and cash equivalents	70
Trade payables	(194)
Other payables and accruals	(4,198)
Customers' deposits	(3,356)
Amount due to a related company	(964)
Deferred tax liabilities	(399)
Non-controlling interests	161
	(159)

	HK$'000
Consideration	788
Less: Net assets disposed of	159
Exchange translation reserve released to profit or loss upon disposal	(15)
Gain on disposal	932

Notes to the Financial Statements

31 DECEMBER 2017

41. DISPOSAL OF SUBSIDIARIES (Continued)

(b) *(Continued)*

Net cash inflow arising on disposal:

	HK$'000
Cash consideration	788
Cash and cash equivalents disposed of	(70)
	718

(c) On 29 August 2017, the Group entered into a sale and purchase agreement with a purchaser pursuant to which the Group agreed to sell all of the Group's 100% equity interest of a subsidiary, Ningguo China Primary Energy Limited ("Ningguo CP"), to an independent third party at a consideration of RMB43,000,000. The disposal of Ningguo CP was completed on 31 August 2017. The net assets of Ningguo CP at the disposal date were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	20,534
Construction in progress	783
Land use rights	2,153
Goodwill	6,165
Other intangible assets – exclusive right of natural gas operations	17,165
Inventories	705
Trade receivables	6,008
Other receivables, deposits & prepayments	1,320
Cash and cash equivalents	1,989
Other payables and accruals	(1,481)
Customers' deposits	(1,409)
Amounts due to fellow subsidiaries	(2,777)
Amount due to immediate holding company	(6,692)
Tax payables	(547)
Deferred tax liabilities	(6,153)
Obligations under finance leases	(528)
	37,235

Notes to the Financial Statements

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41. DISPOSAL OF SUBSIDIARIES (Continued)

(c) *(Continued)*

	HK$'000
Consideration	51,033
Less: Net assets disposed of	(37,235)
Exchange translation reserve released to profit or loss upon disposal	(63)
Gain on disposal	13,735

Net cash inflow arising on disposal:

	HK$'000
Cash consideration	51,033
Cash and cash equivalents disposed of	(1,989)
	49,044

(d) On 27 December 2017, the Group entered into a sale and purchase agreement with a purchaser pursuant to which the Group agreed to sell all of the Group's 100% equity interest of a subsidiary, Yidu China Primary New Energy Company Limited ("Yidu CP"), to an independent third party at a consideration of RMB10,000,000. The disposal of Yidu CP was completed on 28 December 2017. The net assets of Yidu CP at the disposal date were as follows:

	HK$'000
Net assets disposed of:	
Construction in progress	4,344
Other receivables, deposits & prepayments	261
Amounts due from related companies	7,384
Cash and cash equivalents	1
	11,990

Notes to the Financial Statements

31 DECEMBER 2017

41. DISPOSAL OF SUBSIDIARIES (Continued)

(d) *(Continued)*

	HK$'000
Consideration	12,007
Less: Net assets disposed of	(11,990)
Exchange translation reserve released to profit or loss upon disposal	(1)
Gain on disposal	16

Net cash inflow arising on disposal:

	HK$'000
Cash consideration	12,007
Cash and cash equivalents disposed of	(1)
	12,006

Notes to the Financial Statements

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42. ACQUISITION OF A SUBSIDIARY

On 17 March 2017, the Group entered into the acquisition agreement with an independent party to acquire 75% equity interest of Wuhu Shi Da New Energy Technology Company Limited ("Wuhu Shi Da"). Wuhu Shi Da is a limited liability company established in the PRC and principally engaged in the transmission and distribution of natural gas in the PRC. The acquisition was completed on 24 March 2017, which is the acquisition date for accounting purposes.

