

**CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED
(THE “STOCK EXCHANGE”)**

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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.



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for identification only

Corporate Information

Board of directors

Executive Directors

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

Non-Executive Director

Mr. Ji Jianghua

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
DBS Bank (Hong Kong) 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 2018.

Operation

With the continue growth of the economy of The People's Republic of China (the "PRC"), the business environment in the PRC and Asia continued to improve in 2018. Global environment was not stable and the trade conflict between PRC and the United States of America continued to affect the global economy. Luckily, the global needs of clean energy and internal demand in PRC was not materially affected by the trade conflict. Under the current PRC government policy, the demand for clean energy in the PRC was still increasing. As a result, it has a positive impact on the Group's clean energy business.

For the Company and the Group, 2018 was a year of changes. We have made two significant business developments in Yichang, which were (i) the development of the natural gas combined heat and power cogeneration business and (ii) the business transformation of the Yichang factory. During 2018, we obtained the written consent from Yichang City, the PRC to develop natural gas combined heat and power cogeneration business in Yichang. This was a milestone of our clean energy business as such development further broaden the natural gas and clean energy business segment.

Since 2017, the Group had been transforming from the manufacturing and selling of Polyethylene pipes ("PE pipes") business to property investment business. I am happy to report that such transformation successfully completed in 2018. The PE pipes business ceased to operate in the third quarter of 2018 and certain self-occupied land and buildings in Yichang were changed to investment properties. With the comparable higher profit margin of the property investment business, we believe the performance of the Group can be improved in the near future.

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 2019. 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 Hong Kong, the Group's electronic component trading business was doing well. The next step is to look for more customers so as to broaden the customer base.

Chairman's Statement

Results

With the business developments mentioned above, although the Group did not achieve profit in 2018, the performance was significantly improved. Loss was significantly reduced which mainly because of the gain arose from the change in fair value of the investment properties.

Future Development

Definitely, after years of changes, the Group is like an arrow in the bow. Clean energy business will be our core business. With the new development of the energy business, we are expanding our market share in the industry and is looking for every opportunity to growth.

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 is to become one of the leading clean energy operator in certain cities and areas of the PRC. In the meantime, as mentioned several times before, we are still investigating 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. 2019 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, 21 March 2019

Management Discussion and Analysis

BUSINESS REVIEW AND FUTURE OUTLOOK

Total revenue of the Group for the year ended 31 December 2018 decreased when compared to the corresponding period in 2017. As disclosed in the announcement dated 19 April 2018, such decrease was mainly because the sales model of Fujian China Primary Energy Limited[#], a subsidiary of the Company, changed from purchase and sale of natural gas to receiving of management fee for natural gas transportation in 2018. The change does not affect the current operating method, assets and the relevant profit. On the other hand, the revenue of the trading business increased a lot in 2018. The board (the “Board”) of directors (the “Director(s)”) believes that revenue of the Group will be 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 is now the core business of the Group. Operating scale of the natural gas business segment continued to grow in 2018. 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 2018. Our customers are mostly industrial customers.

With the Group’s years of investment, experience and network in the natural gas business, the Group has been making good use of natural gas synergy effect in its business development, and has been focusing on natural gas-related clean energy projects. Natural gas combined heat and power cogeneration business is one of the Group’s development direction. After years of research and negotiation, the Company’s wholly-owned subsidiary, Yichang City Yiling District China Primary Thermal Power Limited[#], has obtained the consent from Yichang City, Hubei Province, China to develop natural gas combined heat and power cogeneration business in Yiling District, Yichang City. The Group believes that with the development of natural gas combined heat and power cogeneration business and other natural gas-related clean energy businesses, it is expected that the Group’s performance and profitability will be greatly improved in the future.

As a result of business transformation of the subsidiaries in Yichang, the manufacturing segment ceased to operate in the third quarter of 2018. In order to broaden the revenue sources of the Group, after years of investigation, the Group started its letting business in Yichang since 2017. Rental income became a new business segment of the Group. From September 2018 onwards, the land and buildings held by the Company’s wholly-owned subsidiaries at Yao Ting District, Yichang City, the PRC (the “Property”) was named as China Primary Sky Valley Vehicle Parts Industrial Park[#] (中基天谷汽車零部件產業園) (“China Primary Sky Valley Industrial Park”). The naming is in line with the business transformation on the Property by the Group in 2017. China Primary Sky Valley Industrial Park locates nearby Yichang Sanxia Airport. The whole park’s area is approximately 213,000 square metres and the area let out is approximately 87,000 square metres. The rest of the area is also arranging to let out. In order to facilitate the development of Yao Ting District by the Yichang City government, the naming of China Primary Sky Valley Industrial Park can make the position of the Property clearer. Together with systematic planning and renovation, the naming can implement the achievement of the target to earn rental income by continue letting out of the Property as disclosed in the 2017 annual report of the Company. New tenants are mostly manufacturers of vehicle parts and are moving into China Primary Sky Valley Industrial Park successively.

Management Discussion and Analysis

From November 2017 onwards, the Group commenced its trading business segment and was running smoothly in 2018. With the international trading platform in Hong Kong and the built up business relationship of the Group, the trading segment is growing steadily with variety of trading products such as natural gas and electronic components.

In view of the unstable global political environment, 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.

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.

The gross proceeds of the Winmaxi Shares Subscription is approximately HK\$76.2 million. In the event that no appropriate acquisition and/or potential investment opportunities would be identified, the Company has applied / intended to apply proceeds towards general working capital (include payment of construction costs of natural gas pipelines of existing operations) of the Group as follows: (i) as to approximately HK\$30.7 million for repay pipeline construction costs of Wuhu China Primary Natural Gas Pipeline Company Limited[#], a subsidiary of the Company; (ii) as to approximately HK\$7.0 million for building costs of Wuhu Shi Da New Energy Technology Company Limited[#], a subsidiary of the Company; (iii) as to approximately HK\$3.0 million for building costs of Tengchong China Primary Energy Limited[#], a subsidiary of the Company; (iv) as to approximately HK\$4.0 million for investment in Yichang City Yiling District China Primary Thermal Power Limited[#], a subsidiary of the Company; (v) as to approximately HK\$25.0 million for the operation costs of the head office of the Company in 2018; and (vi) approximately HK\$6.5 million for reserve of the Company for future expansion and investment opportunities.

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.

Management Discussion and Analysis

Details are set out in the announcements dated 12 February 2018, 15 February 2018, 22 February 2018, 9 March 2018 and 4 April 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.

As disclosed in the announcement dated 12 February 2018, completion of the Asia Bravo Shares Subscription would take place within three business days after the conditions of the Asia Bravo Shares Subscription are fulfilled (or such other date as may be agreed between the parties). As the parties could not agree on the postponement of completion of the Asia Bravo Shares Subscription, the Asia Bravo Shares Subscription has been lapsed and would not be proceeded.

The Board considered that the lapse of the Asia Bravo Shares Subscription does not have any material adverse impact on the financial position and the business operations of the Group.

Details are set out in the announcements dated 12 February 2018, 15 February 2018, 22 February 2018 and 3 April 2018 of the Company.

Grant of share options

On 12 October 2018, the Board had resolved to grant share options (the “Share Options”) to certain consultants of the Group to subscribe for a total of 90,000,000 ordinary shares of HK\$0.0625 each (with exercise price of HK\$0.71 per share) in the share capital of the Company under the share option scheme adopted by the Company on 8 May 2012.

Details are set out in the announcement dated 12 October 2018 of the Company.

Management Discussion and Analysis

EVENT AFTER THE REPORTING DATE

On 25 January 2019, China Primary (Shenzhen) Energy Technology Company Limited# (中基(深圳)能源技術有限公司) (the “Seller”), a subsidiary of the Company, entered into an equity transfer agreement with Xinao Gas Development Company Limited# (新奧燃氣發展有限公司) (the “Purchaser”), an independent third party, pursuant to which, the Seller agreed to sell and the Purchaser agreed to purchase the 21% share capital of Fujian Province Minsheng Gas Company Limited# (福建省閩昇燃氣有限公司) held by the Seller at a consideration of RMB10,500,000. Upon completion of the transaction, Fujian Province Minsheng Gas Company Limited# (福建省閩昇燃氣有限公司) will no longer be an associated company of the Company. The transaction was completed on 12 February 2019.

FINANCIAL REVIEW

Total revenue was approximately HK\$173,224,000 for the year ended 31 December 2018, which represented a decrease of approximately 11.1% when compared with last year’s total revenue of approximately HK\$194,908,000. The Board believes that revenue of the Group will be improved with the growing of the natural gas business and increase contribution from the rental and trading business.

During the year under review, audited loss before income tax was approximately HK\$4,948,000 (2017: loss of approximately HK\$18,214,000). The loss attributable to owners of the Company was approximately HK\$10,717,000 (2017: loss of approximately HK\$20,732,000). 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 2019 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 land and properties in Yichang will continue to be let out to generate rental income.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, net assets of the Group were approximately HK\$423,027,000 (2017: approximately HK\$344,208,000) while its total assets were approximately HK\$672,614,000 (2017: approximately HK\$617,670,000) including cash and bank balances of approximately HK\$38,588,000 (2017: approximately HK\$10,841,000).

FUNDING ACTIVITIES DURING THE YEAR

Save for the Winmaxi Shares Subscription disclosed above, the Company did not carry out any other fund raising activities during the year under review.

GEARING RATIO

As at 31 December 2018, current assets of the Group amounted to approximately HK\$158,194,000 which included cash and bank balances of approximately HK\$16,875,000 and approximately RMB19,074,000 (equivalent to HK\$21,713,000), while current liabilities stood at approximately HK\$206,231,000. The Group has borrowings of approximately HK\$62,625,000. Equity attributable to owners of the Company amounted to approximately HK\$402,736,000. In this regard, the Group was in a net assets position and had a gearing ratio of approximately 15.5% (borrowings to equity attributable to owners of the Company) as of 31 December 2018.

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 2018, certain of the Group’s investment properties were pledged as security for the Group’s borrowing, 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.

Management Discussion and Analysis

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 2018, the issued share capital of the Company was made up of 1,023,987,439 ordinary shares of HK\$0.0625 each.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

There was no material acquisition or disposal of subsidiaries and affiliated companies during the year under review.

SIGNIFICANT INVESTMENTS/FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group did not made any significant investment during the year ended 31 December 2018. No material plan for future investment was noted as at the date of this annual report.

EMPLOYEE INFORMATION

As at 31 December 2018, the Group had 9 full-time employees working in Hong Kong and 152 full-time employees working in the PRC. Total employees' remuneration (including Directors' remuneration) for the year under review amounted to approximately HK\$29,349,000. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

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.

Biographical Details of Directors and Senior Management

Directors

Ms. Ma Zheng, aged 52

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 29 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 56

Executive Director

Mr. Wong joined the Group in February 2008. He has several years of experience in business administration and corporate management. Before joining the Group, he was the general manager of Smart Honest Group Limited, a distributor of semiconductors.

Mr. Ji Jianghua, aged 39

Non-executive Director

Mr. Ji joined the Group in June 2018. Mr. Ji joined China Vanke Co., Ltd.# (“China Vanke”) (Shenzhen Stock Exchange: stock code 000002, The Stock Exchange of Hong Kong Limited: stock code 2202) in May 2005 and is now the deputy general manager of the board of directors’ office of China Vanke. Before joining China Vanke, he worked as a researcher at Shanghai Jinxin Securities Research Institute Co., Ltd. from August 2004 to May 2005. Mr. Ji graduated from the Tianjin Institute of Finance and Economics (currently Tianjin University of Finance and Economics) in 2001 with a Bachelor’s degree in Management. He graduated from Shanghai University in 2004 with a Master’s degree in Economics.

Mr. Wan Tze Fan Terence, aged 54

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 Practising 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 51

Independent Non-executive Director

Mr. Chung joined the Group in February 2008. Mr. Chung holds a bachelor degree in 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 26 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 51

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 17 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 48

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 25 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 2018.

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, trading of electronic components and property investment. Details of the principal activities of its subsidiaries are set out in Note 19 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 2018 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 2018 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 70 to 176.

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 49 to the financial statements, respectively.

Distributable reserves

As at 31 December 2018 and 2017, 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\$714,488,000 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 177.

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.

Dividend policy

The Company has adopted a dividend policy ("Dividend Policy"), pursuant to which the Company may distribute dividends to the shareholders of the Company by way of cash or shares. Any distribution of dividends shall be in accordance with the Articles of Association and the distribution shall achieve continuity, stability and sustainability.

The recommendation of the payment of any dividend is subject to the absolute discretion of the Board, and any declaration of final dividend will be subject to the approval of the shareholders of the Company. In proposing any dividend payout, the Board shall also take into account, inter alia, the Group's earnings per share, the reasonable return in investment of the investors and the shareholders in order to provide incentive to them to continue to support the Group in their long-term development, the financial conditions and business plan of the Group, and the market sentiment and circumstances.

The Dividend Policy will be reviewed from time to time and there is no assurance that a dividend will be proposed or declared in any specific periods.

The Board does not recommend the payment of final dividend for the year ended 31 December 2018.

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 178.

Purchase, sale or redemption of securities

The Company had not redeemed any of its ordinary shares during the year ended 31 December 2018. 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 2018.

Directors' Report

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

Non-Executive Director

Mr. Ji Jianghua (*appointed on 1 June 2018*)

Independent Non-Executive Directors

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

In accordance with article 86(3) of the Articles of Association, Mr. Ji Jianghua will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

In accordance with article 87(1) of the Articles of Association, Mr. Wong Pui Yiu and Mr. Chung Chin Keung, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Pursuant to the code provision as set out in paragraph A.4.3 of Appendix 15 of the GEM Listing Rules, any further appointment of independent non-executive director serving more than 9 years should be subject to a separate resolution to be approved by the shareholders of the Company. As Mr. Chung Chin Keung is an independent non-executive Director serving the Company for more than 9 years since February 2008, separate resolution will be proposed for his re-election at the forthcoming annual general meeting. The Board considers that Mr. Chung Chin Keung continues to be independent as he has satisfied all the criteria for independence set out in Rule 5.09 of the GEM Listing Rules.

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.

Directors' Report

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' 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 2018, 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:

Directors' Report

The approximate percentage of interests set out below is based on 1,023,987,439 ordinary shares in issue as at 31 December 2018.

- (i) Long position in the ordinary shares of HK\$0.0625 each in the Company as at 31 December 2018:

| Name of Director | Number of ordinary shares held | | Approximate percentage of interests |
|------------------|--------------------------------|---------------------------|-------------------------------------|
| | Type of interests | Number of ordinary shares | |
| Ms. Ma Zheng | Beneficial | 371,051,632 | 36.24% |

- (ii) Long position in the underlying shares or debentures of the Company as at 31 December 2018:

| 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 | 0.08% |
| Mr. Wong Pui Yiu | Beneficial | Share options (Note) | 3,500,000 | 0.34% |
| Mr. Wan Tze Fan Terence | Beneficial | Share options (Note) | 700,000 | 0.07% |
| Mr. Chung Chin Keung | Beneficial | Share options (Note) | 700,000 | 0.07% |
| Mr. Wang Xiao Bing | Beneficial | Share options (Note) | 700,000 | 0.07% |

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.

Directors' Report

Save as disclosed above, as at 31 December 2018, 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.

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.

Directors' Report

Where share 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.

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 May 2016, the total number of Shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme was refreshed to 93,089,767, being 10% of the number of issued Shares as at 10 May 2016.

As at 31 December 2018, total number of share options can be granted to qualified grantees or granted but not yet lapsed or cancelled were 152,759,767. As a result, 152,759,767 shares of the Company could be issued which represented about 14.9% of the issued share capital of the Company as at 31 December 2018 if all the share options were granted and exercised.

As at 31 December 2018, the remaining life of the Share Option Scheme was approximately 3 years and 5 months.

Directors' Report

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:

| Name or category of participant | Date of grant | Exercise period | Exercise price per share HK\$ | Number of share options | | | | | Outstanding as at 31 December 2018 |
|---------------------------------|-----------------|-----------------------------------|----------------------------------|----------------------------------|-------------------------|---------------------------|------------------------|---------------------------|------------------------------------|
| | | | | Outstanding as at 1 January 2018 | Granted during the year | Exercised during the year | Lapsed during the year | Cancelled during the year | |
| 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 | 68,050,000 | - | - | (14,800,000) | - | 53,250,000 |
| Consultants | 12 October 2018 | 12 October 2018 – 12 October 2019 | 0.71 | - | 90,000,000 | - | - | - | 90,000,000 |
| Sub-total | | | | 68,050,000 | 90,000,000 | - | (14,800,000) | - | 143,250,000 |
| Total | | | | 74,470,000 | 90,000,000 | - | (14,800,000) | - | 149,670,000 |

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 2018, 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 1,023,987,439 ordinary shares in issue as at 31 December 2018.

- (i) Long position in the ordinary shares of HK\$0.0625 each in the Company as at 31 December 2018:

| Name of shareholders | Type of interests | Number of the shares held | Approximate percentage of interests |
|--|--------------------------|----------------------------------|--|
| Ms. Guo Xiuqin | Corporate | 123,867,678 | 12.10% |
| Tung Shing Energy Investment Limited | Corporate | 123,867,678 | 12.10% |
| Excel Sino Investments Limited | Beneficial (Note 1) | 123,867,678 | 12.10% |
| Mr. Ji Shengzhi | Corporate | 110,000,000 | 10.74% |
| Ms. Lu Ke | Corporate | 110,000,000 | 10.74% |
| Ultra Vantage Holdings Limited | Beneficial (Note 2) | 110,000,000 | 10.74% |
| 萬科企業股份有限公司 | Corporate | 93,089,767 | 9.09% |
| 成都萬科房地產有限公司 | Corporate | 93,089,767 | 9.09% |
| Chogori Investment (Hong Kong) Limited | Corporate | 93,089,767 | 9.09% |
| Winsteria (BVI) Company Limited | Corporate | 93,089,767 | 9.09% |
| Winmaxi (BVI) Company Limited | Beneficial (Note 3) | 93,089,767 | 9.09% |

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.
3. Winmaxi (BVI) Company Limited (“Winmaxi”) is a company incorporated in the British Virgin Islands with limited liability and is a subsidiary of China Vanke Co., Ltd.# (萬科企業股份有限公司), a company listed on The Stock Exchange of Hong Kong Limited.

