中國基礎能源控股有限公司

China Primary Energy Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8117)

Annual Report 2016

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, 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.

Contents

Expressed in Hong Kong dollars ("HK$")

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

Corporate Information

Board of directors

Executive Directors

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

Independent Non-Executive Directors

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

Registered office, head office and principal place of business

Registered office

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

Head office and principal place of business

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

Company secretary

Mr. Wong Chun Sing

Compliance officer

Mr. Wong Pui Yiu

Audit committee

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

Nomination committee

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

Remuneration committee

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

Authorised representatives

Ms. Ma Zheng
Mr. Wong Pui Yiu

Principal bankers

OCBC Wing Hang Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

Share registrar and transfer office

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Stock code

8117

Website

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

Cayman Islands assistant secretary

Codan 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 2016.

Operation

2016 was a year full of changes and challenges. Many leaders or leading political groups of big countries of the world were changed. The political and economic environments were not stable at all. Economic growth in Asia region was slowing down after years of rapid growth. Fortunately, the People's Republic of China (the "PRC") was still the strongest growing economy in the region. Although the depreciation of Renminbi and the commencement of the interest increase period of the United States dollar in 2016 had put some uncertainty on the PRC economy, being a PRC based group, we were able to sustain in 2016. We believe it is an opportunity for us to expand and strengthen our business in such a volatile economic environment.

Our energy segment was performing well and transmission and distribution of natural gas was the core business segment of the Group in 2016. We have sold natural gas of approximately HK$148,998,000 in 2016. Natural gas is a kind of clean energy that most of the large countries, including PRC, are using and the extent of usage is growing rapidly. The PRC government has announced its policy to encourage businesses and citizens to use clean energy. The policy has benefited our natural gas business. In addition, the decrease in unit cost of natural gas in 2016 also facilitated the growth of the natural gas business of the Group. Despite of the disposal of certain smaller natural gas operations, our natural gas operations were still expanding in 2016.

On the other hand, the manufacturing and selling of Polyethylene pipes ("PE pipes") and Fibre reinforced plastic ("FRP") maintained a competitive position in 2016. In view of the fierce competition of the market of PE pipes, we were able to remain competitive by exploring new customers and leveraging on the synergy effect with the energy segment within the Group. PE pipes were used for the natural gas business and so reduced our construction costs of the natural gas business. Production of FRP began in 2016 and and there will be growing use of such product as it is a substitute of steel.

Results

Although the Group did not achieve profitability in 2016, revenue has significantly improved. Gross margin of the Group improved but was still not enough to cover the fixed costs of the Group. The energy segment has performed better than the manufacturing segment. We believe that increased revenue and improved effectiveness in the near future can definitely improve the results of the Group soon.

Chairman's Statement

Future Development

Definitely, the acquisition and disposal exercises in the last two years had strengthened the foundation and broaden the earnings base of the Group. With the continuing growth of the natural gas business, we are expanding our market share in the industry and are looking for every opportunity of growth. We believe their contributions will be positive and significant to the Group from 2017 onwards. New business in the natural gas energy segment is our direction.

For the manufacturing segment, we maintained the market share of the PE pipes business in 2016 and we are looking for ways to increase the revenue and market share of PE pipes from 2017 onwards. FRP business will commence to contribute in 2017.

As 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, we can achieve the target of the Group to develop into a large natural gas service provider and a leading manufacturer of PE pipes and FRP in the PRC. In the meantime, as mentioned several times before, we are still exploring 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. 2017 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, 23 March 2017

Management Discussion and Analysis

BUSINESS REVIEW

Revenue of the Group for the year ended 31 December 2016 increased when compared to the corresponding period in 2015. Such increase was mainly because in 2016, the natural gas business continued to contribute significant revenue to the Group. The board (the "Board") of directors (the "Director(s)") believes that revenue of the Group will be further improved with the development of the natural gas business and anticipated improvement of the Polyethylene pipes ("PE pipes") business. Therefore, the results of the Group will be improved accordingly.

After years of business transformation, the natural gas business has become the core business of the Group. Operating performance of the natural gas business segment continued to grow in 2016. 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. As a result of various acquisitions and investments of the natural gas business in the past two years, the Group operated the natural gas business in various areas and provinces in the PRC. Our customers include industrial and domestic customers. During the year under review, the Group disposed certain assets of some subsidiaries which had low profitability and high management cost. Similar disposals may occur again in the future. The Group will focus its resources in the development of piped natural gas business with commercial and industrial clients of a larger business scale. The Group is of the view that the natural gas business is still growing and will become the most significant business of the Group in the near future.

The business segment of the PE pipes has been the major business of the Group in previous years and continued as one of the businesses of the Group in 2016. The PE pipes include both water pipes and gas pipes. They are products used for construction and city development in the PRC. The Group's major customers are the government and public entities, or their suppliers, from different provinces and cities in the PRC. With the anticipated improvement of revenue and a strengthened customer portfolio, the PE pipes business will be improved in the long term.

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

Management Discussion and Analysis

Potential disposal

On 22 July 2016, 寧國中基能源有限公司 (Ningguo China Primary Energy Limited#) as the vendor, a wholly-owned subsidiary of the Company, entered into a framework agreement with 安徽省皖能港華天然氣有限公司 (Anhui Wenergy Ganghua Natural Gas Limited#) as the purchaser, in relation to the potential disposal (the "Potential Disposal") of certain natural gas related assets. Further announcement in respect of the Potential Disposal will be made by the Company as and when appropriate in compliance with the GEM Listing Rules.