The fair value of identifiable assets and liabilities of Wuhu Shi Da as at the date of acquisition were:

	HK$'000
Property, plant and equipment	2,428
Land use rights	8,687
Other receivables, deposits and prepayments	527
Cash and cash equivalents	256
Long term deferred expenses	35
Other payables and accruals	(2,145)
Non-controlling interests	(2,447)
	7,341
Cash consideration for acquisition of 75% equity interest of the acquiree	11,281
Goodwill on acquisition	3,940

An analysis of the cash flows in respect of acquisition of Wuhu Shi Da is as follows:

	HK$'000
Cash consideration paid	(11,281)
Cash and cash equivalents acquired	256
Net outflow of cash and cash equivalents included in cash flows from investing activities	(11,025)

Notes to the Financial Statements

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42. ACQUISITION OF A SUBSIDIARY (Continued)

The fair values of property, plant and equipment and land use rights of HK$11,115,000 at the date of acquisition was determined by an independent professional valuer.

The fair value and gross contractual amounts of the other receivables, deposits and prepayments as at the date of acquisition amounted to HK$527,000. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.

The goodwill arising from the acquisition of Wuhu Shi Da, which is not deductible for tax purposes, is attributed to anticipated profitability of its natural gas business, the acquired workforce and the value of expected synergies arising from the combination of the acquired business with the existing operations of the Group.

Since the acquisition date, Wuhu Shi Da has contributed loss of HK$1,204,000 to the Group's loss for the year ended 31 December 2017. If the acquisition had occurred on 1 January 2017, the Group's revenue and loss would have been HK$194,908,000 and HK$23,682,000 respectively. This 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 acquisition been completed on 1 January 2017, nor is it intended to be a projection of future performance.

43. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation. Except for those disclosed elsewhere in the financial statements, the Group had no other significant related party transactions during the years ended 31 December 2017 and 2016.

Members of key management during the year comprised only of the directors whose remuneration is set out in Note 15(a) to the financial statements.

Notes to the Financial Statements

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44. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which includes the borrowings disclosed in Notes 32 and 34 and equity attributable to owners of the Company, comprising share capital and reserves as disclosed in the consolidated statement of changes in equity.

The Group's risk management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of not exceeding 30% determined as the proportion of total debts to total equity as defined above.

The gearing ratios were as follows:

	2017	2016
	HK$'000	HK$'000
Bank and other borrowings	**49,827**	37,389
Obligations under finance leases	**17,719**	15,962
Total debts	**67,546**	53,351
Total equity	**344,208**	315,685
Gearing ratio	**20%**	17%

45. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk, currency risk and price risk.

These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

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31 DECEMBER 2017

45. FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade receivables. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or counterparty. The default risk experienced in the industry in which customers operate also has an influence on credit risk, but to a lesser extent. As at 31 December 2017, the Group has a certain concentration of credit risk as 65% (2016: 34%) of the total trade receivables were due from the Group's two largest customers in relation to the natural gas operations. These two largest customers represented a PRC company listed on Shenzhen Stock Exchange and a private company established in the PRC respectively which are engaged in chicken meat related businesses.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables and other receivables, deposits and prepayments are set out in Notes 25 and 26 respectively.

Notes to the Financial Statements

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45. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of reporting period) and the earliest date the Group can be required to pay.

Specifically, for bank loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
2017					
Trade payables	95,694	95,694	95,694	–	–
Other payables and accruals	83,167	83,167	83,167	–	–
Amount due to a director	4,202	4,703	639	616	3,448
Obligations under finance leases	17,719	19,072	11,646	5,995	1,431
Borrowings	45,625	45,625	45,625	–	–
	246,407	248,261	236,771	6,611	4,879

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45. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (continued)

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
2016					
Trade payables	33,378	33,378	33,378	–	–
Other payables and accruals	58,932	58,932	58,932	–	–
Obligations under finance leases	15,962	17,519	9,014	7,058	1,447
Borrowings	37,389	43,656	6,038	9,721	27,897
	145,661	153,485	107,362	16,779	29,344

The table that follows summarises the maturity analysis of bank loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts are greater than the amounts disclosed in the "on demand" time band in the above maturity analysis. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Maturity Analysis – bank loans subject to a repayment on demand clause based on scheduled repayments				
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
31 December 2017	**45,625**	**51,876**	**14,455**	**11,448**	**25,973**
31 December 2016	–	–	–	–	–

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45. FINANCIAL RISK MANAGEMENT (Continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from borrowings. Borrowings at floating rates expose the Group to cash flow interest rate risk.

The following table details the interest rate profile of the Group at the end of reporting period.