Winmaxi is wholly-owned by Winsteria (BVI) Company Limited, which in turn is wholly-owned by Chogori Investment (Hong Kong) Limited, which in turn is wholly-owned by 成都萬科房地產有限公司, while 成都萬科房地產有限公司 is a controlling subsidiary of 萬科企業股份有限公司.

- (ii) Long position in the underlying shares or debentures of the Company as at 31 December 2018:

| 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 | 5.86% |

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 and 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 2018, 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 77% of the total sales for the year, and sales to the largest customer included therein amounted to approximately 49%.

Purchases from the Group's largest supplier accounted for approximately 50% of the total purchases for the year and the five largest suppliers accounted for approximately 72% 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 2018.

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 2018, the Audit Committee is of the opinion that the financial statements of the Group for the year ended 31 December 2018 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.

Connected and related party transactions

Details of the related party transactions during the year are included in Note 44 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.

Directors' Report

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 46 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.

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.

Directors' Report

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.

Sufficiency of public float

The Company had maintained sufficient public float throughout the year ended 31 December 2018.

Contingent liabilities

As at 31 December 2018, the Directors were not aware of any material contingent liabilities.

Significant event after the reporting date

Save as disclosed in the "Event 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, 21 March 2019

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 2018 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 these financial statements) the Chairman together with one executive Director, one non-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.

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.

Corporate Governance Report

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 15 Board meetings in 2018. 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 2018 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 (<i>Chairman</i>) | Yes |
| Mr. Wong Pui Yiu | Yes |
| Non-executive Director | |
| Mr. Ji Jianghua | Yes |
| Independent non-executive Directors | |
| Mr. Wan Tze Fan Terence | 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 2018, the Company 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 the Company does not compromise accountability and independent decision making for this since the Company has 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) Non-executive directors and independent non-executive directors

During the year under review, Mr. Ji Jianghua was appointed as non-executive Director for an initial term of two years commencing from 1 June 2018.

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.

Pursuant to the code provision A.4.3 of the Code, any further appointment of independent non-executive director serving more than 9 years should be subject to a separate resolution to be approved by the shareholders of the Company. As Mr. Chung Chin Keung is an independent non-executive Director serving the Company for more than 9 years since February 2008, separate resolution will be proposed for his re-election at the forthcoming annual general meeting. The Board considers that Mr. Chung Chin Keung 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 2018, 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 2018.

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 two meetings during the year under review. The nomination committee reviewed the structure, size and composition of the Board.

(II) *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.

The Group's 2018 annual report, 2018 quarterly reports and 2018 interim report had been reviewed by the audit committee.

Corporate Governance Report

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 2018 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 | 15 | 4 | 1 | 2 | 1 |
| Executive Directors | | | | | |
| Ms. Ma Zheng (<i>Chairman</i>) | 15/15 | 4/4 | 0/1 | 0/2 | 1/1 |
| Mr. Wong Pui Yiu | 14/15 | 4/4 | 0/1 | 0/2 | 1/1 |
| Non-executive Director | | | | | |
| Mr. Ji Jianghua (appointed on 1 June 2018) | 3/5 | 0/2 | 0/1 | 0/1 | 0/0 |
| Independent non-executive Directors | | | | | |
| Mr. Wan Tze Fan Terence (<i>Committee Chairman</i>) | 13/15 | 4/4 | 1/1 | 2/2 | 0/1 |
| Mr. Chung Chin Keung | 11/15 | 3/4 | 1/1 | 2/2 | 0/1 |
| Mr. Wang Xiao Bing | 9/15 | 2/4 | 0/1 | 1/2 | 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 2018.

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.

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 64 to 69.

Corporate Governance Report

(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\$1,520,000 (2017: approximately HK\$1,420,000) was charged to the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 for audit services provided by the external auditor. No non-audit services was provided by the external auditor in 2018.

(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 the 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.

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.

Corporate Governance Report

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 2018 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.

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.

Corporate Governance Report

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.

(O) *Investor relations*

The Company disclosed all necessary information to shareholders in compliance with the 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.

Corporate Governance Report

(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 Report

I. ABOUT THIS REPORT

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

The Group mainly engages in the transmission and distribution of natural gas, trading of electronic components and consumables, and property investment primarily in the PRC. The business of manufacture and sales of Polyethylene pipes ("PE pipes") is ceased in the third quarter of 2018 due to strategic adjustment. Although the PE pipes business has ceased operation, it remains the main source of emission of the Group. Hence this Environmental, Social and Governance ("ESG") Report ("ESG Report") still includes this business segment.

Not only has the Group made tremendous progress in its business expansion and economic development, China Primary Energy Holdings Limited and its subsidiaries also have paid great attention to environmental protection and the fulfilment of their social responsibilities. With a strong ambition and commitment to forge an eco-friendly, resilient and reliable enterprise that pioneers in sustainable development compared to its peers in the industry, the Group never stops its footstep in exploring new ways to change its business model and operating practice in order to make contributions to addressing the pressing global climate change-related challenge.

The Group is pleased to present ESG Report for FY2018 to demonstrate the Group's approach and performance in terms of ESG management and corporate sustainable development for the financial year ended 31 December 2018. This ESG Report is prepared in full compliance with the ESG Reporting Guide as set out in Appendix 20 of the GEM Listing Rules on The Stock Exchange of Hong Kong Limited. To deliver a formalised and internationally compatible ESG Report, the Group referenced recommendations of the Task Force on Climate-related Financial Disclosures to improve the integrity, international compatibility and industrial comparability of the report.

II. BOARD INCLUSIVENESS

The Group has developed its internal strategies and policies with aims to create sustainable values to its stakeholders, thereby to large extent minimising the Group's undue impact on the environment. In order to carry out the Group's sustainability strategy from top to bottom, the Board of Directors ("Board") of the Group has ultimate responsibilities for ensuring the effectiveness of the Group's ESG policies.

The Group has established dedicated teams to manage ESG issues within each business division of the Group and kept monitoring and overseeing the progress against corporate goals and targets for addressing climate change. Dedicated teams with designated staff for management of ESG issues has been assigned to enforce and supervise the implementation of the relevant ESG policies cascading through the Group.

Environmental, Social and Governance Report

With the forward-looking guidance and well-designed plans of action to address underlying ESG matters, the management and responsible teams keep reviewing and adjusting the Group's sustainability policies to satisfy the ever-changing needs of its stakeholders on a regular basis. For instance, through the assignment of the responsibility of progress tracking to different management-level positions, the Group is committed to achieving an excellent performance in ESG management while also remaining competitive compared with its peers. Details of the Group's management approaches in both the environmental and social aspects are elaborated in different sections of this ESG Report.



III. 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 PE pipes in Yichang City, Yunnan and Anhui Province of the PRC, property rental in Yichang City, trading business in Hong Kong and the Group's offices located in Hong Kong and Shenzhen. For corporate governance section, please refer to the Group's 2018 Annual Report on pages 28 to 38 therein. The reporting period of this ESG Report is for the financial year 2018 ("FY2018"), from 1 January 2018 to 31 December 2018. This report is prepared in both English and Chinese. If there is any conflict or inconsistency, the English version shall prevail.

Environmental, Social and Governance Report

IV. STAKEHOLDER ENGAGEMENT

An effective communication with both internal and external stakeholders is regarded essential to the Group in many areas. It can not only deliver the Group's commitment to long-term value creation to stakeholders who care about the level of sustainable development of the Group, but also helps the Group gain a better understanding of those topics and relevant to different groups of stakeholders.

With the goal to strengthen corporate sustainability approach and performance while enhancing stakeholders' awareness of ESG and sustainability issues, the Group has put tremendous efforts into its internal and external stakeholder inclusiveness. The Group highly values the feedback from its stakeholders and takes initiative to build a trustful and supporting relationship with them through their preferred communication channels, which are listed in the table below.

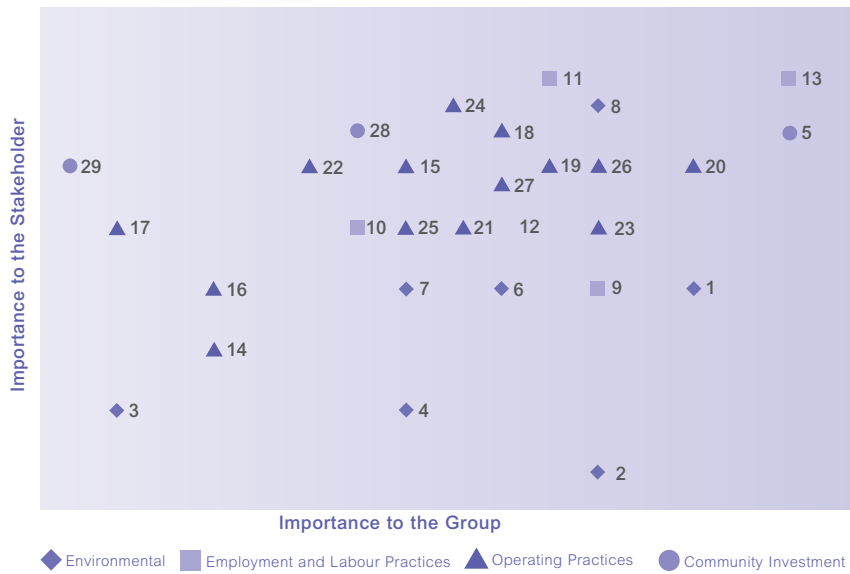
Table 1 Stakeholders Expectations and Communication Channels

| Stakeholders | Expectations and concerns | Communication channels |
|---------------------------------------|--|--|
| Government and regulatory authorities | <ul style="list-style-type: none"> - Compliance with laws and regulations - Business sustainability - Proper tax payment | <ul style="list-style-type: none"> - Supervision on complying with local laws and regulations - Routine reports and tax paid |
| Shareholders | <ul style="list-style-type: none"> - Return on investments - Corporate governance - Business compliance | <ul style="list-style-type: none"> - Regular reports and announcements - Regular general meetings - Official company website |
| Employees | <ul style="list-style-type: none"> - Employees' compensation and benefits - Career development - Healthy and safe working environment | <ul style="list-style-type: none"> - Performance reviews - Regular meetings and trainings - Emails, notice boards, hotline, caring activities with management |
| Customers | <ul style="list-style-type: none"> - High quality products and services - Protect customers' rights | <ul style="list-style-type: none"> - Face-to-face meetings and on-site visits - Customer service hotline and email |
| Suppliers | <ul style="list-style-type: none"> - Fair and open procurement - Win-win cooperation | <ul style="list-style-type: none"> - Suppliers' satisfactory assessment - Face-to-face meetings and on-site visits |
| General public | <ul style="list-style-type: none"> - Involvement in communities - Business compliance - Environmental protection awareness | <ul style="list-style-type: none"> - Media conferences and responses to enquiries - Public welfare activities - Regular reports and announcements - Face-to-face interview |

Environmental, Social and Governance Report

Materiality Assessment

Since ESG risks and opportunities for companies vary across industries and depend on specific business patterns of companies, the Group undertakes annual review in identifying and understanding its stakeholders' main concerns and material interests for the ESG Report. In FY2018, the Group engaged its stakeholders to conduct a materiality assessment survey initiated by a third-party agency in order to guarantee the accuracy and objectivity of evaluation. Specifically, internal and external stakeholders including customers, suppliers, business partners, board members and employees from various business units of the Group were chosen and assessed based on their respective influence and dependence on the Group. Stakeholders were invited to express their concerns on a list of sustainability issues via an online survey to pinpoint the ESG issues that were identified as material to the Group's business development and strategies. Through a science-based materiality assessment to prioritise the topics from the entire inventory of ESG issuers, the Group eventually formulated a materiality assessment matrix below, which could genuinely reflect the real concern of its stakeholders on ESG matters and facilitate the Group to develop actions plans for effective ESG management.



Environmental, Social and Governance Report

Environmental Impacts

1. Air and greenhouse gas ('GHG') emissions
2. Sewage treatment
3. Land use, pollution and restoration
4. Solid waste treatment
5. Energy use
6. Water use
7. Use of raw/packaging materials
8. Mitigation measures to protect natural resources

Employment and Labour Practices

9. Composition of employees
10. Employee remuneration and benefits
11. Occupational health and safety
12. Employee development and training
13. Prevention of child and forced labour

Operating Practices

14. Suppliers' geographical regions in which materials are sourced

15. Selection of suppliers and assessment of their products/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 satisfaction
21. Marketing and promotion
22. Observance and protection of intellectual property rights
23. Quality control and management of products
24. Protection of consumer information and privacy
25. Labelling relating to products/services
26. Prevention of bribery, extortion, fraud and money laundering
27. Anti-corruption policies and whistle-blowing procedures

Community Investment

28. Understanding local communities' needs
29. Public welfare and charity

Environmental, Social and Governance Report

According to the outcome of the materiality analysis matrix, the Group identified seven ESG issues that are of great significance to both the Group and its stakeholders from the inventory of 29 sustainability topics, namely “Preventing child and forced labour”, “Energy use”, “Customer satisfaction”, “Mitigation measures to protect natural resources”, and “Occupational health and safety”. Besides these, the Group also engages stakeholders with the Sustainability Development Goals (“SDGs”) to determine the future goals for Group ESG policy. The Group has identified “Target 8: Decent Work and Economic Growth”, “Target 9: Industry, Innovation, and Infrastructure”, “Target 12: Responsible Consumption and Production” and “Target 17: Partnerships for the Goals” as the most concerned goals for the sustainability development. This review and assessment helped the Group to objectively prioritise its sustainability issues, precisely identify the material and relevant aspects, and make for the purposeful documentation and disclosure of its ESG performance so as to align them with stakeholders’ expectations.

Stakeholders Feedback

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

V. ENVIRONMENTAL SUSTAINABILITY

The Group is committed to the long-term sustainability of the environment and community in which it operates, stringently controls its emissions and consumption of resources, and complies with all relevant environmental laws and regulations in Hong Kong and PRC in the daily operation. The Group strives to minimise the potential environmental impact during its daily operations in various aspects. Due to the business nature, the manufacture factories in the PRC have a significant impact on the environment compared to other business segment in the Group.

This section primarily discloses the Group’s policies, practices, and quantitative data on emissions, use of resources, the environment and natural resources in FY2018.

A.1. Emissions

The main emission from the Group is the air emission from electricity consumption and vehicle use, municipal wastewater and solid wastes. The Group complied with all relevant environmental laws in the operating regions, including but not limited to the Environmental Protection Law of the People’s Republic of China (《中華人民共和國環境保護法》) and the Law of the People’s Republic of China on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), and found no disregard of any influential laws relevant to waste gas or greenhouse gas emissions, water or land discharging and hazardous or non-hazardous wastes.

Environmental, Social and Governance Report

In FY2018, given the nature of the Group's business, the greenhouse gas ("GHG") emissions from the Group for Scope 1 (Direct Emissions), Scope 2 (Energy Indirect Emission), and Scope 3 (Other Indirect Emissions) were 76.4 tonnes carbon dioxide equivalent ("CO₂e"), 92.4 tonnes CO₂e, and 29.7 tonnes CO₂e respectively. The Group's total GHG emissions amounted to 198.5 tonnes CO₂e, and the GHG intensity for the Group was 5.6 tonnes CO₂e/employee. Other than GHG emissions, the Group also generated 43.5 kg of non-hazardous solid wastes (with an intensity of 1.1 kg/employee) and 5,265 m³ non-hazardous wastewater during the year under review. The Group's total emissions are summarised in Table 2.

Table 2 The Group's Total Emissions by Category in FY2018

| Emissions | | Unit | Amount | Intensity* (Unit/ employee) |
|----------------------------|-------------------------------------|--------------------------|---------------|--|
| Air emissions | SO ₂ | kg | 0.5 | - |
| | NO _x | kg | 7.8 | - |
| GHG emissions | Scope 1 (Direct Emission) | tonnes CO ₂ e | 80.0 | 2.3 |
| | Scope 2 (Energy Indirect Emission) | tonnes CO ₂ e | 92.4 | 2.6 |
| | **Scope 3 (Other Indirect Emission) | tonnes CO ₂ e | 29.7 | 0.8 |
| | Total (Scope 1, 2 & 3) | tonnes CO ₂ e | 202.1 | 5.7 |
| Non-hazardous waste | Solid Waste | kg | 43.5 | 1.1 |
| | Wastewater | M ³ | 5,265.0 | 135 |

* Intensity was calculated by dividing the amount by the Group's FY2018 average number of employees; and

** The Group's Scope 3 (Other Indirect Emissions) includes only paper waste disposed at landfills and business travel.

As the emission from property rental and trading business is insignificant comparing to other business segments, this chapter only covers the details of emission from natural gas business and PE pipes business.

Transmission and distribution of the natural gas business

The natural gas transmission and distribution is the core segment of the Group business. The performance of this business segment continues to grow as the PRC government continued to implement the policy to use clean energy in the PRC. 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.

Environmental, Social and Governance Report

Air Emissions and GHG Emissions

The GHG emissions of this segment consist of direct emission (Scope 1) from car use, indirect emission (Scope 2) from the consumption of electricity, and other indirect emission (Scope 3) from the waste paper processing and business travel. The direct emission and indirect emission are the main source of GHGs emissions while other indirect emission is insignificant. GHG emissions from the Group's natural gas segment are mainly generated from the purchased electricity consumed by daily operations.

During the year under review, the Group transmit the natural gas directly to the clients through long-distance pipeline, hence there is no air emission through the transmission process. 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.