Discloseable and connected transaction

On 28 November 2016, 福建中基能源有限公司 (Fujian China Primary Energy Limited#) (the "Vendor"), entered into the sale and purchase agreement (the "Sale and Purchase Agreement") with Mr. Chen Xin Zhou (the "Purchaser"), registered holder of 10% of the registered capital of 南靖縣中辰燃氣投資有限公司 (Nanjing Zhongchen Natural Gas Investment Company Limited#) (the "Target Company") before completion, pursuant to which the Vendor agreed to sell and the Purchaser agreed to acquire 71% registered capital of the Target Company (the "Sale Capital") for a consideration of RMB700,000.

Completion of the Sale and Purchase Agreement took place on the date of completion of registration of the transfer of Sale Capital with the relevant PRC authority, which was within thirty days from the date of signing of the Sale and Purchase Agreement. Upon completion, the Target Company has ceased to be a subsidiary of the Company.

Bank Loan

On 2 November 2015, 中基能源(深圳)有限公司 (China Primary Energy (Shenzhen) Limited#), a wholly-owned subsidiary of the Company (the "Borrower"), entered into a loan agreement with China Construction Bank Corporation Limited – Shenzhen City Branch (the "Bank"), whereby the Bank has agreed to advance to the Borrower a medium term loan of RMB35,000,000 (the "Bank Loan") for a term of five years. The Bank Loan is secured by the shareholdings of two subsidiaries of the Company and certain properties of a director and a director's family member. Each of Ms. Ma Zheng, the Chairman of the Company, and the Company has also executed a guarantee in favour of the Bank to secure the obligations of the Borrower under the Bank Loan.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue was approximately HK$182,800,000 for the year ended 31 December 2016, which represented an increase of approximately 12.5% when compared with last year's revenue of approximately HK$162,432,000. The Board believes that revenue of the Group will be further improved with the growing of the natural gas business and anticipated improvement of the manufacturing business.

During the year under review, audited loss before income tax was approximately HK$58,038,000 (2015: loss of approximately HK$89,980,000). The loss attributable to owners of the Company was approximately HK$59,567,000 (2015: loss of approximately HK$91,321,000). Significant loss is mainly due to insufficient revenue generated in the reporting period. In the current economic environment, the Board will continue to exercise stringent cost control and maintain a low and effective overheads structure and prudently utilise the Group's corporate resources to create wealth for the shareholders.

BUSINESS OUTLOOK AND PROSPECTS

From 2017 onwards, the Board is optimistic that the Group will perform much better with the expansion of the energy segment. Currently, the energy segment mainly consists of the natural gas business. The Group has developed a strong natural gas sales network. The network is still expanding and with the clean energy policy carried out by the PRC government, the management believes the natural gas business will grow steadily under the current economic environment and significant revenue will be contributed by the natural gas business. The energy segment will become the core business segment of the Group in the near future.

The PE pipes business of the manufacturing segment will continue to sustain in 2017. The management is exploring new markets and improving the factory capacity and effectiveness. On the other hand, fibre reinforced plastic products have been launched to the market and is heading for the growth stage. As a result, the manufacturing segment will be likely to perform better in coming years.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, net assets of the Group were approximately HK$315,685,000 (2015: approximately HK$388,049,000) while its total assets were approximately HK$476,956,000 (2015: approximately HK$550,241,000) including cash and bank balances of approximately HK$17,512,000 (2015: approximately HK$62,263,000).

Management Discussion and Analysis

FUNDING ACTIVITIES DURING THE YEAR

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

GEARING RATIO

As at 31 December 2016, current assets of the Group amounted to approximately HK$161,560,000 which included cash and bank balances of approximately HK$2,775,000 and approximately RMB13,205,000 (equivalent to HK$14,737,000), while current liabilities stood at approximately HK$113,365,000. The Group has borrowings of approximately HK$37,389,000. Equity attributable to owners of the Company amounted to approximately HK$292,285,000. In this regard, the Group was in a net assets position and had a gearing ratio of approximately 12.8% (borrowings to equity attributable to owners of the Company) as of 31 December 2016.

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. Although RMB depreciated in 2016, 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

Save as disclosed in the section headed "Bank Loan" above, as at 31 December 2016, no other assets of the Group were pledged. As at 31 December 2016, 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 the GEM of the Stock Exchange on 13 December 2001. As at 31 December 2016, the issued share capital of the Company was made up of 930,897,672 ordinary shares of HK$0.0625 each.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

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

SIGNIFICANT INVESTMENTS/FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group did not made any significant investment during the year ended 31 December 2016. No material plan for future investment was noted as at the date of this annual report.

EMPLOYEE INFORMATION

As at 31 December 2016, the Group had 8 full-time employees working in Hong Kong and 212 full-time employees working in the PRC. Total employees' remuneration (including Directors' remuneration) for the year under review amounted to approximately HK$41,243,000. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Biographical Details of Directors and Senior Management

Directors

Ms. Ma Zheng, aged 50

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 27 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 54

Executive Director

Mr. Wong joined the Group in February 2008. He has over 16 years of experience in business administration and corporate management. He is currently the general manager of Smart Honest Group Limited which has been a distributor of semiconductors since 2004.

Mr. Wan Tze Fan Terence, aged 52

Independent Non-executive Director

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

Biographical Details of Directors and Senior Management

Mr. Chung Chin Keung, aged 49

Independent Non-executive Director

Mr. Chung joined the Group in February 2008. Mr. Chung holds a bachelor degree of Business Administration from the Hong Kong Baptist University and a master degree in Business Administration from Manchester Business School. Mr. Chung is a fellow member of The Association of Chartered Certified Accountants, a fellow member of The Hong Kong Institute of Certified Public Accountants, an associate 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 24 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 49

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 15 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 46

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 23 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 2016.