	2017		2016	
	Effective interest rate		Effective interest rate	
	%	**HK$'000**	%	HK$'000
Variable rate				
Borrowings	**5.945%**	**45,625**	5.700%	37,389
Bank balances	**0.833%**	**(10,631)**	0.642%	(15,899)
Total net borrowings		**34,994**		21,490

It is estimated that as at 31 December 2017, a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's loss after income tax and accumulated losses by HK$350,000 (2016: HK$215,000).

(d) Currency risk

Currency risk to the Group is minimal as most of the Group's transactions are carried out in the respective functional currencies of the group entities.

(e) Price risk – Equity price risk

The Group is not exposed to material equity price changes arising from equity instruments classified as trading securities and available-for-sale equity securities as their carrying amounts as at 31 December 2017 and 2016 are not significant.

(f) Fair values estimation

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subject in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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46. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2017 and 2016 may be categorised as follows:

	2017 HK$'000	2016 HK$'000
Financial assets		
Loans and receivables at amortised cost (including cash and cash equivalents)	**185,047**	116,909
Investments held for trading at fair value through profit or loss	**400**	1,261
Available-for-sale investments, at fair value	**33**	33
Financial liabilities		
Financial liabilities measured at amortised cost	**255,377**	145,661
Financial liabilities at fair value through profit or loss	**8,011**	232

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables, trade and other payables, amount due to a director, finance leases and borrowings.

Due to their short term nature, the carrying value of cash and cash equivalents, trade and other receivables, trade and other payables and amount due to a director approximates to their fair value.

The fair value of borrowings and finance leases has been determined by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

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46. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (Continued)

(b) Financial instruments measured at fair value

The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 2 and level 3 financial instruments, as well as the relationship between key observable inputs and fair value are set out below.

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Financial Statements

31 DECEMBER 2017

46. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY *(Continued)*

(b) Financial instruments measured at fair value *(Continued)*

	2017			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets				
Investments held for trading				
– Listed	**400**	**–**	**–**	**400**
Available-for-sale investments	**33**	**–**	**–**	**33**
Financial liabilities				
Financial liabilities at fair value through profit or loss	**–**	**–**	**8,011**	**8,011**

	2016			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets				
Investments held for trading				
– Listed	1,261	–	–	1,261
Available-for-sale investments	33	–	–	33
Financial liabilities				
Financial liabilities at fair value through profit or loss	–	–	232	232

There were no transfers between levels during the year.

Notes to the Financial Statements

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46. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (Continued)

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

	2017 HK$'000	2016 HK$'000
At 1 January	**(232)**	1,672
Change in fair value recognised in profit or loss (included in other income and gains and losses)	**(7,779)**	(1,904)
At 31 December	**(8,011)**	(232)

Information about level 3 fair value measurements

The fair value of the financial assets at fair value through profit or loss in Level 3 is determined using Trinomial Tree Model.

Significant unobservable inputs	**Relationship of unobservable inputs to fair value**
Future price of the underlying equity instrument	The higher the future price, the higher the fair value
Risk-free rate that are specific to the market	The lower the risk-free rate, the higher the fair value
Volatility rates that are in line with those similar products	The higher the volatility rate, the higher the fair value

Notes to the Financial Statements

31 DECEMBER 2017

47. HOLDING COMPANY'S STATEMENT OF FINANCIAL POSITION

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment		**696**	–
Interests in subsidiaries		**438,620**	450,804
Available-for-sale investments		**33**	33
Total non-current assets		**439,349**	450,837
Current assets			
Other receivables, deposits and prepayments		**198**	153
Cash and cash equivalents		**35**	34
Total current assets		**233**	187
Total assets		**439,582**	451,024
Current liabilities			
Other payables and accruals		**3,328**	2,787
Amounts due to subsidiaries		**157,533**	157,594
Financial liabilities at fair value through profit or loss		**8,011**	232
Total current liabilities		**168,872**	160,613
Net current liabilities		**(168,639)**	(160,426)
NET ASSETS		**270,710**	290,411
Equity			
Share capital	36	**58,181**	58,181
Reserves	48	**212,529**	232,230
TOTAL EQUITY		**270,710**	290,411

These financial statements were approved and authorised for issue by the board of directors on 22 March 2018.