Wastes

The wastewater and solid wastes generated from the Group are mainly domestic sewage and garbage by its staff from daily operating activities. 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.

PE pipes business

The Group's PE pipes business includes the manufacture and sales of PE pipes in Hubei Province. The emissions from the Group's polyethylene pipeline business mainly include domestic sewage, domestic waste and a small amount of industrial solid waste (such as polyethylene plastic), and no other toxic and hazardous waste is produced.

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 ("NO_x"). To reduce the amount of atmospheric pollutants, the Group has installed advanced equipment to remove the nitrogen oxides ("NO_x"), sulphuric oxides ("SO_x") and other hazardous substances in the exhaust gas.

GHG Emissions

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 internal measures.

Environmental, Social and Governance Report

Wastewater

The industrial water reuse of this business segment of the Group is not discharged because the only consumption of water during the Group's manufacturing process is the cooling water, which the Group keeps recycling at all time. The domestic sewage generated from the daily usage of its staff is discharged to the local sewage treatment plant for treatment.

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 are 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.

There is no denying that the accelerating emission of greenhouse gases is inherently linked with the climate-related catastrophic consequences that are happening across the world according to IPCC's latest report (Intergovernmental Panel on Climate Change).

To mitigate the GHG emissions, the Group is aware of the role technological and economic potential plays in limiting the global temperature rise to 2°C above pre-industrial levels. Therefore, the Group has aligned its operating practice with internationally acceptable and recognised standards and recommendations in terms of GHGs reduction by the adoption of energy-efficient technologies, electricity-saving measures, and environmental buses. Detailed measures taken by the Group to reduce its GHG emissions through reducing electricity consumption will be described further in "A.2. Use of Resources" of this report.

Environmental, Social and Governance Report

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.

The use of natural resources has always been the key issue for the Group's environmental concern. To effectively manage its resources consumption, the Group keeps improving its tracking of ESG related KPIs (Key Performance Indicators) and launches internal monitoring programme on the procurement and use of resources. In FY2018, the major resources consumed by the Group were electricity, water, and gasoline.

The significant drop of electricity consumption is because the manufacturing of PE pipes has ceased during the year under review.

Table 3 The Group's Total Use of Resources by Category in FY2018

| Use of Resources | Unit | Amount | Intensity* (Unit/ employee) |
|-------------------------|----------------|---------------|--|
| Electricity | kWh | 150,963.2 | 4,252.5 |
| Diesel | L | 4,683.0 | 131.9 |
| Gasoline | L | 27,132.8 | 764.3 |
| Natural gas | M ³ | 3,851.2 | 108.5 |
| Water | M ³ | 18,475.5 | 520.4 |
| Paper | kg | 811.6 | 22.9 |

* Intensity was calculated by dividing the amount by the Group's FY2018 average number of employees

Environmental, Social and Governance Report

Transmission and distribution of the natural gas business

Water

Water consumption by the Group is for domestic use by its staffs during the working hours, which was minimal and need-based. In FY2018, the Group did not face any problems in sourcing water. To improve the utilization efficiency of water resources, the Group and all its employees have laid emphasis on water conservation and are dedicated to saving every drop of precious water resource by various efficacious ways. Specifically, to improve the utilisation efficiency of water resources, the Group has adopted the following practices:

- 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.

Electricity

The Group has kept a detailed record of its electricity consumption. The Group’s use of electricity comes from the daily operation. All subsidiaries of the Group stringently comply with the Group’s policy of saving energy. The Group is committed to saving electricity 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.

Environmental, Social and Governance Report

Energy

The Group's own vehicles consumed gasoline and natural gas for transportation purpose. The vehicles powered by natural gas is environmentally-friendly and can help the Group to reduce air emissions. The Group encourages energy saving through simple measures, such as making the best use of room to avoid unnecessary transport. 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 clean energy buses instead of driving to work. The Group is dedicated to making contribution to the reduction of GHG emissions from transportation.

PE pipes business

Water

The water consumption of this business segment comes from the daily use and cooling process. All cooling water are recycled for reuse while internal policies are adopted to reduce the domestic water use. 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.

Electricity

The Group strives to improve the efficiency of manufacturing machines. 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.

Energy

The energy consumption was mainly from diesel for production amounting to 3,400 liters in FY2018. 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 Report

A.3. The Environment and Natural Resources

As the one of the main natural resource consumed by the Group, paper has always been the cornerstone of the fulfilment of the Group's environmental responsibilities. In order to reduce the negative impacts that the life cycle of paper exerts on the environment, the Group realises that a highly efficient use of paper such as double-sided printing and checking files before printing is necessary.

Sustainable Development Goals (SDGs) of United Nations defined the vision and priorities of global sustainability in 2030 and call on all enterprises to maximise their innovation capabilities for addressing the challenges of sustainability and to some degrees accomplishing the 17 sustainability goals together. With an ambitious target to integrate the global sustainable development goals into its business strategies, The Group references the SDG Compass and commits to achieve the understanding of sustainability goals, setting of priorities and long-term goals, integration and implementation of corporate sustainability efforts, and effective reporting and communication in the near future.

The Group is currently working on the establishment of sustainable development framework by environmental awareness building and SDGs evaluation under the context of industrial trend and business nature. Hence, the Group initially selected "Target 8: Decent Work and Economic Growth", "Target 9: Industry, Innovation, and Infrastructure", "Target 12: Responsible Consumption and Production" and "Target 17: Partnerships for the Goals", as its prioritised targets in the value chain management and proactively took corresponding measures to contribute to global sustainability.

VI. SOCIAL SUSTAINABILITY

EMPLOYMENT AND LABOUR PRACTICES

B.1. Employment

The Group views talents as its most valuable assets and the key driving factor in ensuring the success and sustainable development of the Group. Upholding the concept of "paying respect to the dedicated, utilising the competent, fostering the aspiring and incentivising the innovative", the Group strives to providing a safe and sound working environment for employees and cultivating talents experienced in technology and management.

Law compliance

The Group's human resources policies fully align with the applicable employment laws and regulations in Hong Kong and the PRC, such as

- Employment Ordinance (Chapter 57 of the Laws of Hong Kong);
- Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong);

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- Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong);
- Labour Law of the People's Republic of China (《中華人民共和國勞動法》); 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.

To make sure that the relevant internal policies are fully in line with the latest laws and regulations, the human resources department is responsible to review and update corporate documents in talent management on a regular basis.

Recruitment and promotion

The Group deeply understands that talent acquisition is vital to the sustainable development of the Group's business, hence the Group prepares "Yearly Recruitment Plan" to manage the recruitment every year. To attract high-calibre candidates, the Group offers fair, competitive remuneration and benefits based on individuals' performance, personal attributes, job experiences and career aspiration. In addition, the Group has proposed a variety of initiatives to facilitate the recruitment of staffs, such as recruitment fairs, job advertisements in recruitment seminars and internet websites. The Group believes that its continuous efforts will tremendously help attract the most suitable and outstanding personnel to join the Group.

Besides, The Group sets periodicity plans and budgets to run performance evaluation. The promotion report issued by the manager is based on the outstanding performance of the employee.

Compensation and dismissal

To motivate, reward, and recognize our existing employees who have made giant contributions to the Group, compensation reviews and salary adjustment are regularly conducted with reference to the overall market conditions, inflation rate, profitability of the Group and employee's past performance. 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 termination of employment contract would be strictly based on reasonable and lawful grounds. The Group prohibits any kinds of unlawful or unreasonable dismissals.

Environmental, Social and Governance Report

Working hours and rest period

The Group arranges reasonable working hours and rest periods for its employees. Working hours are under strict supervision through internal system. In addition to basic paid annual leave and statutory holidays stipulated by the local governments, employees are entitled to additional leave benefits such as marriage leave, paternity 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 human resources and employment decisions. For instance, training and promotion opportunities, dismissals and retirement policies are determined irrespective of employees' gender, race, age, disability, family status, marital status, sexual orientation, religion beliefs, nationality or any other non-job-related factors in all business units. The Group's equal opportunities policy enforces zero tolerance to any workplace discrimination, harassment or victimization in accordance with the relevant government legislation, ordinances and regulations, such as the Disability Discrimination Ordinance (Chapter 487 of the Laws of Hong Kong) and the Sex Discrimination Ordinance (Chapter 480 of the Laws of Hong Kong). Disciplinary actions would be taken against the relevant employee if there is any non-compliance or breach of legislation related to the equal opportunities policies.

Other benefits and welfare

To cultivate employees' sense of belonging, the Group offers additional benefits to its employees including medical subsidiaries, physical examination, special holiday leave and so on. To fulfil the needs of employees working in factories, the Group also provides fully equipped dormitories. Also, employees can communicate with managers and colleagues through internal email, training and meetings. This can help the bidirectional understanding between employees and managers.

During FY2018, the Group was in full 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.

Environmental, Social and Governance Report

B.2. Health and Safety

To provide and maintain a good working condition and a safe and healthy working environment, the Group's safety and health policies are in line with the workplace health and safety laws and regulations in Hong Kong and the PRC, namely:

- Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong);
- Law of the People's Republic of China on the Protection of Production Safety (《中華人民共和國安全生產法》); and
- Regulation on Work-Related Injury Insurance (《工傷保險條例》).

The Group has established a comprehensive mechanism and stringent safety and labour practice standards that in line of the health and safety standard, such as GB/T29639-2013, GBZ 1-2010, GB12011-2009, GB2811-2007, to ensure workplace to minimise the risk of accidents and enhance employees' health and safety awareness. Different internal manuals, Production Safety Emergency Plan (《生產安全事故應急預案》) for example, are also set up to provide a safe working environment to employees.

Under those manuals, the Group has provided working uniforms to employees such as helmets, safety shoes, antifreeze gloves and cotton anti-static gloves. The Group also provides disinfectants for relevant employees and customers and performs environmental disinfection at least twice a day. Besides, dust is a threat to employees' health, hence the Group conducts annual physical examinations of relevant employees at the operation site, especially for occupational diseases such as dust and toxic and hazardous substances. The installation of fire equipment such as automatic smoke spray system and powder fire extinguishers in the working place has been implemented as well to prevent employees from dust related hazardous.

The Group has set the emergency leading group for collecting emergency information and providing trainings to employees on emergency management. The Group has an internal system, including fire safety policy, labor protection management policy, on-site safety policy and safety warning sign management and a series of occupational health and safety measures.

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. The Group regularly inspects the fire protection facilities to ensure that the fire protection facilities are not damaged or expired and the fire exits are unblocked. 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. Regular occupational trainings held by the Group are enforced to attend to enhance the safety awareness of employees.

Environmental, Social and Governance Report

During FY2018, the Group found no work-related fatalities and no lost days due to work injury and 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

Training presents an opportunity to expand the knowledge base of all employees, which the Group finds quite useful for addressing employees' weakness, improving employees' performance, keeping the consistency between employees and corporate vision, and meeting employees' training expectations. Thus, the Group actively provide training opportunities for employees. The Group believes that professional trainings are a fundamental step to foster the understanding of its business philosophy among employees and the cornerstone to ensure the service quality.

The Company provides comprehensive on-the-job training for newly hired employees to help them understand the company's corporate culture, business processes, work health and safety measures, management systems and group development. For experienced employees, the Group offers training opportunities to develop their own working ability and build their career path. Except for traditional training, online training through mobile application are also available.

In addition, the Group encourages its employees to enhance their competitiveness and expand their capacity through continuous learning by attending external training to enhance their competitiveness.

B.4. Labour Standards

The Group strictly abides by the Employment Ordinance, Labour Law of the PRC (《中華人民共和國勞動法》), Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) and other related labour laws and regulations in Hong Kong and the PRC to prohibit any child or forced labour employment.

To combat illegal employment on child labour, underage workers and forced labour, and to ensure that applicants are lawfully employable, all employees are required by the Group's human resources staff to provide valid identification document prior to the confirmation of employment. The human resources department is responsible for monitoring and ensuring compliance with the latest and relevant laws and regulations that prohibit child labour and forced labour. The Group has regular review on the human resources policies and the human resources department established reporting mechanism to monitor and ensure the compliance of all relevant laws and regulations.

During FY2018, the Group was not in violation of any 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 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 makes minimal negative impacts on the environment and society. Each of the operating subsidiaries within the Group monitors the quality of its suppliers and ensures the supply chain practice on a strict and continuous basis.

When choosing potential suppliers, 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;
- The suppliers’ business license, previous track record;
- Reputation;
- Quality management system;
- Production capacity;
- Technical parameters;
- Financial performance; and
- Social and environmental responsibility.

If there is no serious quality accident or delay on delivery, the supplier is recognized as qualified supplier and added to the supplier list. Qualified suppliers shall be reassessed every year. 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 is dedicated to reducing the impact of supply chain on the environment and advocates green procurement. Apart from quality requirements, the environmental requirements are also listed in the procurement contract. The Group refuses to use suppliers who has environmental pollution and tried to use environmentally-friendly product.

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 behaviour 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.

Environmental, Social and Governance Report

Through the live monitoring on the suppliers, the Group runs test on raw materials and products to track any potential defects. If the products do not accord with the requirements of the Group, The Group would monitor the supplier to take remedy measures and ensure its effective operation.

The Group always keeps a firm and stable relationship with its suppliers and is updated of the suppliers' situation effectively through the internet, phone calls, and other communication means to ensure that all suppliers comply with local laws and regulations and adherence to their corporate ethics. In the meantime, the Group stays in contact with the suppliers to replenish products in case of any shortage. The Group also conduct basic evaluations upon contracts in top management turnover, production capacity, changes in manufacturing techniques and raw materials, and violations of the law and discipline of the suppliers.

Transmission and distribution of the natural gas business

The main raw material used in natural gas business is LNG. 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. (中石油昆仑公司), 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.

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. The Group strictly audits the supplier qualification for the aforesaid criteria to manage the social risk and environment risk in the supply chain. Selected suppliers must provide a monthly "Natural Gas Quality Inspection Report" that complies with national and local laws and regulations to maintain a stable and reliable source of gas.

PE pipes business

The principal raw material used in the production for PE pipes 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.

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.

Trading business

The supplier requirement of the trading business is to fulfill clients' needs. Temporarily, this business segment only has single supplier.

Environmental, Social and Governance Report

The Group emphasizes that business partners must comply with environmental requirements such as laws, regulations, international treaties, and provide industry-recognized environmentally friendly products. The quality control department strictly monitors supplier product quality and supply chain practices.

B.6. Product Responsibility

Law compliance

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 People's Republic of China on Product Quality (《中華人民共和國產品品質法》);
- Law of the People's Republic of China 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 People's Republic of China on the Protection of Production Safety (《中華人民共和國安全生產法》); and
- Regulations on the Safety Administration of Dangerous Chemicals (《危險化學品安全管理條例》).

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 (城市燃氣管理條例) 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. Special operations personnel must be trained to hold relevant certificates before they can be employed.

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. The Group also actively checks for safety issues such as pipe network leaks and takes remedial measures in a timely manner.

Environmental, Social and Governance Report

PE pipes business

The Group pays great attention 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).

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

Product quality

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.

Complaints

The Group has prepared opinion box and telephone complaints for 24-hour supervision from the staff and the public. The complaints are collected and sent to the head office to conduct further study and analysis. According to the complaint content, complaints were assigned to different employees and the dealing results were public to all employees. During the year under review, the Group has not received any complaint.

Environmental, Social and Governance Report

Advertising

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.

Privacy matters

The Group is committed to abiding by the local privacy laws and regulations such as Hong Kong's Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong). 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.

Intellectual property rights

The Group complies with laws and regulations that have great impact on the Group such as Patent Law of the People's Republic of China (《中華人民共和國專利法》), the Trademark Law of the People's Republic of China (《中華人民共和國商標法》) and Patents Ordinance (Chapter 514 of the Laws of Hong Kong). Employees also have the responsibility to protect the intellectual property.

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》), Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Chapter 615 of the Laws of Hong Kong), and the Prevention of Bribery Ordinance (Chapter. 201 of the Laws of Hong Kong).

All employees are expected to discharge their duties with integrity and self-disciplined, and they are required to abstain from engaging in any activities related to bribery, extortion, fraud and money laundering which might affect their business decision or independent judgment during business operations which might exploit their positions against the Group's interests.

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The Group has no tolerance to any corruption and set whistle-blowing policy to report any corruption. Whistle-blowers can report verbally or in writing to the 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. Where 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.

COMMUNITY

B.8. Community Investment

The Group believes that community is the foundation on which the company depends for survival and development. All business activities of the company will fully consider the interests of the community. The Group places great emphasis on environmental protection and employee benefits.

In recent years, under the correct leadership of the local government, the Group has persisted in deepening reforms, focusing on the two major themes of reform and development, and highlighting key tasks such as major pollutant emission reduction, environmental safety and emergency management. The Group believes that a good environmental surrounding is the fundamental of the sustainable development of economy.

In 2018, the Group provided free dormitory for employees with difficulties in life, and employees in need can borrow from the human resources department. These measures greatly helped the employees to build the sense of belongings to the Group.

The Group continuously pursue greater achievements which is not possible without the support from the operating society. The Group will continue to invest in local community to maintain a sustainable development.

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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 70 to 176, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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.

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.

Independent Auditor's Report

(1) Valuation of investment properties

The Group's investment properties amounted to HK\$196,513,000 as at 31 December 2018 and a fair value gain of HK\$40,824,000 and HK\$26,856,000 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 change in equity respectively in relation to these 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\$2,002,000 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 judgment and estimation, including selecting the appropriate valuation methodology, capitalisation rates and market rents.

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

How the matter was addressed in our audit

Our audit team included a valuation expert. 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 2018, the carrying amount of goodwill amounted to approximately HK\$28,042,000, 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 consolidated financial statements of the Group. 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.

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 2018 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.

(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\$1,016,000, measured at fair value, as at 31 December 2018.

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.

Independent Auditor's Report

Refer to Note 4(k)(iii), 5(f) 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.

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.