Principal activities

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

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

Business review and future development

Business review of the operation of the Group for the year ended 31 December 2016 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 2016 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 62 to 155.

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 33 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 44 to the financial statements, respectively.

Distributable reserves

As at 31 December 2016 and 2015, the Company had no retained profit available for distribution to shareholders of the Company. However, in accordance with the laws of the Cayman Islands and the Company's articles of association ("Articles of Association"), the share premium account of HK$644,131,000 is, subject to solvency test, available for distribution to shareholders of the Company.

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.

Directors' Report

Pre-emptive rights

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

Financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 156.

Purchase, sale or redemption of securities

The Company had not redeemed any of its ordinary shares during the year ended 31 December 2016. 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 2016.

Directors

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

Executive Directors

Ms. Ma Zheng
Mr. Wong Pui Yiu

Independent Non-Executive Directors

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

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

Directors' Report

All other remaining Directors will continue in office.

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

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

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

Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on pages 11 and 12.

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 2016 and 1 February 2016 respectively. They are subject to termination by either party giving not less than three months' written notice. These service contracts are exempt from the shareholders' approval requirement under Rule 17.90 of the GEM Listing Rules.

Independence of independent non-executive directors

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

Directors' Report

Directors' interests

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

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

As at 31 December 2016, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

The approximate percentage of interests set out below is based on 930,897,672 ordinary shares in issue as at 31 December 2016.

(i) Long position in the ordinary shares of HK$0.0625 each in the Company as at 31 December 2016:

	Number of ordinary shares held		
Name of Director	**Type of interests**	**Number of ordinary shares**	**Approximate percentage of interests**
Ms. Ma Zheng	Beneficial	365,271,632	39.24%

Directors' Report

(ii) Long position in the underlying shares or debentures of the Company as at 31 December 2016:

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

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

Save as disclosed above, as at 31 December 2016, none of the Directors and chief executive of the Company had any other interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations, within the meaning of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Directors' Report

Share option

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

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

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

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

Directors' Report

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

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

As at 31 December 2016, total number of share options can be granted to qualified grantees or granted but not yet lapsed or cancelled were 169,459,767. As a result, 169,459,767 shares of the Company could be issued which represented about 18.20% of the issued share capital of the Company as at 31 December 2016 if all the share options were granted and exercised.

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:

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

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 2016, the Company had been notified that the following substantial shareholders having the following interests and short positions, being 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, in the Company. These interests are shown in addition to those disclosed above in respect of the Directors and chief executives:

The approximate percentage of interests set out below is based on 930,897,672 ordinary shares in issue as at 31 December 2016.

(i) Long position in the ordinary shares of HK$0.0625 each in the Company as at 31 December 2016:

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

Directors' Report

Notes:

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

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

(ii) Long position in the underlying shares or debentures of the Company as at 31 December 2016:

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

Note:

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

The Convertible Bonds were issued on 8 May 2015.

Directors' Report

Save as disclosed above, as at 31 December 2016, 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 61% of the total sales for the year, and sales to the largest customer included therein amounted to approximately 20%.

Purchases from the Group's largest supplier accounted for approximately 34% of the total purchases for the year and the five largest suppliers accounted for approximately 56% 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 2016.

Corporate governance

A report on the principal corporate governance practice adopted by the Company is set out on pages 28 to 39 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 2016, the Audit Committee is of the opinion that the financial statements of the Group for the year ended 31 December 2016 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 39 to the financial statements. The Directors are of the opinion that the related party transactions were conducted on normal commercial terms and in the ordinary course of business and did not require reporting pursuant to Chapter 20 of the GEM Listing Rules.

Competition and conflict of interests

During the year under review, none of the Directors, significant shareholders, substantial shareholders and any of their respective associates had been 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 41 to the financial statements.

Environmental policies and performance

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

Directors' Report

Besides the above two operating segments, generally, the Group is committed to maintain an environmental friendly corporation to conserve natural resources. The Group strives to minimise our environmental impacts by saving electricity and encouraging recycle of office supplies and other materials.

Compliance with relevant laws and regulations

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

Relationship with employees, customers and suppliers

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

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

Permitted indemnity provision

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

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

Directors' Report

Sufficiency of public float

The Company had maintained sufficient public float throughout the year ended 31 December 2016.

Contingent liabilities

As at 31 December 2016, the Directors were not aware of any material contingent liabilities.

Significant event after the reporting date

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, 23 March 2017

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 2016 contained in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (collectively referred as the "GEM Listing Rules"), with the exception of two deviations as set out under section (D) and (F) below. The application of the relevant principles and the reasons for the abovementioned deviations are contained in this report.

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

(B) Directors' securities transactions

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

(C) Board of directors

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

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

Corporate Governance Report

Board Meetings

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

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

The Board meets regularly and held 12 Board meetings in 2016. 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.

Corporate Governance 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.

The individual training record of each Director received for the year ended 31 December 2016 is summarised below:

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

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

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

Corporate Governance Report

(D) Chairman and chief executive officer

For the year 2016, we still did not have an officer with the title of "Chief Executive Officer". The Code envisages that the management of the Board should rest with the Chairman, whereas the day-to-day management of the Company's business should rest with the Chief Executive. Ms. Ma Zheng, the Chairman, is also a director of some of the Company's operating subsidiaries. This constitutes a deviation of code provision A.2.1 of the Code. The Board holds the view that this arrangement is appropriate for the Company but we do not compromise accountability and independent decision making for this since we have an audit committee, all members of which are independent non-executive Directors, to help to ensure the accountability and independence of Ms. Ma Zheng.