Ma Zheng
Director

Wong Pui Yiu
Director

Notes to the Financial Statements

31 DECEMBER 2017

48. RESERVES OF THE COMPANY

	Share premium account HK$'000 (Note)	Convertible bonds equity reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total equity HK$'000
Balance at 1 January 2016	644,131	80,179	7,976	(406,134)	326,152
Loss and total comprehensive income for the year	–	–	–	(104,777)	(104,777)
Equity-settled share-based transactions (Note 37)	–	–	10,855	–	10,855
Lapse of share options (Note 37)	–	–	(306)	306	–
Balance at 31 December 2016 and 1 January 2017	644,131	80,179	18,525	(510,605)	232,230
Loss and total comprehensive income for the year	–	–	–	(30,327)	(30,327)
Equity-settled share-based transactions (Note 37)	–	–	10,626	–	10,626
Lapse of share options (Note 37)	–	–	(626)	626	–
Balance at 31 December 2017	644,131	80,179	28,525	(540,306)	212,529

Note:

The share premium account of the Company includes: (i) the premium arising from issues of shares of the Company at a premium less share issue expenses; and (ii) the excess of the then combined net assets of the subsidiaries acquired pursuant to the Group reorganisation over the nominal value of the Company's shares issued in exchange therefor.

Under the Companies Law (Revision) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Notes to the Financial Statements

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49. EVENTS AFTER THE REPORTING DATE

As mentioned in Note 3(b), on 12 February 2018, the Company entered into two subscription agreements with two subscribers, who are independent third parties, to allot and issue 93,089,767 and 53,900,000 new shares at HK$0.8183 per new share to the subscribers respectively. The net proceeds of these two shares subscription amounted to approximately HK$76 million and HK$44 million respectively will be applied towards the potential investment opportunities of the Group and as the working capital of the Group. The subscription of 93,089,767 shares was completed on 9 March 2018.

Further details of the subscription of new shares were disclosed in the Company's announcements dated 12 February 2018 and 9 March 2018 and the supplemental announcements of the Company dated 15 February 2018 and 22 February 2018.

Particulars of Investment Properties

31 December 2017

	Location	Use	Tenure	Attributable interest of the Group
1.	Factory building, Phase 2 No. 6 Ya Yuan Road Yao Ting District Yichang City Hubei Province, the PRC	Industrial	Medium term lease	100%
2.	Factory building, Phase 3 No. 6 Ya Yuan Road Yao Ting District Yichang City Hubei Province, the PRC	Industrial	Medium term lease	100%

Financial Summary

(EXPRESSED IN HONG KONG DOLLARS)

The following is a summary of the consolidated results and assets and liabilities of the Group, prepared for the last five years, as extracted from the audited consolidated financial statements of the Group. This summary does not form part of the audited financial statements.

Results

	Year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**194,908**	182,800	162,432	88,428	29,939
Other income and gains and losses	**16,661**	449	(18,736)	(1,885)	979
Cost of sales and operating expenses	**(225,424)**	(237,934)	(230,500)	(132,223)	(75,446)
Operating loss	**(13,855)**	(54,685)	(86,804)	(45,680)	(44,528)
Finance costs	**(4,359)**	(3,353)	(3,176)	(521)	(17)
Loss before income tax	**(18,214)**	(58,038)	(89,980)	(46,201)	(44,545)
Income tax	**(5,069)**	(2,165)	(1,099)	(60)	(33)
Loss for the year	**(23,283)**	(60,203)	(91,079)	(46,261)	(44,578)
(Loss)/profit attributable to:					
Owners of the Company	**(20,732)**	(59,567)	(91,321)	(46,605)	(44,578)
Non-controlling interests	**(2,551)**	(636)	242	344	–
	(23,283)	(60,203)	(91,079)	(46,261)	(44,578)

Assets and Liabilities

	31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**617,670**	476,956	550,241	373,556	550,965
Total liabilities	**(273,462)**	(161,271)	(162,192)	(127,211)	(302,982)
	344,208	315,685	388,049	246,345	247,983