Independent Auditor's Report

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

Independent Auditor's Report

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with 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

Wendy W.Y. Fong

Practising Certificate Number: P06821

Hong Kong, 21 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2018

| | Notes | 2018 HK\$'000 | 2017 HK\$'000 (Re-presented) |
|--|-------|------------------|------------------------------------|
| Continuing operations | | | |
| Revenue | 6 | 143,859 | 152,531 |
| Other income and gains and losses | 8 | (1,403) | 3,399 |
| Changes in inventories of finished goods and work in progress | | (111,269) | (112,406) |
| Staff costs, including directors' remuneration | 14 | (26,077) | (34,462) |
| Depreciation | | (13,229) | (11,880) |
| Amortisation of land use rights | | (174) | (154) |
| Amortisation of other intangible assets | 21 | (378) | (983) |
| Gain arising from changes in fair value of investment properties | 17 | 40,824 | 9,641 |
| Gain on partial disposal of an associate | 42 | 67 | – |
| Impairment loss on trade receivables | | (1,922) | (1,589) |
| Other operating expenses | | (29,011) | (14,820) |
| Share of profit/(loss) of an associate | | 530 | (692) |
| Finance costs | 9 | (3,763) | (4,359) |
| Loss before income tax | 10(a) | (1,946) | (15,774) |
| Income tax | 11 | (9,499) | (5,069) |
| Loss from continuing operations | | (11,445) | (20,843) |
| Discontinued operations | | | |
| Loss from discontinued operations | 10(b) | (3,002) | (2,440) |
| Loss for the year | | (14,447) | (23,283) |
| Attributable to: | | | |
| Owners of the Company | | | |
| – From continuing operations | | (7,715) | (18,292) |
| – From discontinued operations | | (3,002) | (2,440) |
| | | (10,717) | (20,732) |
| Non-controlling interests | | (3,730) | (2,551) |
| Loss for the year | | (14,447) | (23,283) |

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2018

| | Notes | 2018 HK\$'000 | 2017 HK\$'000 (Re-presented) |
|--|---------|------------------|------------------------------------|
| 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) | 26,856 | 7,656 |
| Changes in fair value of equity instruments at fair value through other comprehensive income | | (13) | – |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of foreign operations | | (19,626) | 30,267 |
| Share of other comprehensive income of an associate | | 97 | 746 |
| Items reclassified to profit or loss: | | | |
| Exchange differences reclassified to profit or loss upon disposal of subsidiaries | 41 | – | 64 |
| Other comprehensive income for the year | | 7,314 | 38,733 |
| Total comprehensive (loss)/income for the year | | (7,133) | 15,450 |
| Total comprehensive (loss)/income attributable to: | | | |
| Owners of the Company | | | |
| – From continuing operations | | 6,639 | 2,482 |
| – From discontinued operations | | (3,531) | 8,283 |
| Non-controlling interests | | (10,241) | 4,685 |
| | | (7,133) | 15,450 |
| Losses per share from continuing and discontinued operations | 13 | | |
| – Basic | | (0.011) | (0.022) |
| – Diluted | | (0.011) | (0.022) |
| Losses per share from continuing operations | 13 | | |
| – Basic | | (0.008) | (0.020) |
| – Diluted | | (0.008) | (0.020) |

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2018

| | Notes | 2018 HK\$'000 | 2017 HK\$'000 |
|--|-------|------------------|------------------|
| Non-current assets | | | |
| Property, plant and equipment | 16 | 264,935 | 292,837 |
| Investment properties | 17 | 196,513 | 42,839 |
| Land use rights | 18 | 18,373 | 30,536 |
| Goodwill | 20 | 28,042 | 29,575 |
| Other intangible assets | 21 | 2,822 | 2,380 |
| Interest in an associate | 22 | 3,715 | 4,743 |
| Available-for-sale investments | 23 | – | 33 |
| Equity instruments measured at fair value through other comprehensive income | 23 | 20 | – |
| Total non-current assets | | 514,420 | 402,943 |
| Current assets | | | |
| Inventories | 24 | 2,748 | 13,844 |
| Trade receivables | 25 | 31,442 | 108,939 |
| Other receivables, deposits and prepayments | 26 | 85,117 | 80,703 |
| Investments held for trading | 27 | 299 | 400 |
| Cash and cash equivalents | 28 | 38,588 | 10,841 |
| Total current assets | | 158,194 | 214,727 |
| Total assets | | 672,614 | 617,670 |
| Current liabilities | | | |
| Trade payables | 29 | 22,083 | 95,694 |
| Other payables and accruals | 30 | 110,681 | 84,902 |
| Customers' deposits | | – | 7,235 |
| Financial liabilities at fair value through profit or loss | 31 | 12,907 | 8,011 |
| Loans from a major shareholder | 32 | 398 | 420 |
| Obligations under finance leases | 33 | 6,733 | 10,634 |
| Borrowings | 34 | 52,936 | 45,625 |
| Tax payable | | 493 | 1,678 |
| Total current liabilities | | 206,231 | 254,199 |
| Net current liabilities | | (48,037) | (39,472) |

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2018

| | Notes | 2018 HK\$'000 | 2017 HK\$'000 |
|---|-------|------------------|------------------|
| Non-current liabilities | | | |
| Loans from a major shareholder | 32 | 13,246 | 3,782 |
| Deferred tax liabilities | 35 | 27,154 | 8,396 |
| Obligations under finance leases | 33 | 2,956 | 7,085 |
| Total non-current liabilities | | 43,356 | 19,263 |
| Total liabilities | | 249,587 | 273,462 |
| NET ASSETS | | 423,027 | 344,208 |
| Equity | | | |
| Share capital | 36 | 63,999 | 58,181 |
| Reserves | | 338,737 | 255,495 |
| Equity attributable to owners of the Company | | 402,736 | 313,676 |
| Non-controlling interests | | 20,291 | 30,532 |
| TOTAL EQUITY | | 423,027 | 344,208 |

These financial statements were approved and authorised for issue by the board of directors on 21 March 2019.

Ma Zheng
Director

Wong Pui Yiu
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2018

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 (Note e) | Accumulated losses HK\$'000 | Total HK\$'000 | Non-controlling interests HK\$'000 | Total equity HK\$'000 |
|--|---------------------------|---|---|---|--|--|--|--------------------------------|-------------------|---------------------------------------|--------------------------|
| Balance at 1 January 2017 | 58,181 | 657,018 | 80,179 | 5,240 | 18,365 | 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: | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | - | - | - | - | 23,841 | - | - | - | 23,841 | 7,236 | 31,077 |
| Surplus on revaluation of properties transferred from property, plant and equipment and land use rights to investment properties, net of tax | - | - | - | - | - | - | 7,656 | - | 7,656 | - | 7,656 |
| 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 |

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 (Note e) | Financial assets at fair value through other comprehensive income HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 | Non-controlling interests HK\$'000 | Total equity HK\$'000 |
|--|---------------------------|---|---|---|--|--|--|---|--------------------------------|-------------------|---------------------------------------|--------------------------|
| Balance at 1 January 2018 | 58,181 | 657,018 | 80,179 | 5,109 | 42,226 | 28,525 | 7,656 | - | (565,218) | 313,676 | 30,532 | 344,208 |
| Loss for the year | - | - | - | - | - | - | - | - | (10,717) | (10,717) | (3,730) | (14,447) |
| Other comprehensive income: | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | - | - | - | - | (13,018) | - | - | - | - | (13,018) | (6,511) | (19,529) |
| Surplus on revaluation of properties transferred from property, plant and equipment and land use rights to investment properties, net of tax | - | - | - | - | - | - | 26,856 | - | - | 26,856 | - | 26,856 |
| Changes in fair value of equity instruments at fair value through other comprehensive income | - | - | - | - | - | - | - | (13) | - | (13) | - | (13) |
| Total comprehensive income | - | - | - | - | (13,018) | - | 26,856 | (13) | (10,717) | 3,108 | (10,241) | (7,133) |
| Equity-settled share-based transactions (Note 37) | - | - | - | - | - | 9,777 | - | - | - | 9,777 | - | 9,777 |
| Lapse of share options (Note 37) | - | - | - | - | - | (5,884) | - | - | 5,884 | - | - | - |
| Subscription of shares (Note 36) | 5,818 | 70,357 | - | - | - | - | - | - | - | 76,175 | - | 76,175 |
| Balance at 31 December 2018 | 63,999 | 727,375 | 80,179 | 5,109 | 29,208 | 32,418 | 34,512 | (13) | (570,051) | 402,736 | 20,291 | 423,027 |

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2018

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 and consultants over the vesting period. This reserve is dealt with in accordance with the accounting policy in Note 4(s).
- (e) Property revaluation reserve arose from a change in use from owner-occupied properties to investment properties carried at fair value.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2018

| | Notes | 2018 HK\$'000 | 2017 HK\$'000 (Re-presented) |
|--|------------|------------------|------------------------------------|
| Cash flows from operating activities | | | |
| Loss before income tax from continuing operations | | (1,946) | (15,774) |
| Loss before income tax from discontinued operations | | (3,002) | (2,440) |
| | | (4,948) | (18,214) |
| Adjustments for: | | | |
| Depreciation | 16 | 16,351 | 18,050 |
| Amortisation of land use rights | 18 | 614 | 671 |
| Amortisation of other intangible assets | 21 | 378 | 983 |
| Equity-settled share-based payment expenses | 14 & 37(b) | 9,777 | 10,626 |
| Bank interest income | 8 | (68) | (92) |
| Finance costs | 9 | 3,763 | 4,359 |
| Fair value loss on investments held for trading | 8 | 101 | 860 |
| (Gain)/loss on disposal of property, plant and equipment | | (2,981) | 105 |
| Change in fair value of financial liabilities at fair value through profit or loss | 8 | 4,896 | 7,779 |
| Written off of property, plant and equipment | 8 | 1,352 | 1,611 |
| Reversal of write down of inventories | | - | (2,926) |
| Reversal of impairment loss on inventories | | (2,215) | (1,948) |
| Reversal of impairment loss on property, plant and equipment | 8 | (2,002) | (9,675) |
| Gain arising from changes in fair value of investment properties | 17 | (40,824) | (9,641) |
| Share of (profit)/loss of an associate | | (530) | 692 |
| Impairment loss recognised on trade receivables | 25(b) | 6,267 | 4,065 |
| Recovery of impairment loss previously recognised on trade receivables | 25(b) | (3,312) | (7,611) |
| Gain on disposal of subsidiaries | 41 | - | (13,751) |
| Gain on partial disposal of an associate | 42 | (67) | - |
| | | (13,448) | (14,057) |
| Operating loss before working capital changes | | (13,448) | (14,057) |
| Decrease/(increase) in inventories | | 13,311 | (390) |
| Decrease/(increase) in trade receivables | | 74,542 | (57,821) |
| Increase in other receivables, deposits and prepayments | | (3,992) | (9,526) |
| (Decrease)/increase in trade payables | | (73,611) | 62,316 |
| (Decrease)/increase in other payables and accruals | | (9,204) | 33,948 |
| (Decrease)/increase in customers' deposits | | (7,235) | 1,988 |
| Effect of foreign exchange differences | | - | 12,980 |
| | | (19,637) | 29,438 |
| Cash (used in)/generated from operations | | (19,637) | 29,438 |
| Income tax paid | | (478) | (249) |
| Bank interest income received | | 68 | 92 |
| | | (20,047) | 29,281 |
| Net cash (used in)/generated from operating activities | | (20,047) | 29,281 |

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2018

| | Notes | 2018 HK\$'000 | 2017 HK\$'000 |
|---|-------|------------------|------------------|
| Cash flows from investing activities | | | |
| Purchases of property, plant and equipment | 40(a) | (34,408) | (84,566) |
| Disposal of subsidiaries, net of cash disposed | | – | 61,050 |
| Proceeds from partial disposal of an associate | 42 | 1,520 | – |
| Acquisition of a subsidiary, net of cash acquired | 43 | – | (11,025) |
| Purchases of intangible assets | | (910) | – |
| Proceeds from disposal of property, plant and equipment | | 2,981 | 2,410 |
| Net cash used in investing activities | | (30,817) | (32,131) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | 21,060 | 48,026 |
| Repayment of borrowings | | (11,671) | (41,389) |
| Repayment of obligations under finance leases | | (9,708) | (10,768) |
| Proceeds from subscription of shares | | 76,175 | – |
| Loan from a major shareholder | | 10,059 | 4,202 |
| Repayment of loan to a major shareholder | | (426) | – |
| Interest paid | | (3,763) | (4,359) |
| Net cash generated from/(used in) financing activities | | 81,726 | (4,288) |
| Net increase/(decrease) in cash and cash equivalents | | 30,862 | (7,138) |
| Cash and cash equivalents at beginning of year | | 10,841 | 17,512 |
| Effect of foreign exchange rate changes | | (3,115) | 467 |
| Cash and cash equivalents at end of year | | 38,588 | 10,841 |
| Analysis of the balances of cash and cash equivalents | | | |
| Cash at banks and in hand | | 38,588 | 10,841 |

Notes to the Financial Statements

31 DECEMBER 2018

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 in Suite 701, Ocean Centre, 5 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong. The Company's shares are listed on 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.

During the year, the Group decided to cease its manufacture and sale of PE pipes business. Details of discontinued operations are set out in Note 10(b).

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2018

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.

| | |
|---|---|
| Annual Improvements to HKFRSs 2014-2016 Cycle | Amendments to HKAS 28, Investments in Associates and Joint Ventures |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers |
| Amendments to HKFRS 15 | Revenue from Contracts with Customers (Clarifications to HKFRS 15) |
| Amendments to HKAS 40 | Transfers of Investment Property |
| HK(IFRIC)–Int 22 | Foreign Currency Transactions and Advance Consideration |

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKAS 28, Investments in Associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

Notes to the Financial Statements

31 DECEMBER 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

(a) Adoption of new/revised HKFRSs – effective on 1 January 2018 (Continued)

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKAS 28, Investments in Associates and Joint Ventures (Continued)

The adoption of these amendments has no impact on these financial statements as the Group is not a venture capital organisation.

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 adoption of these amendments has no impact on these financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

HKFRS 9 – Financial Instruments

Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at fair value through profit or loss, 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. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group’s accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group’s classification and measurement of financial assets is set out below.

Notes to the Financial Statements

31 DECEMBER 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

(a) Adoption of new/revised HKFRSs – effective on 1 January 2018 (Continued)

HKFRS 9 – Financial Instruments (Continued)

Classification and measurement of financial instruments (Continued)

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“FVTPL”), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost (“amortised costs”); (ii) financial assets at fair value through other comprehensive income (“FVOCI”); or (iii) FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the “solely payments of principal and interest” criterion, also known as “SPPI criterion”). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions are met and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment’s fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Notes to the Financial Statements

31 DECEMBER 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

(a) Adoption of new/revised HKFRSs – effective on 1 January 2018 (Continued)

HKFRS 9 – Financial Instruments (Continued)

Classification and measurement of financial instruments (Continued)

The following accounting policies would be applied to the Group’s financial assets as follows:

| | |
|-------------------------------|--|
| FVTPL | FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss. |
| Amortised cost | Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss. |
| FVOCI (equity instruments) | Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income is recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. |

As of 1 January 2018, certain listed equity investments were reclassified from available-for-sale financial assets at fair value to FVOCI. The Group intends to hold these equity investments for long term strategic purposes. Under HKFRS 9, the Group has designated these equity investments at the date of initial application as measured at FVOCI. As a result, financial assets with a fair value of HK\$33,000 was reclassified from available-for-sale financial assets at fair value to FVOCI on 1 January 2018.

The Group had available-for-sale investments as at 1 January 2018, the opening balance of available-for-sale financial assets reserve was HK\$Nil and therefore, there was HK\$Nil transferred to FVOCI.

Notes to the Financial Statements

31 DECEMBER 2018

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2018 (Continued)

HKFRS 9 – Financial Instruments (Continued)

Classification and measurement of financial instruments (Continued)

The following table summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

| Financial assets | Original classification under HKAS 39 | New classification under HKFRS 9 | Carrying amount | Carrying amount |
|---------------------------|---------------------------------------|----------------------------------|------------------------------------|------------------------------------|
| | | | as at 1 January 2018 under HKAS 39 | as at 1 January 2018 under HKFRS 9 |
| | | | HK\$'000 | HK\$'000 |
| Listed equity investments | Held-for-trading (at fair value) | FVTPL | 400 | 400 |
| Listed equity investments | Available-for-sale (at fair value) | FVTOCI | 33 | 33 |
| Trade receivables | Loans and receivables | Amortised cost | 108,939 | 108,939 |
| Other receivables | Loans and receivables | Amortised cost | 65,267 | 65,267 |
| Cash and cash equivalents | Loans and receivables | Amortised cost | 10,841 | 10,841 |

Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". HKFRS 9 requires the Group to recognise ECL for trade receivables and financial assets at amortised costs earlier than HKAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Notes to the Financial Statements

31 DECEMBER 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

(a) Adoption of new/revised HKFRSs – effective on 1 January 2018 (Continued)

HKFRS 9 – Financial Instruments (Continued)

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets’ original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. The 12-months ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Notes to the Financial Statements

31 DECEMBER 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

(a) Adoption of new/revised HKFRSs – effective on 1 January 2018 (Continued)

HKFRS 9 – Financial Instruments (Continued)

Impact of the ECL model

Impairment of trade receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which recognises lifetime ECLs for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. No additional impairment for trade receivables as at 1 January 2018 is recognised as the amount of additional impairment measured under the ECLs model is immaterial.

Impairment of other receivables

Other financial assets at amortised cost of the Group include other receivables. Applying the ECLs model, no additional impairment of other receivable as at 1 January 2018 was recognised as the amount of the impairment measured under the ECLs model is immaterial.

Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the “DIA”):

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- The designation of certain investments in equity investments not held for trading as at FVOCI.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

Notes to the Financial Statements

31 DECEMBER 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

(a) Adoption of new/revised HKFRSs – effective on 1 January 2018 (Continued)

HKFRS 15 – Revenue from Contracts with Customers and amendments to HKFRS 15

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

HKFRS 15 introduces a five-step model when recognising revenue:

- 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

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated.

Based on the assessment of the Group, the adoption of HKFRS 15 from 1 January 2018 has resulted in changes of accounting policies of the Group as set out in Note 4(v), however, it does not have significant impact on the timing and amounts of revenue recognition of the Group, and no adjustment to the opening balance of equity at 1 January 2018 have been made. However, additional disclosures have been presented in the consolidated financial statements for the year ended 31 December 2018 as a result of adoption of HKFRS 15.

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 of 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 adoption of these amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously assessed transfers.

Notes to the Financial Statements

31 DECEMBER 2018

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2018 (Continued)

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 interpretations 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 adoption of this interpretation has no impact on these financial statements as the Group has not paid or received advance consideration in a foreign currency.

(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.

| | |
|---|--|
| HKFRS 16 | Leases ¹ |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments ¹ |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material ³ |
| Amendments to HKFRS 3 | Definition of a Business ² |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation ¹ |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures ¹ |
| Annual Improvements to HKFRSs 2015-2017 Cycle | Amendments to HKFRS 3, Business Combinations ¹ |
| Annual Improvements to HKFRSs 2015-2017 Cycle | Amendments to HKAS 12, Income Taxes ¹ |
| Annual Improvements to HKFRSs 2015-2017 Cycle | Amendments to HKAS 23, Borrowing Costs ¹ |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴ |

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

² Effective for annual periods beginning on or after 1 January 2020

³ Effective for transactions that occur on or after 1 January 2020

⁴ The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

Notes to the Financial Statements

31 DECEMBER 2018

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 2018 amounted to HK\$11,776,000. 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 and lease liabilities.

HK(IFIC)-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.

Notes to the Financial Statements

31 DECEMBER 2018

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 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 HKAS 1 and HKAS 8 – Definition of Material

The amendments clarify the definition of material to make it easier for entities to make materiality judgements. The definition of material, an important accounting concept in HKFRSs, helps the entity decides whether information should be included in the financial statements.

The Group does not expect the adoption of these amendments will result in a significant impact on the Group’s results and financial position.

Amendments to HKFRS 3 – Definition of a Business

The amendments improve the definition of a business. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, the Board has provided supplementary guidance.

Distinguishing between a business and a group of assets is important because an acquirer recognises goodwill only when acquiring a business.

The Group does not expect the adoption of these amendments will result in a significant impact on the Group’s results and financial position.

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

The Group does not expect the adoption of these amendments will result in a significant impact on the Group’s results and financial position.

Amendments to HKAS 28 – Long-term Interests in Associates and Joint Ventures

The amendment clarifies that HKFRS 9 applies to long-term interests (“LTI”) in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these LTI before the impairment losses guidance within HKAS 28.

The Group does not expect the adoption of these amendments will result in a significant impact on the Group’s results and financial position.

Notes to the Financial Statements

31 DECEMBER 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

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

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

The Group does not expect the adoption of these amendments will result in a significant impact on the Group’s results and financial position.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

The Group does not expect the adoption of these amendments will result in a significant impact on the Group’s results and financial position.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

The Group does not expect the adoption of these amendments will result in a significant impact on the Group’s results and financial position.

Notes to the Financial Statements

31 DECEMBER 2018

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 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 does not expect the adoption of these amendments will have significant impact on the Group’s financial position and performance.

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 consolidated 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\$14,447,000 and at the end of the reporting period, it recorded net current liabilities of HK\$48,037,000.

The directors of the Company have assessed the situation and taken the following measures to improve the financial position and liquidity of the Group:

- (i) The Group continues to implement measures to tighten cost controls over various operating expenses in order to improve its profitability and to generate positive cash inflows from its operations;
- (ii) The Group obtained a revolving loan facility of up to RMB8,500,000 (approximately HK\$9,676,000) from a bank in the PRC for a five-year period ending 25 November 2023. As at 31 December 2018, the Group has drawn a loan of HK\$9,676,000 which is repayable by 26 November 2019 and the Group can continue to utilise this amount on the maturity date (Note 34(ii));

Notes to the Financial Statements

31 DECEMBER 2018

3. BASIS OF PREPARATION (Continued)

(b) Basis of measurement and going concern assumption (Continued)

- (iii) As set out in Note 34(iv), the Group had other loan of HK\$11,384,000 as at 31 December 2018 which was due for repayment on 19 March 2019. On 12 March 2019, the borrower has agreed to extend the maturity date to 19 May 2020; and
- (iv) As at 31 December 2018, the Group recorded construction costs of HK\$50,820,000 payable to a contractor. The Group subsequently settled the amount of HK\$22,768,000 in February 2019. On 12 March 2019, the Group and the contractor have agreed in writing to extend the repayment of the outstanding amount of HK\$28,052,000 by 30 April 2020.

The directors of the Company are of the opinion that as a result of the above measures, the Group will have sufficient working capital to meet its cash flows requirements in the next twelve months. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

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.

Notes to the Financial Statements

31 DECEMBER 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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.

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.

Notes to the Financial Statements

31 DECEMBER 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(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:

- 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.

Notes to the Financial Statements

31 DECEMBER 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Associates (Continued)

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.

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 2018

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 unit-of-production method or straight-line basis over their estimated useful lives as follows:

| | |
|------------------------|----------------------|
| Customer relationships | 10 years |
| Energy use right | unit per consumption |

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 2018

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 lease but not exceeding 4 years |
| Plant and machinery | 10% |
| Furniture, fixtures and office equipment | 20% – 33% |
| Motor vehicles | 20% |

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.

Notes to the Financial Statements

31 DECEMBER 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Property, plant and equipment (Continued)

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.

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

At the end of each reporting period, the Group or the 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;
- interest in an associate; and
- other intangible assets.

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.

Notes to the Financial Statements

31 DECEMBER 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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.

(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 Instruments (accounting policies applied from 1 January 2018)

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss (“FVTPL”), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Notes to the Financial Statements

31 DECEMBER 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Financial Instruments (accounting policies applied from 1 January 2018) (Continued)

(i) Financial assets (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through OCI. Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

FVTPL: Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Notes to the Financial Statements

31 DECEMBER 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Financial Instruments (accounting policies applied from 1 January 2018) (Continued)

(i) Financial assets (Continued)

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

(ii) Impairment loss on financial assets

The Group recognises loss allowances for ECL on trade receivables, financial assets measured at amortised cost and debt investments measured at FVOCI. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

Notes to the Financial Statements

31 DECEMBER 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Financial Instruments (accounting policies applied from 1 January 2018) (Continued)

(ii) Impairment loss on financial assets (Continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

(iii) Financial liabilities

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.

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.

Notes to the Financial Statements

31 DECEMBER 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Financial Instruments (accounting policies applied from 1 January 2018) (Continued)

(iii) *Financial liabilities (Continued)*

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

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.

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, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

(iv) *Financial liabilities at amortised cost*

Financial liabilities at amortised cost including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group 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.

Notes to the Financial Statements

31 DECEMBER 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Financial Instruments (accounting policies applied from 1 January 2018) (Continued)

(iv) *Financial liabilities at amortised cost (Continued)*

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 Trinomial 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.

(v) *Effective interest method*

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

(vi) *Derecognition*

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Notes to the Financial Statements

31 DECEMBER 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Financial Instruments (accounting policies applied from 1 January 2018) (Continued)

(vi) Derecognition (Continued)

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

(l) Financial Instruments (accounting policies applied until 31 December 2017)

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. Accordingly, the comparative financial information provided continues to be accounted for in accordance with the Group's previous accounting policy.

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.

Notes to the Financial Statements

31 DECEMBER 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Financial Instruments (accounting policies applied until 31 December 2017) (Continued)

(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.

(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 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Financial Instruments (accounting policies applied until 31 December 2017) (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.

Notes to the Financial Statements

31 DECEMBER 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Financial Instruments (accounting policies applied until 31 December 2017) (Continued)

(iv) Impairment (Continued)

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

- 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.
- 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 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Financial Instruments (accounting policies applied until 31 December 2017) (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.

(vii) *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.

(viii) *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.

Notes to the Financial Statements

31 DECEMBER 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Financial Instruments (accounting policies applied until 31 December 2017) (Continued)

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

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.

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.

(ix) *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.

(x) *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 Trinomial 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.

Notes to the Financial Statements

31 DECEMBER 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Financial Instruments (accounting policies applied until 31 December 2017) (Continued)

(xi) Derecognition of financial liabilities

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

(xii) 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.

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.

Notes to the Financial Statements

31 DECEMBER 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Leases (Continued)

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.

(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.

Notes to the Financial Statements

31 DECEMBER 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) Income taxes (Continued)

(ii) Deferred tax (Continued)

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.

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.

Notes to the Financial Statements

31 DECEMBER 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) Foreign currencies (Continued)

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.

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.

Notes to the Financial Statements

31 DECEMBER 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Employees' benefits (Continued)

(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.

(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.

Notes to the Financial Statements

31 DECEMBER 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(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.

(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 2018

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

(i) *Accounting policies applied from 1 January 2018*

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

Notes to the Financial Statements

31 DECEMBER 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(v) Revenue recognition (Continued)

(i) Accounting policies applied from 1 January 2018 (Continued)

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Manufacture and sale of PE pipes

Customers obtain control of the PE pipes when the goods are delivered to and have been accepted, without any right of return or rebate granted. Revenue is thus recognised upon when the customers accepted the PE pipes. There is generally only one performance obligation. Invoices are usually payable within 30 days. In the comparative period, revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which was taken as at the time of delivery and the title is passed to customer.

Transmission and distribution of natural gas

(a) Selling and distribution of natural gas

Revenue from selling and distribution of natural gas is recognised at a point in time when the control of the natural gas is transferred to the customer, that is upon delivery at the location specified in the contract. Revenue is recognised at the contractually stated price based on the quantity of natural gas delivered in accordance with meter readings. The Group recognises revenue on a gross basis as the Group controls the natural gas before transferring it to a customer. Invoices for selling and distribution of natural gas are issued on a monthly basis and are usually payable within 30 to 60 days.

Notes to the Financial Statements

31 DECEMBER 2018

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(v) Revenue recognition (Continued)

(i) Accounting policies applied from 1 January 2018 (Continued)

Transmission and distribution of natural gas (Continued)

(b) Management fee for natural gas transportation

Management fee income for natural gas transportation is recognised over time based upon volume delivered as customers simultaneously obtain and consumes the benefits of the Group's service as the Group performs. Invoices are usually payable within 30 to 60 days.

Trading of electronic components

Customers obtain control of electronic components, i.e. mobile phone flash memory, when goods are delivered to and have been accepted. Revenue is recognised upon when the customers accepted the goods. There is generally one performance obligation. No credit term was granted to the customer as payment was due when the sales invoices were issued for the customers. Contracts generally have no right of return and no variable consideration.

Rental income

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

Interest income

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

(ii) Accounting policies applied until 31 December 2017

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. Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease. 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 2018

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.

(b) Classification between investment properties and owner-occupied 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.

(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.

Notes to the Financial Statements

31 DECEMBER 2018

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

(d) Impairment of trade and other receivables

The loss allowances for trade and other receivables are based on assumptions about risk of default and expected ECLs rate. The Group uses judgement in making these assumptions and estimating the ECLs, based on the Group's past history, existing market conditions as well as forward looking estimates 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) 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);
- Equity instruments measured at fair value through other comprehensive income (Note 23);
- Investments held for trading (Note 24);
- Investments held for trading (Note 27); and
- 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.

Notes to the Financial Statements

31 DECEMBER 2018

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

(g) 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.

6. REVENUE

An analysis of the Group's revenue is as follows:

| | 2018 | 2017 |
|--|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Continuing operations | | |
| Revenue from contracts with customers | | |
| Trading of electronic components | 85,460 | 16,386 |
| Transmission and distribution of natural gas | 55,752 | 135,581 |
| Revenue from other sources | | |
| Gross rental income | 2,647 | 564 |
| | 143,859 | 152,531 |
| Discontinued operations | | |
| Revenue from contracts with customers | | |
| Sale of PE pipes | 29,365 | 42,377 |
| | 173,224 | 194,908 |

The trade receivables from contracts with customers amounted to HK\$31,442,000 (2017: HK\$108,939,000) as at 31 December 2018 (Note 25).

Notes to the Financial Statements

31 DECEMBER 2018

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 years ended 31 December 2018 and 2017. The segments are managed separately as each business offers different products and requires different business strategies. The following summary describes the operations of each of the Group's reportable segments:

Revenue from contracts with customer within the scope of HKFRS 15:

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

Revenue from other sources:

- 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 2018 and 2017. 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

31 DECEMBER 2018

7. SEGMENT REPORTING (Continued)

(a) Reportable segments

For the year ended 31 December 2018

| | Continuing operations | | | Discontinued operations | | |
|--|--|--|---------------------------------|-------------------------|--|-------------------|
| | Transmission and distribution of natural gas HK\$'000 | Trading of electronic components HK\$'000 | Property investment HK\$'000 | Total HK\$'000 | Manufacture and sale of PE pipes HK\$'000 | Total HK\$'000 |
| Revenue from external customers | 55,752 | 85,460 | 2,647 | 143,859 | 29,365 | 173,224 |
| Reportable segment (loss)/profit | (5,768) | 63 | 44,586 | 38,881 | (3,002) | 35,879 |
| Reportable segment assets | 324,444 | 10,757 | 232,976 | 568,177 | 9,916 | 578,093 |
| Reportable segment liabilities | (57,040) | (16,582) | (81,398) | (155,020) | (3,503) | (158,523) |
| Other segment information: | | | | | | |
| Bank interest income | 12 | 5 | - | 17 | 96 | 113 |
| Unallocated | | | | | | 51 |
| Total bank interest income | | | | | | 164 |
| Share of profit of an associate | 530 | - | - | 530 | - | 530 |
| Gain on partial disposal of an associate | 67 | - | - | 67 | - | 67 |
| Depreciation | (12,255) | (645) | - | (12,900) | (3,122) | (16,022) |
| Unallocated | | | | | | (329) |
| Total depreciation | | | | | | (16,351) |
| Amortisation of land use rights | (174) | - | - | (174) | (440) | (614) |
| Amortisation of other intangible assets | (378) | - | - | (378) | - | (378) |
| Impairment loss on trade receivables | (735) | (300) | (887) | (1,922) | (1,033) | (2,955) |
| Reversal of impairment loss on inventories | - | - | - | - | 2,215 | 2,215 |
| Gain on disposal of property, plant and equipment | - | - | - | - | 2,981 | 2,981 |
| Gain arising from changes in fair value of investment properties | - | - | 40,824 | 40,824 | - | 40,824 |
| Interest in an associate | 3,715 | - | - | 3,715 | - | 3,715 |
| Additions to non-current assets | 13,880 | - | 58,599 | 72,479 | 306 | 72,785 |

Notes to the Financial Statements

31 DECEMBER 2018

7. SEGMENT REPORTING (Continued)

(a) Reportable segments (Continued)

For the year ended 31 December 2017

| | Continuing operations | | | | Discontinued operations | |
|--|---|---|------------------------------|----------------|---|----------------|
| | Transmission and distribution of natural gas HK\$'000 | Trading of electronic components HK\$'000 | Property investment HK\$'000 | Total HK\$'000 | Manufacture and sale of PE pipes HK\$'000 | Total HK\$'000 |
| Revenue from external customers | 135,581 | 16,386 | 564 | 152,531 | 42,377 | 194,908 |
| Reportable segment (loss)/profit | (4,981) | (6,229) | 14,487 | 3,277 | (2,440) | 837 |
| Reportable segment assets | 434,180 | 16,146 | 42,839 | 493,165 | 83,826 | 576,991 |
| Reportable segment liabilities | (172,801) | (4,388) | (7,686) | (184,875) | (24,319) | (209,194) |
| Other segment information: | | | | | | |
| Bank interest income | 34 | 22 | – | 56 | 26 | 82 |
| Unallocated | | | | | | 10 |
| Total bank interest income | | | | | | 92 |
| Share of loss of an associate | (692) | – | – | (692) | – | (692) |
| Gain on disposal of subsidiaries | (1,238) | – | – | (1,238) | 14,989 | 13,751 |
| Depreciation | (10,502) | (839) | – | (11,341) | (6,170) | (17,511) |
| Unallocated | | | | | | (539) |
| Total depreciation | | | | | | (18,050) |
| Amortisation of land use rights | (128) | – | – | (128) | (517) | (645) |
| Unallocated of total amortisation of land use rights | | | | | | (26) |
| Total amortisation of land use rights | | | | | | (671) |
| Amortisation of other intangible assets | (983) | – | – | (983) | – | (983) |
| (Impairment loss)/reversal of impairment loss on trade receivables | (1,589) | – | – | (1,589) | 5,135 | 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) |
| Gain arising from changes in fair value of investment properties | – | – | 9,641 | 9,641 | – | 9,641 |
| Interest in an associate | 4,743 | – | – | 4,743 | – | 4,743 |
| Additions to non-current assets | 97,297 | 31 | – | 97,328 | 6,315 | 103,643 |
| Unallocated | | | | | | 8,216 |
| Total additions to non-current assets | | | | | | 111,859 |

Notes to the Financial Statements

31 DECEMBER 2018

7. SEGMENT REPORTING (Continued)

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

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|--------------------------------|------------------|
| Loss before income tax and discontinued operations | | |
| Total reportable segment's profit | 35,879 | 837 |
| Segment loss from discontinued operations | 3,002 | 2,440 |
| Unallocated other income and gains and losses | (4,874) | (8,315) |
| Corporate and other unallocated expenses | (32,190) | (6,377) |
| Finance costs | (3,763) | (4,359) |
| Consolidated loss before income tax from continuing operations | (1,946) | (15,774) |
| Assets | | |
| Total reportable segment's assets | 578,093 | 576,991 |
| Cash and cash equivalents | 38,588 | 10,841 |
| Unallocated corporate assets | 55,933 | 29,838 |
| Consolidated total assets | 672,614 | 617,670 |
| Liabilities | | |
| Total reportable segment's liabilities | (158,523) | (209,194) |
| Deferred tax liabilities | (27,154) | (8,396) |
| Unallocated corporate liabilities | (63,910) | (55,872) |
| Consolidated total liabilities | (249,587) | (273,462) |

Notes to the Financial Statements

31 DECEMBER 2018

7. SEGMENT REPORTING (Continued)

(c) Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods at a point in time, and the receipt of management fee for natural gas transportation over time and rental income recognised over the term of the relevant lease.