(E) Appointment and re-election of directors

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

(F) Independent non-executive directors

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

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

Corporate Governance Report

(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;

(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 2016, 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.

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 2016 and was attended by Mr. Wan Tze Fan Terence, Mr. Chung Chin Keung and Mr. Wang Xiao Bing.

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.

(I) Nomination committee

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

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

Corporate Governance Report

(J) Audit committee

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

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

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

The Group's 2016 annual report, 2016 quarterly reports and 2016 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 2016 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	12	4	1	1	1
Executive Directors					
Ms. Ma Zheng *(Chairman)*	12/12	4/4	0/1	0/1	1/1
Mr. Wong Pui Yiu	11/12	4/4	0/1	0/1	0/1
Independent non-executive Directors					
Mr. Wan Tze Fan Terence *(Committee Chairman)*	8/12	4/4	1/1	1/1	0/1
Mr. Chung Chin Keung	5/12	3/4	1/1	1/1	0/1
Mr. Wang Xiao Bing	8/12	4/4	1/1	1/1	0/1

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

The Directors acknowledge their responsibilities for preparing the financial statements of the Group for the year ended 31 December 2016.

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 55 to 61.

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$1,350,000 (2015: approximately HK$1,280,000) was charged to the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016 for audit services provided by the external auditor. No non-audit services was provided by the external auditor in 2016.

(L) Risk management and internal control

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

Risk management and internal control systems

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

Process used to identify, evaluate and manage significant risks

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

Corporate Governance Report

Main features of risk management and internal control systems

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

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

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

The IA Team performed review on the major operating units of the Group in the fourth quarter of 2016 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 improve, there has been no major deficiency noted in the areas of the Company's risk management and internal control systems being reviewed after implementation of recommendations of the internal control defects reported by the IA Team. Accordingly, the Board considered the risk management and internal control systems to be effective and have been implemented with adequate resources.

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

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

Corporate Governance Report

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

Effectiveness of the system

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

(M) Company secretary

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

(N) Communication with shareholders

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

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 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.

Corporate Governance Report

(P) Shareholders' rights

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

(Q) Right to convene extraordinary general meeting

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

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

Environmental, Social and Governance Report ("ESG Report")

I. Preamble

The Group actively adheres to environmental and social responsibility. The Board is ultimately responsible for leading the ESG works by establishing dedicated teams to manage ESG issues within each business division. Designated staff are assigned to enforce and supervise the implementation of relevant policies.

The Group is committed to making continuous improvements in environmental and social responsibility in order to meet the changing needs of an advancing society. The Group is pleased to present its ESG report this year to demonstrate its efforts in sustainable development.

II. Reporting Period and Scope of the ESG Report

This ESG report covers the operational boundary mainly including the business of manufacture and sale of polyethylene ("PE") pipes in Yichang City, The People's Republic of China (the "PRC"), transmission and distribution of natural gas in Fujian and Anhui Province, the PRC, and the Group's offices located in Hong Kong and Shenzhen for the financial year ended 31 December 2016. Brief details of corporate governance report are set out on pages 28 to 39 of this annual report.

The reporting period of the ESG report is for the financial year 2016, from 1 January 2016 to 31 December 2016, unless specifically stated otherwise.

III. Stakeholder Engagement

To conduct the materiality assessment in identifying and understanding the main concerns and material interests of stakeholders, the Group has engaged with its stakeholders, including employees, suppliers, customers and investors. Stakeholders are selected based on stakeholder influence and stakeholder dependence on the Group. Stakeholders with high influence and high dependence on the Group are selected by the management of the Group. The selected stakeholders have been invited to express their views and concerns on major social and environment issues. The stakeholder engagement has been conducted through online survey. For the ESG report, the Group has identified customer satisfaction, product quality and environmental aspect on manufacture and sale of PE pipes business as material concerns to stakeholders.

After assessing the feedback from internal and external stakeholders through an online survey, the Group has reviewed its sustainability strategies, practices and measures undertaken in 2016 and highlighted material and relevant aspects throughout the ESG report so as to align with the stakeholders' expectations.

Environmental, Social and Governance Report ("ESG Report")

IV. ENVIRONMENTAL SUSTAINABILITY

In recent decades, environmental protection issues are becoming more and more important as a result of global climate change, air and water pollution caused by human activities. The Group has been paying great attention to protecting the environment and taking the responsibility to curb global warming, not only through promoting and transmitting clean energy to more companies in need and collaboratively make contribution to reduce the global carbon emission, but also the Group runs its own manufacturing business in a sustainable manner and to produce green products. The Group adopts effective measures to achieve efficient use of resources, energy saving and waste reduction following the 3R Principle – Recycle, Reduce, Reuse. The PE pipes produced by the Group achieved the "Green Label" certification, which indicated that the Group is committed to following environmental protection requirements during the manufacturing process and conducting recycle process. Green oriented product means the implementation of green research, green production, green brand, green packaging, green transport and green sales. All of these aspects should emphasise the effective use of resources and minimise waste disposal. Development and production of the Group's PE pipes strictly follows the guideline of clean production and energy saving as described in the following sections.

A.1. Emissions

Transmission and distribution of the natural gas business

The natural gas business is becoming the core business of the Group with the continuous improvement on its operating performance in recent years, especially in view of the emphasis on use of clean energy by the PRC government. The Group endeavours to develop its natural gas business in an environmental sustainable manner and promotes clean energy – natural gas, as its contributions to curb climate change and reduce air pollution.

The Group's natural gas business is operating in compliance with Environmental Protection Law of the PRC (中華人民共和國環境保護法), Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), Provisions on the Administration of the Transport of Dangerous Chemicals of the PRC (危險化學品運輸管理規定), Circular Economy Promotion Law of the PRC (中華人民共和國循環經濟促進法) and related laws and regulations.

Environmental, Social and Governance Report ("ESG Report")

The wastewater and solid waste generated from the Group are mainly the domestic sewage and garbage by its staff from daily operating activities. The amount of sewage and garbage were not significant compared with that from the manufacturing of PE pipes business, and the Group has implemented simple policies on saving water resource and separately collecting garbage for appropriate recycle and reuse to reduce and manage the amount of sewage and garbage during daily operation.

Tetrahydrothiophene, known as THT, has been generally used as an odorant for the warning agent purpose in natural gas industry in the PRC. The Group has used THT with great caution and in strict compliance with relevant regulations by PRC government. The Group has recycled the plastic containers of THT on site to reduce solid waste and save packaging materials. Waste containers were properly handled according to the laws and regulations on hazardous waste management of the PRC. No other hazardous waste was generated during the transmission and distribution process.

The Green House Gas ("GHG") emission from the Group's natural gas segment is mainly generated from its purchased electricity consumed by daily operation. To reduce the amount of GHG emission, the Group implements several practical measures on saving energy as further described in the next section "Use of Resources".

PE pipes business

The Group's PE pipes business includes the manufacture and sale of PE pipes in Hubei Province. The Group conducted regular treatments on the wastes during the manufacturing process, and kept meticulous monitoring and controlling on the emissions including air emission, wastewater, solid waste and noise, to guarantee the emissions complied with the corresponding discharge standards of the PRC. The Group's PE pipes business is operating in compliance with the Environmental Protection Law of the PRC (中華人民共和國環境保護法), Law of the PRC on the Prevention and Control of Ambient Noise Pollution (中華人民共和國環境噪聲污染防治法), Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法).

The GHG emission of the Group's manufacture and sale of PE pipes is mainly generated from its purchased electricity consumed by the daily operation. With more and more emphasis on saving energy and curb global climate change by the Group's management, along with the effective implementation of the corresponding policies and measures by the Group's staff, the Group hopes to reach a positive reduction of the GHG emission from its production line progressively.

Environmental, Social and Governance Report ("ESG Report")

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

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

As the Group's manufacturing plant is far away from the residential area, mechanical noise is decaying 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.

A.2. Use of Resources

Transmission and distribution of the natural gas business

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

In order to promote better utilisation of water resources, the Group has executed the following measures during daily operation:

- 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;

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- 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.

The Group is committed to saving electricity from both production lines and daily operation in office by executing the following measures:

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

PE pipes business

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

Environmental, Social and Governance Report ("ESG Report")

The water resource was mainly consumed by daily usage from its staff and for product cooling process during manufacturing. The Group recycled the cooling water so that there would not incur large amount of water consumption. Besides, no industrial wastewater was generated from its production lines. The Group's PE pipes are certified by the Xinhua water saving label as the qualified water saving product. During the whole manufacturing process, the Group strictly follows water saving principle in production line and in staff daily usage. The Group uses 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 which consumes water with the vacuum dust collection system which does not consume water, so as to save a large amount of water.

In order to conserve natural resources, the Group does not consume significant amount of packaging materials of its PE pipes manufacture business.

A.3. The Environment and Natural Resources

The main natural resource consumed by the Group is paper from its office printing machines. To minimise the use of paper, the Group has put great efforts to implement the following policies:

- Source paper from environmental friendly supplier to indirectly reduce the number of trees loss in producing the same quantity of paper;
- Disseminate information by electronic means (i.e. via email or e-bulletin boards) as much as possible;
- Set duplex printing as the default mode for most network printers;
- By using "Think before print" posters and stickers as the reminder for the staff to avoid unnecessary printing in office;
- Place boxes and trays beside photocopiers as containers to collect single-sided paper for reuse and used paper for recycling;
- Encourage to use the back of old documents for printing or as draft paper; and
- Recycle used stationery whenever possible.

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V. SOCIAL SUSTAINABILITY

EMPLOYMENT AND LABOUR PRACTICES

B.1. Employment

The Group treasures talent as it is the most valuable assets and key driving factors for ensuring the success and sustainable development. The Group strives to provide the staff with a safe and suitable platform for professional career development and advancement. The Group's human resources policies strictly adhere to the applicable employment laws and regulations in Hong Kong and the PRC, including the Employment Ordinance (僱傭條例), Mandatory Provident Fund Schemes Ordinance (强制性公積金計劃條例), Minimum Wage Ordinance (最低工資條例), Company Law of the PRC (中國公司法), Labour Law of the PRC (中國勞動法) and Labour Contract Law of the PRC (中國勞動合同法) to provide employee benefits. The Group's Human Resources Department reviews and updates relevant company policies regularly in accordance with the latest laws and regulations.

Talent acquisition is vital in ensuring the sustainable development of the business. The Group prepares the "Year Recruitment Plan" and adopts a variety of initiatives to facilitate the recruitment of staff, such as internet, institutions' recruitment seminar and agents to attract talented employees. To attract high-calibre workforce, the Group offers competitive and fair remuneration and benefits based on individuals' performance and experiences. The Group also makes reference to market benchmarks. In order to motivate and reward existing management and employees, the Group conducts regular compensation review according to profitability of the Group, staff performance and market trend to ensure that they are recognised by the Group appropriately with regard to their working efforts and contributions. Key management staff are motivated by share options schemes as a long-term incentive. Meanwhile, any termination of employment contract should be based on reasonable and lawful grounds. The Group strictly prohibits any kinds of unfair or unreasonable dismissals.