The Group derives revenue in the following product lines and geographical regions.

For the year ended 31 December 2018

| | Continuing operations | | | Discontinued operations | | Total HK\$'000 |
|---|--|--|---------------------------------|-------------------------|--|-------------------|
| | Transmission and distribution of natural gas HK\$'000 | Trading of electronic components HK\$'000 | Property investment HK\$'000 | Total HK\$'000 | Manufacture and sale of PE pipes HK\$'000 | |
| Primary geographical markets | | | | | | |
| Hong Kong | - | 85,460 | - | 85,460 | - | 85,460 |
| PRC | 55,752 | - | 2,647 | 58,399 | 29,365 | 87,764 |
| | 55,752 | 85,460 | 2,647 | 143,859 | 29,365 | 173,224 |
| Major products/services | | | | | | |
| Sale of goods | 32,107 | 85,460 | - | 117,567 | 29,365 | 146,932 |
| Management fee for natural gas transportation | 23,645 | - | - | 23,645 | - | 23,645 |
| Rental income | - | - | 2,647 | 2,647 | - | 2,647 |
| | 55,752 | 85,460 | 2,647 | 143,859 | 29,365 | 173,224 |

For the year ended 31 December 2017

| | | | | | | |
|-------------------------------------|----------------|---------------|------------|----------------|---------------|----------------|
| Primary geographical markets | | | | | | |
| Hong Kong | - | 14,973 | - | 14,973 | - | 14,973 |
| PRC | 135,581 | 1,413 | 564 | 137,558 | 42,377 | 179,935 |
| | 135,581 | 16,386 | 564 | 152,531 | 42,377 | 194,908 |
| Major products/services | | | | | | |
| Sale of goods | 135,581 | 16,386 | - | 151,967 | 42,377 | 194,344 |
| Rental income | - | - | 564 | 564 | - | 564 |
| | 135,581 | 16,386 | 564 | 152,531 | 42,377 | 194,908 |

Notes to the Financial Statements

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7. SEGMENT REPORTING (Continued)

(c) Disaggregation of revenue from contracts with customers (Continued)

The following table provides an analysis of the Group's revenue from external customers.

| | 2018 HK\$'000 | 2017 HK\$'000 |
|-------------------------|--------------------------------|------------------|
| Hong Kong | 85,460 | 16,386 |
| PRC (place of domicile) | 87,764 | 178,522 |
| | 173,224 | 194,908 |

All non-current assets other than financial instruments were located in the PRC as at 31 December 2018 and 2017.

(d) Information about major customers

For the year ended 31 December 2018, revenue from a customer in trading of electronic components segment amounted to HK\$85,417,000 and a customer in transmission and distribution of natural gas segment amounted to HK\$23,419,000, and each contributed to 10% or more of the Group's total revenue.

For the year ended 31 December 2017, revenue from two customers in the transmission and distribution of natural gas segment amounted to HK\$39,745,000 and HK\$38,275,000 respectively, and each contributed to 10% or more of the Group's total revenue.

8. OTHER INCOME AND GAINS AND LOSSES

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|--------------------------------|------------------|
| Continuing operations | | |
| Sundry income | 2,721 | 4,124 |
| Bank interest income | 68 | 66 |
| Reversal of impairment loss on property, plant and equipment (Note 16(iii)) | 2,002 | 9,675 |
| Written off of property, plant and equipment | (1,352) | (589) |
| Fair value loss on investments held for trading | (101) | (860) |
| Change in fair value of financial liabilities at fair value through profit or loss (Note 31) | (4,896) | (7,779) |
| Gain on disposal of subsidiaries | – | (1,238) |
| Exchange gains, net | 155 | – |
| | (1,403) | 3,399 |

Notes to the Financial Statements

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9. FINANCE COSTS

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|--------------------------------|------------------|
| Continuing operations | | |
| Interest on bank loans and other borrowings | 2,696 | 2,794 |
| Finance lease interest | 1,067 | 1,565 |
| | 3,763 | 4,359 |

10. LOSS BEFORE INCOME TAX

(a) Loss before income tax is arrived at after charging:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--|--------------------------------|------------------|
| Continuing operations | | |
| Cost of inventories sold | 121,102 | 125,925 |
| Auditor's remuneration | 1,520 | 1,420 |
| Minimum operating lease payments in respect of land and buildings | 4,340 | 3,617 |
| Depreciation of property, plant and equipment | | |
| – Owned | 8,197 | 8,339 |
| – Held under finance leases | 5,032 | 3,541 |
| | 13,229 | 11,880 |
| Equity-settled share-based payments to the consultants of the Group (<i>Note 37(b)</i>) | 7,200 | – |

Notes to the Financial Statements

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10. LOSS BEFORE INCOME TAX (Continued)

(b) Discontinued operations

During the year, the Group decided to cease its manufacture and sale of PE pipes business in light of persistently net loss suffered by the Group. Plant and machinery and inventories related to this business have been disposed of or written off, and the employees have been made redundant during the year ended 31 December 2018. Consequently, the operation has been discontinued.

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--|--------------------------------|------------------|
| Revenue | 29,365 | 42,377 |
| Other Income | 3,773 | 18,397 |
| Expenses | (36,140) | (63,214) |
| Loss before income tax | (3,002) | (2,440) |
| Income tax | – | – |
| Loss for the year from discontinued operations | (3,002) | (2,440) |
| Operating cash flows | (35,383) | (22,061) |
| Investing cash flows | 2,675 | 54,735 |
| Financing cash flows | – | – |
| Total cash flows | (32,708) | 32,674 |

For the purpose of presenting discontinued operations, the comparative consolidated statement of profit or loss and comprehensive income and the related notes have been re-presented as if the operations discontinued during the year had been discontinued at the beginning of the comparative period.

11. INCOME TAX

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--|--------------------------------|------------------|
| Current tax – PRC | | |
| – tax for the year | 357 | 239 |
| – over provision in respect of prior years | (1,064) | – |
| | (707) | 239 |
| Deferred tax liabilities (Note 35) | | |
| – current year | 10,206 | 4,830 |
| Total income tax for the year | 9,499 | 5,069 |

Notes to the Financial Statements

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11. INCOME TAX (Continued)

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

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:

| | 2018 | 2017 |
|--|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Loss from continuing operations before income tax | (1,946) | (15,774) |
| Loss from discontinued operations before income tax | (3,002) | (2,440) |
| Loss before income tax | (4,948) | (18,214) |
| Income tax credit calculated at the statutory PRC EIT tax rate of 25% (2017: 25%) | (1,237) | (4,553) |
| Effect of different tax rates of subsidiaries operating in Hong Kong | 2,186 | 2,618 |
| Tax effect of expenses not deductible for taxation purposes | 6,392 | 8,174 |
| Tax effect of non-taxable items | (873) | (1,709) |
| Tax effect of unused tax losses and other temporary differences not recognised | 4,968 | 4,281 |
| Utilisation of previously unrecognised tax losses | (873) | (3,742) |
| Over provision in respect of prior years | (1,064) | – |
| Income tax for the year | 9,499 | 5,069 |

12. DIVIDEND

The board of directors does not recommend the payment of any dividend for the year ended 31 December 2018 (2017: Nil).

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13. LOSS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data.

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|--------------------------------|------------------|
| Loss for the year attributable to owners of the Company | (10,717) | (20,732) |

From continuing operations

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data.

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|--------------------------------|------------------|
| Loss for the year from continuing and discontinued operations | (10,717) | (20,732) |
| Less: loss for the year from discontinued operations | (3,002) | (2,440) |
| Loss from continuing operations | (7,715) | (18,292) |

The denominator used for both loss per share from continuing and discontinued operations is the weighted average number of ordinary shares of 1,006,900,000 (2017: 930,898,000) in issue during the year.

The computation of diluted losses per share for the years ended 31 December 2018 and 2017 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 2018 and 2017 are the same.

From discontinued operations

Basic and diluted losses per share from the discontinued operations HK\$0.003 (2017: HK\$0.0026) per share, based on the loss for the year from the discontinued operations.

Diluted earnings per share are the same as basic earnings per share for the years ended 31 December 2018 and 2017 since the denominators used are the same as those detailed above for both basic and diluted losses per share.

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14. STAFF COSTS, INCLUDING DIRECTORS' REMUNERATION

| | 2018 | 2017 |
|--|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Salaries and allowances | 24,646 | 25,553 |
| Retirement benefit scheme contributions | 2,126 | 1,893 |
| Equity-settled share-based payment expenses | 2,577 | 10,626 |
| | 29,349 | 38,072 |
| Staff costs, including directors' remuneration is attributable to: | | |
| – Loss from continuing operations | 26,077 | 34,462 |
| – Loss from discontinued operations | 3,272 | 3,610 |
| | 29,349 | 38,072 |

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 |
|---|------------------|--|--|--|-------------------|
| 2018 | | | | | |
| Executive directors: | | | | | |
| Ms. Ma Zheng | - | 1,214 | 32 | 18 | 1,264 |
| Mr. Wong Pui Yiu | - | 802 | 136 | 18 | 956 |
| | - | 2,016 | 168 | 36 | 2,220 |
| Non-executive director: | | | | | |
| Mr. Ji Jianghua (appointed on 1 June 2018) | 110 | - | - | - | 110 |
| Independent non-executive directors: | | | | | |
| Mr. Wan Tze Fan Terence | 180 | - | 27 | - | 207 |
| Mr. Chung Chin Keung | 180 | - | 27 | - | 207 |
| Mr. Wang Xiao Bing | 180 | - | 27 | - | 207 |
| | 540 | - | 81 | - | 621 |
| | 650 | 2,016 | 249 | 36 | 2,951 |

Notes to the Financial Statements

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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 |
|--------------------------------------|------------------|--|--|--|-------------------|
| 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:

- (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(a) to the consolidated 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.

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

(b) Five highest paid individuals

The five highest paid individuals during the year included two (2017: two) directors, details of whose remuneration are set out in Note 15(a) above. Details of the remuneration of the remaining three (2017: three) non-director, highest paid individuals for the year are as follows:

| | 2018 | 2017 |
|--|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Basic salaries, share options and other benefits | 4,585 | 4,391 |
| Discretionary bonuses | 288 | 145 |
| Retirement benefit scheme contributions | 90 | 50 |
| | 4,963 | 4,586 |

Their emoluments fell within the following bands:

| | Number of individuals | |
|-------------------------------|------------------------------|------|
| | 2018 | 2017 |
| HK\$Nil – HK\$500,000 | 1 | – |
| HK\$500,001 – HK\$1,000,000 | 1 | – |
| HK\$1,000,001 – HK\$1,500,000 | 1 | 2 |
| HK\$1,500,001 – HK\$2,000,000 | – | – |
| HK\$2,000,001 – HK\$2,500,000 | – | 1 |
| | 3 | 3 |

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

| | Number of individuals | |
|-------------------------------|------------------------------|------|
| | 2018 | 2017 |
| HK\$500,001 – HK\$1,000,000 | 1 | – |
| HK\$1,000,001 – HK\$1,500,000 | – | 1 |

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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 2017 | 101,026 | 1,438 | 1,644 | 11,037 | 211,822 | 1,017 | 8,153 | 51,717 | 387,854 |
| Acquired from business combination | - | - | - | - | - | 25 | - | 2,403 | 2,428 |
| Additions | 2,273 | - | 132 | - | 2,255 | 72 | 2,539 | 93,877 | 101,148 |
| Disposals | - | - | - | - | (24,888) | (6) | - | (2,447) | (27,341) |
| Write off | - | - | (243) | (606) | (2,497) | - | (35) | - | (3,381) |
| Disposal of subsidiaries (Notes 41(a)&(b)) | (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 | 16,077 | 29 | 460 | 4,074 | 28,999 |
| At 31 December 2017 and 1 January 2018 | 82,433 | 1,454 | 1,642 | - | 321,308 | 1,060 | 11,951 | 16,542 | 436,390 |
| Additions | 135 | - | 55 | - | 2,807 | 162 | 852 | 11,368 | 15,379 |
| Disposals | - | - | - | - | (63,014) | - | - | - | (63,014) |
| Write off | - | (163) | (3) | - | - | (28) | (352) | (1,104) | (1,650) |
| Reclassification | 12,367 | - | - | - | 228 | - | - | (12,595) | - |
| Transfer to investment properties (Note(iii)) | (17,007) | - | - | - | - | - | - | - | (17,007) |
| Exchange realignment | (4,228) | (12) | (75) | - | (14,719) | (18) | (510) | (909) | (20,471) |
| At 31 December 2018 | 73,700 | 1,279 | 1,619 | - | 246,610 | 1,176 | 11,941 | 13,302 | 349,627 |
| Accumulated depreciation and impairment | | | | | | | | | |
| At 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 |
| Disposals | - | - | - | - | (20,324) | - | - | - | (20,324) |
| Write off | - | - | (320) | - | (1,226) | - | (224) | - | (1,770) |
| Reclassification | - | - | - | - | (148) | - | 148 | - | - |
| Disposal of subsidiaries (Notes 41(a)&(b)) | (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 and 1 January 2018 | 41,771 | 871 | 1,231 | - | 92,391 | 719 | 6,570 | - | 143,553 |
| Depreciation | 3,356 | 393 | 136 | - | 10,823 | 319 | 1,324 | - | 16,351 |
| Disposals | - | - | - | - | (63,014) | - | - | - | (63,014) |
| Write off | - | - | (3) | - | - | (27) | (268) | - | (298) |
| Transfer to investment properties (Note(iii)) | (6,342) | - | - | - | - | - | - | - | (6,342) |
| Exchange realignment | (1,090) | (1) | (54) | - | (4,134) | (14) | (265) | - | (5,558) |
| At 31 December 2018 | 37,695 | 1,263 | 1,310 | - | 36,066 | 997 | 7,361 | - | 84,692 |
| Net book value | | | | | | | | | |
| At 31 December 2018 | 36,005 | 16 | 309 | - | 210,544 | 179 | 4,580 | 13,302 | 264,935 |
| At 31 December 2017 | 40,662 | 583 | 411 | - | 228,917 | 341 | 5,381 | 16,542 | 292,837 |

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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 2018 were HK\$26,212,000 (2017: HK\$ 28,530,000) and HK\$709,000 (2017: HK\$939,000) respectively.
- (iii) During the year ended 31 December 2018, the use of certain properties previously held for own use has been changed to long term leasing purpose, as evidenced by the signing of the operational agreement with the PRC government for the change in use of the properties and commencement of long term operating leases. These properties, with total carrying amounts of HK\$20,190,000 (2017: HK\$12,096,000) (including HK\$9,525,000 (2017: HK\$5,970,000) classified as land use rights) and total fair values as at the date of change in use of HK\$58,000,000 (2017: 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, net of tax, of HK\$26,856,000 (2017: HK\$7,656,000) has been recognised in other comprehensive income and accumulated in the other property revaluation reserve and a reversal of impairment loss of HK\$2,002,000 (2017: 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 was 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% was applied to the cash flow projections for the budget periods. The projected cash flows were discounted using post-tax discount rate of 17.1%. The key assumptions had 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 was based on is categorised as a Level 3 measurement. Based on the results of this impairment review, the directors considered no impairment loss on the property, plant and equipment related to the CGU was required for the year ended 31 December 2017.

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17. INVESTMENT PROPERTIES

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 the end of the reporting period 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:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--|--------------------------------|------------------|
| Opening balance | 42,839 | – |
| Fair values of property, plant and equipment and land use rights as at date of transfer into investment properties | 58,000 | 32,418 |
| Additions | 56,496 | – |
| Gain from remeasurement to fair value | 40,824 | 9,641 |
| Exchange realignment | (1,646) | 780 |
| Closing balance | 196,513 | 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

| | 2018 | 2017 |
|--------------------|--|-----------------------|
| Term yield | 6% | 6% |
| Reversionary yield | 6.5% | 6.5% |
| Market rental | RMB11.5 to RMB12 per square meter | 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. There were no changes to the valuation techniques during the year.

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

During the years ended 31 December 2018 and 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.

As at 31 December 2018, certain of the Group's investment properties with aggregate amount of approximately HK\$100,397,000 (2017: HK\$Nil) were pledged to secure the other loan granted to the Group (Note 34(iv)).

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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:

| | 2018 | 2017 |
|--|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Outside Hong Kong, held under medium-term lease | 18,373 | 30,536 |
| At 1 January | 30,856 | 28,361 |
| Acquired through business acquisition (Note 43) | – | 8,687 |
| Disposal of a subsidiary (Note 41(a)) | – | (2,153) |
| Transfer to investment properties (Note 16(iii)) | (9,525) | (5,970) |
| Amortisation | (614) | (671) |
| Exchange difference | (1,602) | 2,602 |
| At 31 December | 19,115 | 30,856 |
| Less: Current portion included in other receivables, deposits and prepayments | (742) | (320) |
| Non-current portion | 18,373 | 30,536 |

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19. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2018 were as follows:

| Name of company | Place of incorporation/ establishment and operation | Particulars of issued and paid up capital | Proportion of ownership interest | | | Principal activity |
|---|---|---|----------------------------------|---------------------|--------------------|---|
| | | | Group's effective interest | Held by the Company | Held by subsidiary | |
| 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 HK\$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\$20,696,000 | 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 China Primary Natural Gas Pipeline Company Limited ("Wuhu Shengyuteng") (Note (iii)) | PRC | RMB50,000,000 | 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 |
| Yicheng City Yiling District China Primary Thermal Power Limited | PRC | RMB100,000,000 | 100% | – | 100% | Operating of heat and power cogeneration plant |

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19. PARTICULARS OF SUBSIDIARIES (Continued)

Particulars of the Company's principal subsidiaries as at 31 December 2018 were as follows:
(Continued)

| Name of company | Place of incorporation/ establishment and operation | Particulars of issued and paid up capital | Proportion of ownership interest | | Principal activity | |
|--|---|---|----------------------------------|---------------------|--------------------|---|
| | | | Group's effective interest | Held by the Company | | |
| 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 |
| 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 |
| Huaining China Primary Energy 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 |

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19. PARTICULARS OF SUBSIDIARIES (Continued)

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.