The Group determines working hours and rest periods for employees in line with local employment laws and employment contracts with employees. In addition to statutory holidays stipulated by the employment law of local government such as the basic paid annual leave, employees may also be entitled to maternity leave, compassionate leave and paternity leave.

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To cultivate employees' sense of belonging, additional employee benefits include medical subsidies, hospitalisation scheme and early leave on special holidays. To cater the needs of employees working at manufacturing facilities, additional employee benefits include the provision of well-equipped dormitories. In 2016, the Group hosted a series of activities for its employees such as birthday parties and ball games. These events helped employees to relieve stress, and served to exemplify the Group's corporate culture of the spirit of solidarity and cohesion among its employees. Employees maintain timely and smooth communication with the management and colleagues within the Group through the emails, training, meetings and mobile communication tools. The interactive communication system benefits the Group's decision-making process and results in a barrier-free employer-employee relationship.

As an equal opportunity employer, the Group is committed to create 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 their 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 victimisation in accordance with relevant government legislation, ordinances and regulations such as Hong Kong's Disability Discrimination Ordinance and Sex Discrimination Ordinance. Disciplinary actions would be taken against any employee by Human Resource Department if there is any non-compliance or breach of legislation related to the equal opportunities policies.

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B.2. Health and Safety

To provide and maintain good working conditions and a safe and healthy working environment, the Group's safety and health policies are in line with various laws and regulations stipulated by the Government of Hong Kong and PRC, including the Occupational Safety and Health Ordinance (職業安全及健康條例) and the Production Safety Laws of the PRC (中國安全生產法). The Group strictly follows a number of operating health and safety standards including GB/T29639-2013, GBZ 1-2010, GB12011-2009, GB2811-2007 and sets up different internal manuals such as production safety emergency plan (生產安全事故應急預案) in order to provide a health and safety 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 and installed fire equipment such as automatic smoke spray system and powder fire extinguishers in working place. Besides, the Group sets up the emergency leading group (應急領導小組) for collecting emergency information and providing trainings to employees on the knowledge of hazardous chemicals and the use of rescue equipment. The Group commits to provide workplace safety by incorporating a range of occupational health and safety measures for all of its employees in the offices and production sites.

In addition, the Group prohibits smoking and drinking liquor in workplace, carries out the cleaning of air-conditioning systems and disinfection treatment of carpets and safety inspection regularly with an aim to protect employees from occupational hazards. Regular inspections and reviews are carried out by administrative department to examine the health and safety measures' effectiveness. Besides, the Group held regular health and safety work trainings to enhance the employees' health and safety awareness. The Group targets to achieve accident-free workplace environment.

Environmental, Social and Governance Report ("ESG Report")

B.3. Development and Training

The Group offers different training and development opportunities to its staff in order to strengthen work-related skills and knowledge and improve operational efficiency and productivity. The Group prepares the training course materials each year and provides in-house trainings to staff through network learning (網絡教學方式). The Group emphasises on staff's personal development. In 2016, the Group held a range of occupational training and development programmes such as understanding of corporate law, project management training and financial training. For newly recruited staff, the Group provides training with regard to their roles, positions, company policies and cultures. The Group aims to foster a learning culture that strengthens its employees' professional knowledge. Besides, the Group also encourages employees to attend external training/seminars/examinations and obtain certifications, which aim to enhancing their competitiveness and expanding their capacity through continuous learning.

B.4. Labour Standards

The Group strictly abides by the Employment Ordinance of Hong Kong, Labour Law of the PRC, Labour Contract Law of the PRC, Prohibition of Child Labour of the PRC (中國禁止使用童工規定), Protection of Minors Law of the PRC (中國未成年人保護法) and other related labour laws and regulations in Hong Kong, PRC and other operating regions to prohibit any child and forced labour employment. To combat illegal employment on child labour, underage workers and forced labour, all employees are required by the Group's human resources staff to provide valid identification document prior to the confirmation of employment to ensure that the applicants are lawfully employable. In the recruitment process, the provision of personal information must be true and effective. If there is any concealment of the facts, the Group has right to termination of employment in accordance with relevant laws and regulations.

Environmental, Social and Governance Report ("ESG Report")

OPERATING PRACTICES

B.5. Supply Chain Management

As a socially responsible enterprise, it is critical and vital to maintain and manage a sustainable and reliable supply chain. The Group has developed and implemented the Supplier Evaluation Criteria (供方評定准則) by conducting comprehensive evaluation of potential suppliers. Through the investigation of selected suppliers, the Group imposes strict standards on the quality of suppliers' goods and services, and reviews the suppliers' business license, previous track record, reputation, quality management system, production capacity, technical parameters, financial performance and their social and environmental responsibility annually so as to select appropriate suppliers as qualified suppliers. Qualified suppliers shall be reassessed every year. The past performance record are the most important factor in the assessment.

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

Environmental, Social and Governance Report ("ESG Report")

Transmission and distribution of the natural gas business

The main raw material used in natural gas business is liquefied natural gas ("LNG"). The Group principally engages in the supply of the LNG to the customers for industrial, commercial and household uses through sourcing of the LNG from the upstream suppliers including state-owned enterprises. The quality of LNG conforms to the national standard of GB17820. Since the LNG is a flammable and explosive gas, the safety of gas transportation is one of the main concerns in considering the suppliers. Besides, the Group strictly audits the supplier qualification for the aforesaid criteria to manage the social risk and environment risk on the supply chain. The Group generally entered into a long-term gas supply contract and yearly supplemental agreement according to the actual demand with the selected gas suppliers. PetroChina Kunlun Gas Co., Ltd. (中石油昆侖燃氣有限公司), 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 the only designed gas suppliers of the Group. Those companies have to provide the monthly natural gas quality testing report (天然氣氣質檢驗報告) to maintain a stable and reliable gas source which comply with national and local laws and regulations.

PE pipes business

The principal raw material used in the production for PE pipes business is high density PE pellets. The Group has entered an annual procurement contract with Sinopec Chemical Commercial Holding Company Limited and PetroChina Company Limited since 2012. The supplied products shall provide relevant quality certificates, warranty and testing reports. Besides, Quality Control Department performs sampling checks before acceptance of raw materials. To facilitate better cooperation and communication between the Group and its suppliers, suppliers promptly update stocks and prices to the Group via social networks, telephones and other tools.

The Group's quality control departments for both businesses monitor the quality of suppliers' products and supply chain practice on a strict and continuous basis. For any non-compliance with our requirements, the Group would propose suppliers to take corrective actions immediately to rectify the deficiencies. The Group would closely monitor the implementation of the remedial measures to ensure that they are carried out properly and effectively.

Environmental, Social and Governance Report ("ESG Report")

B.6. Product Responsibility

In order to protect the legitimate rights and interests of consumers and strengthen the supervision of the quality of products, the Group complies with related law and regulations on product safety and health including Law of the PRC on Product Quality (中華人民共和國產品質量法), Law of the PRC on the Protection of Consumer Rights and Interests (中華人民共和國消費者權益保護法), Law of the PRC on the Protection of Production Safety (中華人民共和國安全生產法), Fire Prevention Law of the PRC (中華人民共和國消防法) and Regulations on the Safety Administration of Dangerous Chemicals (危險化學品安全管理條例) for both business segments.

Transmission and distribution of the natural gas business

The Group strictly complies with Regulation on the Administration of Urban Gas (城鎮燃氣管理條例) and Standard for Construction of City Gas Station (城市燃氣場站建設規範). Safety Operation Management Policy (安全運營部管理制度) is 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 meets the national standard of GB50028.

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

PE pipes business

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

Environmental, Social and Governance Report ("ESG Report")

The Group is dedicated to produce environmental friendly products by obtaining the Environmental Labelling Product Certification (環境標誌產品認證). It indicates that the products conform to specific environmental protection requirements which are less toxic and harmful in environmental advantages. 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 third party test centre to perform quality inspection every year.

The Group

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

The Group has issued internal procedures to ensure that the marketing materials are in accurate and precise descriptions which comply with the local laws and regulations such as Advertising Law of the PRC (中華人民共和國廣告法). Any misrepresentation or exaggeration of products made is strictly prohibited. If there is any noncompliance with the internal procedures, the Group would carry out corrective action immediately. General Affairs Department is responsible for monitoring or vetting the sales and marketing materials before publication.

The Group is committed in abiding by the local privacy laws and regulations such as Hong Kong's Personal Data (Privacy) Ordinance and Group's Privacy Policy such as "Customer Property Control Procedures" (顧客財產控制程序) and "File Management Regulation" (檔案管理規定) to ensure customers' rights are strictly protected. Information collected would only be used for the purpose for which it has been collected and customers would be told about how 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 and is kept securely, accessible by designated personnel only. Through the internal training and confidential agreements with employees, the Group emphasises on confidentiality obligations and the legal consequences for the breaches of obligations.

Environmental, Social and Governance Report ("ESG Report")

B.7. Anti-corruption

To maintain a fair, ethical and efficient business and working environment, the Group strictly adheres to the laws and regulations relating to anti-corruption and bribery irrespective of the area or country where the Group is conducting business such as Law of the PRC on Anti-money Laundering (中國反洗錢法) and Hong Kong's Prevention of Bribery Ordinance (防止賄賂條例). The Group has formulated and strictly enforced its anti-corruption policies as stipulated in Employee Code of Conduct (員工行為準則) that the Group will not tolerate any form of corruption. All employees are expected to discharge their duties with integrity and self-discipline, and they are required to abstain from engaging in bribery, extortion, fraud and money laundering activities or any activities which might exploit their positions against the Group's interests. Through the internal control policies, the Group has effective and efficient division of power in business operation and new business development must be approved by senior management and headquarters through detail assessment before implementation.

The management of the Group conducts investigation against any suspicious or illegal behaviour which are related to bribery, extortion, fraud and money-laundering to protect the Group's interests. The Group advocates a confidentiality mechanism to protect the whistle-blowers from fear of threatens and any disadvantage to the informant's employment relationship. Where criminality is suspected after investigation, disciplinary actions will be taken, including termination of employment and reporting of the matters to the relevant authorities.

COMMUNITY

B.8. Community Investment

The Group believes that undertaking socially responsible initiatives is truly a win-win situation, not only will the Group be attractive to socially conscious consumers and employees, but the Group will also make a real difference in the world by contributing love and care. The Group has been conducting charitable contributions activities to the weak person in society time to time. The Group believes that by promoting its natural gas business, the Group has already gained the environmental benefits from supporting more use of clean energy instead of high pollution energy. The Group continuously insists on providing and transmitting natural gas in better quality, in order to guarantee its customers by providing cleaner and efficient energy, sequentially to achieve the carbon reduction target.

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 62 to 155, which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Independent Auditor's Report

Key Audit Matters

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

(1) Impairment testing

Goodwill

As at 31 December 2016, the Group has goodwill of approximately HK$29,364,000 allocated to three cash-generating units ("CGUs") in relation to the Group's natural gas business.

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

Refer to Note 19 to the consolidated financial statements for details of the impairment testing of goodwill.

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

The Group had property, plant and equipment and land use right with aggregate carrying value of HK$52,408,000 in the manufacture and sale of PE pipes segment as at 31 December 2016.