20. GOODWILL

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|--------------------------------|------------------|
| At 1 January | 29,575 | 29,364 |
| Acquired through business combination (Note 43) | – | 3,940 |
| Derecognised on disposal of a subsidiary (Note 41(a)) | – | (6,165) |
| Exchange realignment | (1,533) | 2,436 |
| At 31 December | 28,042 | 29,575 |

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20. GOODWILL (Continued)

Impairment testing on goodwill

The Group recognised goodwill in total of HK\$28,042,000 (2017: HK\$29,575,000) 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 the three CGUs represented by these three businesses acquired, as follows:

| | HK\$'000 |
|---------------------|----------|
| CGU 1 | 16,605 |
| CGU 2 | 7,433 |
| CGU 3 | 4,004 |
| <hr/> | |
| At 31 December 2018 | 28,042 |

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 by applying a long-term growth rate of 3% (2017: 3%) beyond the five-year. Post-tax discount rates of 17.87% (2017: 17.2%), 13.5% (2017: 12.39%) and 21.53% (2017: 21.42%) and gross margins of 87% (2017: 95-96%), 21-22% (2017: 17-24%) and 20.6% (2017: 13-26%) 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 demonstrated 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 | Energy use right HK\$'000 | Total HK\$'000 |
|--|---|---|---|--------------------------|
| Cost | | | | |
| At 1 January 2017 | 3,400 | 18,367 | – | 21,767 |
| Disposal of subsidiaries (Note 41(a)) | – | (19,509) | – | (19,509) |
| Exchange realignment | 258 | 1,142 | – | 1,400 |
| At 31 December 2017 and 1 January 2018 | 3,658 | – | – | 3,658 |
| Addition | – | – | 910 | 910 |
| Exchange realignment | (190) | – | – | (190) |
| At 31 December 2018 | 3,468 | – | 910 | 4,378 |
| Amortisation | | | | |
| At 1 January 2017 | 851 | 1,839 | – | 2,690 |
| Amortisation | 394 | 589 | – | 983 |
| Disposal of subsidiaries (Note 41(a)) | – | (2,344) | – | (2,344) |
| Exchange realignment | 33 | (84) | – | (51) |
| At 31 December 2017 and 1 January 2018 | 1,278 | – | – | 1,278 |
| Amortisation | 378 | – | – | 378 |
| Exchange realignment | (100) | – | – | (100) |
| At 31 December 2018 | 1,556 | – | – | 1,556 |
| Net book value | | | | |
| At 31 December 2018 | 1,912 | – | 910 | 2,822 |
| At 31 December 2017 | 2,380 | – | – | 2,380 |

Customer relationships was recognised by the Group upon the acquisition of the subsidiary in 2014 and is amortised on a straight-line method over the period of 10 years.

Energy use right was acquired during the year ended 31 December 2018. As the Group has not yet commenced the operation, hence no amortisation was provided for the year ended 31 December 2018.

The Group's goodwill (Note 20) and customer relationships listed above which arose from the business acquisition of Fujian CP Energy in 2014 are allocated to the CGU 1 in relation to the Group's natural gas business for impairment testing as detailed in Note 20.

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22. INTEREST IN AN ASSOCIATE

| | 2018 | 2017 |
|---------------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Share of net assets | 3,715 | 4,743 |

Details of the associate as at 31 December 2018 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 | 21% (Note) | Transmission and distribution of natural gas |

Note:

On 3 December 2018, the Group disposed of its 9% equity interest in the associate to an independent third party for a consideration of HK\$1,520,000 (Note 42).

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.

Summarised financial information of Minsheng:

| | 2018 | 2017 |
|-----------------------------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| As at 31 December | | |
| Current assets | 6,944 | 5,713 |
| Non-current assets | 28,479 | 30,163 |
| Current liabilities | (17,196) | (19,475) |
| Non-current liabilities | (537) | (591) |
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| Year ended 31 December | | |
| Revenue | 14,886 | 20,142 |
| Profit/(loss) for the year | 1,689 | (1,979) |
| Other comprehensive income | 191 | 746 |
| Total comprehensive income/(loss) | 1,880 | (1,233) |

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22. INTEREST IN AN ASSOCIATE (Continued)

Reconciliation to carrying amounts:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--|--------------------------------|------------------|
| Net asset as at 1 January | 15,810 | 17,043 |
| Profit/(loss) for the year | 1,689 | (1,979) |
| Other comprehensive income | 191 | 746 |
| Net asset as at 31 December | 17,690 | 15,810 |
| Group's effective interest of net assets of the associate | 21% | 30% |
| Group's share of interest in the associate as at 31 December | 3,715 | 4,743 |

23. AVAILABLE-FOR-SALE INVESTMENTS/EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 2018 HK\$'000 | 2017 HK\$'000 |
|------------------------------------|--------------------------------|------------------|
| Listed equity securities, at FVOCI | 20 | 33 |

The balance represented the listed equity securities which is listed and traded on the OTC Bulletin Board in the United States. The fair value was based on quoted market price as at 31 December 2018. The equity investment was irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

24. INVENTORIES

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|--------------------------------|------------------|
| Raw materials | – | 1,333 |
| Work in progress | – | 805 |
| Finished goods (net of provision of HK\$Nil (2017: HK\$2,344,000)) | 2,748 | 11,706 |
| | 2,748 | 13,844 |

During the year ended 31 December 2018, the Group made a reversal of provision of HK\$2,215,000 (2017: provision of HK\$1,948,000) to increase the carrying amount of finished goods to their net realisable value.

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25. TRADE RECEIVABLES

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--------------------------------|--------------------------------|------------------|
| Trade receivables | 40,727 | 145,770 |
| Less: provision for impairment | (9,285) | (36,831) |
| | 31,442 | 108,939 |

- (a) The Group's trading terms from sale 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, credit terms are within 30 days to 60 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. Further details on the Group's credit policy and credit risk arising from trade debtors are set out in Note 46(a).
- (b) The table below reconciled the provision for impairment loss of trade receivables for the year:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|--------------------------------|------------------|
| At 1 January | 36,831 | 37,669 |
| Amount written off during the year | (28,597) | – |
| Impairment loss recognised (Note (ii)) | 6,267 | 4,065 |
| Recovery of impairment loss previously recognised | (3,312) | (7,611) |
| Exchange realignment | (1,904) | 2,708 |
| At 31 December | 9,285 | 36,831 |

Note:

- (i) The Group recognised impairment loss based on the accounting policy stated in Note 4(k)(ii).
- (ii) During the year, the Group recognised the impairment loss of trade receivables of HK\$4,264,000 (2017: HK\$Nil) by using the lifetime expected credit loss provision to measure collectively for customers who are not being assessed individually under HKFRS 9. On the other hand, the Group individually assessed the credit loss of trade receivables which have been long outstanding and management assessed them to be irrecoverable. Impairment loss of these trade receivables of HK\$2,003,000 (2017: HK\$4,065,000) was recognised during the year. The Group does not hold any collateral over these balances.

Notes to the Financial Statements

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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:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|----------------|--------------------------------|------------------|
| Within 30 days | 7,039 | 93,654 |
| 31 – 60 days | 2,603 | 4,889 |
| 61 – 90 days | 4,935 | 1,561 |
| Over 90 days | 16,865 | 8,835 |
| | 31,442 | 108,939 |

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

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--|--------------------------------|------------------|
| Not past due | 7,325 | 6,752 |
| Less than 31 days past due | 1,357 | 88,833 |
| 31 – 60 days past due | 4,711 | 1,911 |
| 61 – 90 days past due | 1,361 | 1,420 |
| Over 90 days but less than 1 year past due | 12,016 | 4,545 |
| More than 1 year past due | 4,672 | 5,478 |
| | 24,117 | 102,187 |
| | 31,442 | 108,939 |

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

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--|--------------------------------|------------------|
| Other receivables and deposits | 50,526 | 61,420 |
| Finance lease deposits | 3,256 | 4,853 |
| Value added tax recoverable | 18,530 | 4,066 |
| Prepayments | 13,762 | 21,689 |
| | 86,074 | 92,028 |
| Less: Provision for impairment loss on other receivables and prepayments | (957) | (11,325) |
| | 85,117 | 80,703 |

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

| | 2018 HK\$'000 | 2017 HK\$'000 |
|------------------------------------|--------------------------------|------------------|
| At 1 January | 11,325 | 10,528 |
| Amount written off during the year | (9,782) | – |
| Exchange realignment | (586) | 797 |
| At 31 December | 957 | 11,325 |

27. INVESTMENTS HELD FOR TRADING

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--|--------------------------------|------------------|
| Listed equity securities held at fair value – listed in Hong Kong | 299 | 400 |

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\$21,713,000 (2017: HK\$7,396,000). 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.

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29. TRADE PAYABLES

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

| | 2018 HK\$'000 | 2017 HK\$'000 |
|----------------|--------------------------------|------------------|
| Within 30 days | 251 | 91,412 |
| 31 – 60 days | 1,183 | 317 |
| 61 – 90 days | 3,513 | 25 |
| Over 90 days | 17,136 | 3,940 |
| | 22,083 | 95,694 |

30. OTHER PAYABLES AND ACCRUALS

| | 2018 HK\$'000 | 2017 HK\$'000 |
|-----------------------------|--------------------------------|------------------|
| Other payables and accruals | 106,920 | 84,902 |
| Rental deposit received | 3,761 | – |
| | 110,681 | 84,902 |

Other payables and accruals included the construction costs payable to contractors amounted to HK\$77,684,000 (2017: HK\$45,495,000).

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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).

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31. CONVERTIBLE BONDS (Continued)

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.

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 2018 and 2017 of HK\$1,016,000 and HK\$5,091,000 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 liabilities at fair value through profit or loss and equity component of the Convertible Bonds are as follows:

| | Financial liabilities at fair value through profit or loss | Convertible bonds equity reserve | Total |
|--|---|---|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2017 | (232) | (80,179) | (80,411) |
| Change in fair value | (7,779) | – | (7,779) |
| At 31 December 2017 and 1 January 2018 | (8,011) | (80,179) | (88,190) |
| Change in fair value | (4,896) | – | (4,896) |
| At 31 December 2018 | (12,907) | (80,179) | (93,086) |

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32. LOANS FROM A MAJOR SHAREHOLDER

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--|--------------------------------|------------------|
| Loans from a major shareholder comprised of: | | |
| – Current portion | 398 | 420 |
| – Non-current portion | 13,246 | 3,782 |
| | 13,644 | 4,202 |

The balance included a loan of RMB3,500,000 advanced by Ms. Ma Zheng, a director and major shareholder of the Company, to the Group in 2017. The loan is unsecured, interest bearing at 0.4552% per annum and repayable by instalments the last of which is due on 26 May 2020. Ms. Ma Zheng further advanced a loan of HK\$10,000,000 to the Group in 2018 and the loan is unsecured, interest-bearing at 5% per annum and repayable by 30 June 2020.

33. OBLIGATIONS UNDER FINANCE LEASES

| | Minimum lease payment 2018 HK\$'000 | Present value 2018 HK\$'000 | Minimum lease payment 2017 HK\$'000 | Present value 2017 HK\$'000 |
|--|--|--|---|--------------------------------------|
| Not later than one year | 7,260 | 6,733 | 11,646 | 10,634 |
| Later than one year and not later than five years | 3,151 | 2,956 | 7,426 | 7,085 |
| | 10,411 | 9,689 | 19,072 | 17,719 |
| Less: Future finance charges | (721) | | (1,353) | |
| Present value of lease obligations | 9,690 | | 17,719 | |
| Less: Due within one year, included under current liabilities | | (6,733) | | (10,634) |
| Due in the second to fifth years, included under non-current liabilities | | 2,956 | | 7,085 |

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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 and natural gas compressor (all included in the plant and machinery class of property, plant and equipment) with lease terms of 3 years. Interest rates under the leases ranged from 6.59% to 11.6% (2017: from 6.59% 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 RMB and approximate their fair values.

34. BORROWINGS

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|--------------------------------|------------------|
| Secured bank loan I due for repayment on demand (i) | 31,876 | 43,223 |
| Secured bank loan II due for repayment within one year (ii) | 9,676 | – |
| Unsecured bank loan III due for repayment within one year (iii) | – | 2,402 |
| Other loan (iv) | 11,384 | – |
| Total | 52,936 | 45,625 |

- (i) Bank loan I is repayable by 60 monthly instalments, commencing in July 2017 and contains repayable on demand clause. Bank loan I is secured by legal charge over two properties which are owned by Ms. Ma Zheng and Mr. Lin Jian Dong, a related party of Ms. Ma Zheng and personal guarantee by Ms. Ma Zheng. The average interest rates of this borrowing is 6.11% per annum for the year ended 31 December 2018 (2017: 5.95% per annum).
- (ii) The revolving loan is secured by the legal charge over the property which is owned by Ms. Chen Xiao Mi, the financial controller of a subsidiary of the Company and personal guarantees by Ms. Ma Zheng and Ms. Chen Xiao Mi. The loan bears interest at base rate of People's Bank of China plus 15% of the base rate per annum and is repayable within 1 year. This loan is repayable by 26 November 2018 and the Group can continue to utilise this amount on the maturity date.
- (iii) The revolving loan was unsecured, bore interest at 7.18% per annum and was fully settled during the year ended 31 December 2018.
- (iv) Other loan borrowed from an independent third party is secured by certain investment properties of the Group (Note 17), the corporate guarantee of a subsidiary of the Company and personal guarantees of Ms. Ma Zheng and two independent third parties. The loan is interest bearing at 1% per month and repayable by 19 March 2019. On 12 March 2019, the borrower has agreed to extend the maturity date to 19 May 2020.
- (v) 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 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 and 1 January 2018 | – | (711) | (7,685) | (8,396) |
| Charged to profit or loss for the year (Note 11) | – | – | (10,206) | (10,206) |
| Charged to other comprehensive income for the year | – | – | (8,952) | (8,952) |
| Exchange realignment | – | 38 | 362 | 400 |
| At 31 December 2018 | – | (673) | (26,481) | (27,154) |

As at 31 December 2018, the Group had unused tax losses arising in Hong Kong of HK\$1,733,000 (2017:HK\$1,733,000) and the PRC of HK\$86,497,000 (2017: HK\$98,576,000) 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 '000 | Amount HK\$'000 |
|---|-------------------------------------|---------------------------|
| Authorised: | | |
| Ordinary shares of HK\$0.0625 each at 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018 | 1,920,000 | 120,000 |
| Issued and fully paid: | | |
| Ordinary shares of HK\$0.0625 each at 1 January 2017, 31 December 2017 and 1 January 2018 | 930,898 | 58,181 |
| Subscription of shares (Note) | 93,089 | 5,818 |
| Ordinary shares of HK\$0.0625 each at 31 December 2018 | 1,023,987 | 63,999 |

Note:

On 12 February 2018, the Company entered into the subscription agreement to allot and issue 93,089,767 new shares at HK\$0.8183 per new share to the subscriber who is independent third party. The subscription of new shares was completed on 9 March 2018. Following the subscription of new shares, the amounts of HK\$5,818,000 and HK\$70,357,000 were credit to share capital and share premium account respectively.

37. SHARE OPTION SCHEME

(a) Equity-settled share option scheme

The Group maintained a share options scheme for employee or 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.

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37. SHARE OPTION SCHEME (Continued)

(a) Equity-settled 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 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)

(a) Equity-settled share option scheme (Continued)

Share options granted on 10 April 2015

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:

| Name or category of participant | Date of grant | Exercise period | Exercise price HK\$ | Number of share options | | |
|---------------------------------|---------------|---------------------------|------------------------|----------------------------------|------------------------|------------------------------------|
| | | | | Outstanding as at 1 January 2018 | Lapsed during the year | Outstanding as at 31 December 2018 |
| 2018 | | | | | | |
| 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 | 68,050,000 | (14,800,000) | 53,250,000 |
| Sub-total | | | | 68,050,000 | (14,800,000) | 53,250,000 |
| Total | | | | 74,470,000 | (14,800,000) | 59,670,000 |

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37. SHARE OPTION SCHEME (Continued)

(a) Equity-settled share option scheme (Continued)

| Name or category of participant | Date of grant | Exercise period | Exercise price HK\$ | Number of share options | | |
|---------------------------------|---------------|---------------------------|---------------------|----------------------------------|------------------------|------------------------------------|
| | | | | 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 |

14,800,000 (2017: 1,900,000) share options were lapsed upon resignation of certain employees during the year. Accordingly, HK\$5,884,000 (2017: HK\$626,000) was transferred from share option reserve to accumulated losses upon lapse of share options during the year. The weighted average remaining contractual life was 3.4 years (2017: 4.4 years).

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\$2,577,000 (2017: HK\$10,626,000) during the year ended 31 December 2018 (Note 14).

(b) Equity-settled service contracts

On 12 October 2018, the Company entered into the service contracts with the Group's investor relations consultants for a term of one year. In consideration of the services provided by the consultants, the Company granted 90,000,000 options that are exercisable from 12 October 2018 to 12 October 2019 (both dates inclusive). All options granted were at an exercise price of HK\$0.71 per share.

The fair value of the services on 12 October 2018 was HK\$7,200,000 which was based on the terms and conditions stated in the service contracts.

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37. SHARE OPTION SCHEME (Continued)

(b) Equity-settled service contract (Continued)

The weighted average remaining contractual life was 0.83 year. The share options had vested and exercisable as at 31 December 2018. No options were exercised during the year ended 31 December 2018.

The Company recognised the total expense of HK\$7,200,000 (Note 10) for the year ended 31 December 2018 in relation to share options granted by the Company to these consultants.

38. OPERATING LEASES

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:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|-------------------------------------|--------------------------------|------------------|
| Within one year | 7,388 | 2,749 |
| After one year but within ten years | 56,429 | 12,458 |
| | 63,817 | 15,207 |

At 31 December 2018, the Group leases its properties (Note 17) under operating lease arrangements which run for an initial period of five to ten years.

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 nine 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:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--|--------------------------------|------------------|
| Within one year | 3,502 | 3,160 |
| Later than one year and not later than two years | 2,645 | 628 |
| Later than two years and not later than five years | 3,587 | – |
| Later than five years | 2,042 | – |
| | 11,776 | 3,788 |

Notes to the Financial Statements

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39. CAPITAL COMMITMENTS

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--|--------------------------------|------------------|
| Contracted for but not provided: | | |
| – acquisition of property, plant and equipment | 8,423 | 12,242 |

40. NOTES SUPPORTING STATEMENT OF CASH FLOWS

(a) Non-cash transaction

During the year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK\$2,484,000 (2017: HK\$11,903,000).

(b) Reconciliation of liabilities arising from financing activities:

| | Convertible bonds (Note 31) HK\$'000 | Loans from a major shareholder (Note 32) HK\$'000 | Obligations under finance leases (Note 33) HK\$'000 | Borrowings (Note 34) HK\$'000 |
|--|---|---|---|-------------------------------------|
| At 1 January 2018 | 8,011 | 4,202 | 17,719 | 45,625 |
| Changes from cash flows: | | | | |
| Proceeds from borrowings | – | – | – | 21,060 |
| Repayment of borrowings | – | – | – | (11,671) |
| Interest paid | – | (207) | – | (2,489) |
| Loan from a major shareholder | – | 10,059 | – | – |
| Repayment of loan to a major shareholder | – | (426) | – | – |
| Repayment of obligations under finance leases | – | – | (9,708) | – |
| Finance lease interest | – | – | (1,067) | – |
| Total changes from financing cash flows | 8,011 | 13,628 | 6,944 | 52,525 |
| Exchange adjustments | – | (191) | (806) | (2,078) |
| Changes in fair value | 4,896 | – | – | – |
| Other changes: | | | | |
| Interest expense | – | 207 | – | 2,489 |
| Finance lease interest | – | – | 1,067 | – |
| New finance leases | – | – | 2,484 | – |
| Total other changes | 4,896 | 207 | 3,551 | 2,489 |
| At 31 December 2018 | 12,907 | 13,644 | 9,689 | 52,936 |

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41. DISPOSAL OF SUBSIDIARIES

- (a) 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 rights of natural gas operations | 17,165 |
| Inventories | 705 |
| Trade receivables | 6,008 |
| Other receivables, deposits and 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) |
| | <u>37,235</u> |

| | HK\$'000 |
|---|---------------|
| Consideration | 51,033 |
| Less: Net assets disposed of | (37,235) |
| Exchange translation reserve released to profit or loss upon disposal | (63) |
| | <u>13,735</u> |

Net cash inflow arising on disposal:

| | HK\$'000 |
|---------------------------------------|---------------|
| Cash consideration | 51,033 |
| Cash and cash equivalents disposed of | (1,989) |
| | <u>49,044</u> |

Notes to the Financial Statements

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41. DISPOSAL OF SUBSIDIARIES (Continued)

- (b) 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 and prepayments | 261 |
| Amounts due from related companies | 7,384 |
| Cash and cash equivalents | 1 |
| | <u>11,990</u> |
| | HK\$'000 |
| Consideration | 12,007 |
| Less: Net assets disposed of | (11,990) |
| Exchange translation reserve released to profit or loss upon disposal | (1) |
| | <u>16</u> |
| Gain on disposal | 16 |
| Net cash inflow arising on disposal: | |
| | HK\$'000 |
| Cash consideration | 12,007 |
| Cash and cash equivalents disposed of | (1) |
| | <u>12,006</u> |

Notes to the Financial Statements

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42. PARITAL DISPOSAL OF AN ASSOCIATE

On 3 December 2018, the Group disposed of its 9% equity interest of the associate, Minsheng, to an independent third party for a consideration of RMB1,520,000. The gain on partial disposal of the associate was as follows:

| | 2018 HK\$'000 |
|---|--------------------------|
| Proceeds received from partial disposal of Minsheng | 1,520 |
| Less: | |
| Carrying amount of disposed investment measured under equity method | (1,614) |
| Loss on disposal before reclassification of exchange reserve | (94) |
| Reclassification of OCI reserve into profit or loss | 161 |
| Gain on partial disposal of an associate | 67 |

43. 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 (Note 18) | 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 (Note 20) | 3,940 |

Notes to the Financial Statements

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43. ACQUISITION OF A SUBSIDIARY (Continued)

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 |
| <hr/> | |
| Net outflow of cash and cash equivalents included in cash flows from investing activities | (11,025) |

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 was for illustrative purposes only and was 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 was it intended to be a projection of future performance.

44. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation. During the year ended 2018, the Group paid loan interest of HK\$207,000 (2017: HK\$121,000) to Ms. Ma Zheng. Except for the loan interest paid to Ms. Ma Zheng and those disclosed elsewhere in these consolidated financial statements, the Group had no other significant related party transactions during the years ended 31 December 2018 and 2017.

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

Notes to the Financial Statements

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45. 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 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:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|----------------------------------|--------------------------------|------------------|
| Bank and other borrowings | 52,936 | 49,827 |
| Obligations under finance leases | 9,689 | 17,719 |
| Total debts | 62,625 | 67,546 |
| Total equity | 411,453 | 344,208 |
| Gearing ratio | 15% | 20% |

Notes to the Financial Statements

31 DECEMBER 2018

46. 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.

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 arising from cash and cash equivalents is limited because the counterparties are the major banks in PRC and Hong Kong with established credit ratings, for which the Group considers to have low credit risk. Given the high credit ratings of the banks, management does not expect any counterparties to fail to meet its obligations.

Investments are normally only in liquid securities quoted on a recognised stock exchange, except where entered into for long term strategic purposes. Transactions involving derivative financial instruments are with counterparties of sound credit standing and with whom the Group has a signed netting agreement. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations.

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 the customers operate also has an influence on credit risk, but to a lesser extent. As at 31 December 2018, the Group has a certain concentration of credit risk as 35% (2017: 65%) of the total trade receivables were due from the Group's two largest customers within trading of electronic components segment and transmission and distribution of natural gas segment respectively (2017: the Group's two largest customers was within the transmission and distribution of natural gas segment).

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

Notes to the Financial Statements

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46. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

| | Expected loss rate (%) | Gross carrying amount HK\$'000 | Loss allowance HK\$'000 | Net carrying amount HK\$'000 |
|---|---------------------------------------|---|--|---|
| Collective assessment | | | | |
| Current (not past due) | – | 7,325 | – | 7,325 |
| Less than 31 days past due | 0.06-1.36% | 1,359 | (2) | 1,357 |
| 31-60 days past due | 0.04-4.25% | 4,724 | (13) | 4,711 |
| 61-90 days past due | 0.17-6.32% | 1,402 | (41) | 1,361 |
| Over 90 days but less than 1 year past due | 1.21-20.93% | 13,492 | (1,476) | 12,016 |
| More than 1 year past due | 31.84-99.60% | 7,404 | (2,732) | 4,672 |
| | | 35,706 | (4,264) | 31,442 |
| Individual assessment | 100% | 5,021 | (5,021) | – |
| | | 40,727 | (9,285) | 31,442 |

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the group's view of economic conditions over the expected lives of the receivables.

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not individually credit-impaired related to a number of independent customers with good track record with the Group. Based on the lifetime ECLs assessment, the management estimated the impairment provision made for those receivables amounted to HK\$4,264,000 for the year ended 31 December 2018.

Receivables that were past due but individually credit-impaired related to balance of a number of independent customers which have been long outstanding and management assessed them to be irrevocable. As at 31 December 2018, HK\$2,003,000 of impairment loss of these trade receivables was recognised.

The movement in the loss allowance account in respect of trade receivables during the years ended 31 December 2018 and 2017 is set out to the consolidated financial statements.

Notes to the Financial Statements

31 DECEMBER 2018

46. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

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.

(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.

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46. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

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 |
|----------------------------------|-----------------------------|--|--|--|---|
| 2018 | | | | | |
| Trade payables | 22,083 | 22,083 | 22,083 | - | - |
| Other payables and accruals | 108,722 | 108,722 | 108,722 | - | - |
| Loans from a major shareholder | 13,644 | 13,954 | 10,685 | 3,269 | - |
| Obligations under finance leases | 9,689 | 10,411 | 7,260 | 3,151 | - |
| Borrowings | 52,936 | 52,936 | 52,936 | - | - |
| | 207,074 | 208,106 | 201,686 | 6,420 | - |
| | 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 | 81,432 | 81,432 | 81,432 | - | - |
| Loans from a major shareholder | 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 | - | - |
| | 244,672 | 246,526 | 235,036 | 6,611 | 4,879 |

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46. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

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 undiscouted 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 2018 | 52,936 | 56,542 | 20,531 | 21,668 | 14,343 |
| 31 December 2017 | 45,625 | 51,876 | 14,455 | 11,448 | 25,973 |

(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.

| | 2018 | | 2017 | |
|----------------------|------------------------------|-----------------|------------------------------|----------|
| | Effective interest rate % | HK'000 | Effective interest rate % | HK'000 |
| Variable rate | | | | |
| Borrowings | 5.852% | 52,936 | 5.945% | 45,625 |
| Bank balances | 0.424% | (38,566) | 0.833% | (10,631) |
| Total net borrowings | | 14,370 | | 34,994 |

It is estimated that as at 31 December 2018, 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\$144,000 (2017:HK\$350,000).

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46. FINANCIAL RISK MANAGEMENT (Continued)

(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 2018 and 2017 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.

47. 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 2018 and 2017 may be categorised as follows:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|--------------------------------|------------------|
| Financial assets | | |
| Loans and receivables at amortised cost (including cash and cash equivalents) | 122,855 | 185,047 |
| Investments held for trading at fair value through profit or loss | 299 | 400 |
| Available-for-sale investments, at fair value | – | 33 |
| Financial assets at fair value through other comprehensive income – Equity investments | 20 | – |
| Financial liabilities | | |
| Financial liabilities measured at amortised cost | 207,074 | 255,377 |
| Financial liabilities at fair value through profit or loss | 12,907 | 8,011 |

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

(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, loans from a major shareholder, 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 loans from a major shareholder 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.

(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).

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

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

| | 2018 | | | Total HK\$'000 |
|---|---------------------|---------------------|---------------------|-------------------|
| | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 | |
| Financial assets | | | | |
| Investments held for trading | | | | |
| – Listed | 299 | – | – | 299 |
| Financial assets at fair value through other comprehensive income | | | | |
| – Listed equity investments | 20 | – | – | 20 |
| Financial liabilities | | | | |
| Financial liabilities at fair value through profit or loss | – | – | 12,907 | 12,907 |
| | | | | |
| | 2017 | | | Total HK\$'000 |
| | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 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 |

There were no transfers between levels during the year.

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

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

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

| | 2018 HK\$000 | 2017 HK\$000 |
|--|-------------------------------|-----------------|
| At 1 January | (8,011) | (232) |
| Change in fair value recognised in profit or loss (included in other income and gains and losses) | (4,896) | (7,779) |
| At 31 December | (12,907) | (8,011) |

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

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48. HOLDING COMPANY'S STATEMENT OF FINANCIAL POSITION

| | Notes | 2018 HK\$'000 | 2017 HK\$'000 |
|--|-------|------------------|------------------|
| Non-current assets | | | |
| Property, plant and equipment | | 541 | 696 |
| Interests in subsidiaries | | 492,772 | 438,620 |
| Available-for-sale investments | | – | 33 |
| Equity instruments measured at fair value through other comprehensive income | | 20 | – |
| Total non-current assets | | 493,333 | 439,349 |
| Current assets | | | |
| Other receivables, deposits and prepayments | | 2,690 | 198 |
| Cash and cash equivalents | | 11,156 | 35 |
| Total current assets | | 13,846 | 233 |
| Total assets | | 507,179 | 439,582 |
| Current liabilities | | | |
| Other payables and accruals | | 2,268 | 3,328 |
| Amounts due to subsidiaries | | 158,456 | 157,533 |
| Financial liabilities at fair value through profit or loss | | 12,907 | 8,011 |
| Total current liabilities | | 173,631 | 168,872 |
| Net current liabilities | | (159,785) | (168,639) |
| NET ASSETS | | 333,548 | 270,710 |
| Equity | | | |
| Share capital | 36 | 63,999 | 58,181 |
| Reserves | 49 | 269,549 | 212,529 |
| TOTAL EQUITY | | 333,548 | 270,710 |

These financial statements were approved and authorised for issue by the board of directors on 21 March 2019.

Ma Zheng
Director

Wong Pui Yiu
Director

Notes to the Financial Statements

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49. RESERVES OF THE COMPANY

| | Share premium account HK\$'000 (Note) | Convertible bonds equity reserve HK\$'000 | Share option reserve HK\$'000 | Fair value through other comprehensive income reserve HK\$'000 | Accumulated losses HK\$'000 | Total equity HK\$'000 |
|---|---|---|--|--|-----------------------------------|-----------------------------|
| Balance at 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 and 1 January 2018 | 644,131 | 80,179 | 28,525 | – | (540,306) | 212,529 |
| Loss and total comprehensive income for the year | – | – | – | (13) | (23,101) | (23,114) |
| Subscription of shares (Note 36) | 70,357 | – | – | – | – | 70,357 |
| Equity-settled share-based transactions (Note 37) | – | – | 9,777 | – | – | 9,777 |
| Lapse of share options (Note 37) | – | – | (5,884) | – | 5,884 | – |
| Balance at 31 December 2018 | 714,488 | 80,179 | 32,418 | (13) | (557,523) | 269,549 |

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.

50. EVENTS AFTER THE REPORTING DATE

On 25 January 2019, the Group entered into a sale and purchase agreement to dispose of its entire 21% equity interest in Minsheng to an independent third party at a cash consideration of RMB10,500,000 (approximately HK\$11,954,000). The transaction was completed on 12 February 2019.

Particulars of Investment Properties

31 DECEMBER 2018

| | Location | Use | Tenure | Attributable interest of the Group |
|----|--|------------|-------------------|---|
| 1. | Factory building No. 1 No. 6 Ya Yuan Road Yao Ting District Yichang City Hubei Province, the PRC | Industrial | Medium term lease | 100% |
| 2. | Factory building No. 2 No. 6 Ya Yuan Road Yao Ting District Yichang City Hubei Province, the PRC | Industrial | Medium term lease | 100% |
| 3. | Factory building No. 3 No. 6 Ya Yuan Road Yao Ting District Yichang City Hubei Province, the PRC | Industrial | Medium term lease | 100% |
| 4. | Factory building No. 4 No. 6 Ya Yuan Road Yao Ting District Yichang City Hubei Province, the PRC | Industrial | Medium term lease | 100% |
| 5. | Factory building No. 5 No. 6 Ya Yuan Road Yao Ting District Yichang City Hubei Province, the PRC | Industrial | Medium term lease | 100% |
| 6. | Factory building No. 6 No. 6 Ya Yuan Road Yao Ting District Yichang City Hubei Province, the PRC | Industrial | Medium term lease | 100% |

Financial Summary

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

| | 2018 HK\$'000 | Year ended 31 December | | | |
|---------------------------------------|--------------------------------|-------------------------------|------------------|------------------|------------------|
| | | 2017 HK\$'000 | 2016 HK\$'000 | 2015 HK\$'000 | 2014 HK\$'000 |
| Revenue | 173,224 | 194,908 | 182,800 | 162,432 | 88,428 |
| Other income and gains and losses | 2,370 | 16,661 | 449 | (18,736) | (1,885) |
| Cost of sales and operating expenses | (176,779) | (225,424) | (237,934) | (230,500) | (132,223) |
| Operating loss | (1,185) | (13,855) | (54,685) | (86,804) | (45,680) |
| Finance costs | (3,763) | (4,359) | (3,353) | (3,176) | (521) |
| Loss before income tax | (4,948) | (18,214) | (58,038) | (89,980) | (46,201) |
| Income tax | (9,499) | (5,069) | (2,165) | (1,099) | (60) |
| Loss for the year | (14,447) | (23,283) | (60,203) | (91,079) | (46,261) |
| (Loss)/profit attributable to: | | | | | |
| Owners of the Company | (10,717) | (20,732) | (59,567) | (91,321) | (46,605) |
| Non-controlling interests | (3,730) | (2,551) | (636) | 242 | 344 |
| | (14,447) | (23,283) | (60,203) | (91,079) | (46,261) |

Assets and Liabilities

| | 2018 HK\$'000 | 31 December | | | |
|-------------------|--------------------------------|--------------------|------------------|------------------|------------------|
| | | 2017 HK\$'000 | 2016 HK\$'000 | 2015 HK\$'000 | 2014 HK\$'000 |
| Total assets | 672,614 | 617,670 | 476,956 | 550,241 | 373,556 |
| Total liabilities | (249,587) | (273,462) | (161,271) | (162,192) | (127,211) |
| | 423,027 | 344,208 | 315,685 | 388,049 | 246,345 |