As at 31 December 2016, management evaluated the financial performance of the Group's CGU in relation to the manufacture and sale of PE pipes segment in light of persistent net losses suffered by the Group from this segment and unutilised production. Management determined the recoverable amount of the CGU by estimating fair value less costs of disposal based on cash flow projections of the CGU from approved financial budgets covering a five-year period and concluded that there is no impairment in respect of the property, plant and equipment and land use rights related to this segment. The preparation of cash flow projections requires significant management judgment with respect to assumptions about discount rate and underlying cash flows, in particular future revenue growth.

Independent Auditor's Report

Refer to Note 16 to the consolidated financial statements.

How the matters were addressed in our audit

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

(i) Assessing the appropriateness of valuation methodology 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 budgets;

(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 2016 figures included in the prior year's projection, 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.

(2) Valuation of derivative component of convertible bonds

The Group's balance of financial assets/liabilities at fair value through profit or loss included the derivative component of convertible bonds of HK$12,047,000, which was measured at fair value, as at 31 December 2016.

Fair value measurement and associated valuation adjustments can be a subjective area and more so for areas of the market reliant on model based valuation or with weak liquidity. 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. Associated risk management disclosure is complex and dependent on high quality data. Specific areas of focus include the valuation of financial instruments with high estimation uncertainty for which observable market prices or market parameters are not available.

Independent Auditor's Report

Refer to Note 29 to the consolidated financial statements for details of the convertible bonds.

How the matter was addressed in our audit

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

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

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

Other Information in the Annual Report

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

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

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

Independent Auditor's Report

Directors' Responsibilities for the Consolidated Financial Statements

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Independent Auditor's Report

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

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

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

BDO Limited
Certified Public Accountants

Li Pak Ki
Practising Certificate Number: P01330

Hong Kong, 23 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	**2016** HK$'000	2015 HK$'000
Revenue	6	**182,800**	162,432
Other income and gains and losses	8	**449**	(18,736)
Cost of sales		**(152,079)**	(134,977)
Staff costs, including directors' remuneration	14	**(39,787)**	(32,077)
Depreciation		**(6,824)**	(8,069)
Amortisation of land use rights	17	**(724)**	(771)
Amortisation of other intangible assets	20	**(1,391)**	(1,425)
Impairment loss on trade receivables	24	**(5,663)**	(4,258)
Bad debt expenses		**(164)**	–
Impairment loss on other receivables	25	**–**	(1,002)
Impairment loss on property, plant and equipment	16	**–**	(20,000)
Other operating expenses		**(30,372)**	(28,212)
Share of (losses)/profits of associates		**(930)**	291
Finance costs	9	**(3,353)**	(3,176)
Loss before income tax	10	**(58,038)**	(89,980)
Income tax	11	**(2,165)**	(1,099)
Loss for the year		**(60,203)**	(91,079)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(26,138)**	(21,038)
Share of other comprehensive income of associates		**(361)**	(194)
Item reclassified to profit or loss:			
Exchange differences reclassified to profit or loss upon disposal of subsidiaries		**11**	–
Other comprehensive income for the year		**(26,488)**	(21,232)
Total comprehensive income for the year		**(86,691)**	(112,311)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	**2016 HK$'000**	2015 HK$'000
(Loss)/profit attributable to:			
Owners of the Company		**(59,567)**	(91,321)
Non-controlling interests		**(636)**	242
		(60,203)	(91,079)
Total comprehensive income attributable to:			
Owners of the Company		**(85,263)**	(111,768)
Non-controlling interests		**(1,428)**	(543)
		(86,691)	(112,311)
Basic and diluted loss per share (HK$)	13	**(0.064)**	(0.104)

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	16	**234,067**	224,751
Land use rights	17	**27,637**	30,397
Goodwill	19	**29,364**	32,814
Other intangible assets	20	**19,077**	23,086
Interests in associates	21	**5,218**	6,509
Prepayments	25	**–**	19,093
Available-for-sale investments	22	**33**	33
Total non-current assets		**315,396**	336,683
Current assets			
Inventories	23	**9,285**	9,007
Trade receivables	24	**53,580**	69,571
Other receivables, deposits and prepayments	25	**79,922**	70,659
Amounts due from associates	21	**–**	380
Investments held for trading	26	**1,261**	6
Financial assets at fair value through profit or loss	29	**–**	1,672
Cash and cash equivalents	27	**17,512**	62,263
Total current assets		**161,560**	213,558
Total assets		**476,956**	550,241
Current liabilities			
Trade payables	28	**33,378**	31,543
Other payables and accruals		**59,759**	63,081
Customers' deposits		**6,656**	3,776
Financial liabilities at fair value through profit or loss	29	**232**	–
Obligations under finance leases	30	**7,931**	4,963
Borrowings	31	**3,906**	1,790
Tax payable		**1,503**	227
Total current liabilities		**113,365**	105,380
Net current assets		**48,195**	108,178

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current liabilities			
Deferred tax liabilities	32	**6,392**	7,449
Obligations under finance leases	30	**8,031**	9,387
Borrowings	31	**33,483**	39,976
Total non-current liabilities		**47,906**	56,812
Total liabilities		**161,271**	162,192
NET ASSETS		**315,685**	388,049
Equity			
Share capital	33	**58,181**	58,181
Reserves		**234,104**	308,512
Equity attributable to owners of the Company		**292,285**	366,693
Non-controlling interests		**23,400**	21,356
TOTAL EQUITY		**315,685**	388,049

These financial statements were approved and authorised for issue by the board of directors on 23 March 2017.

Ma Zheng
Director

Wong Pui Yiu
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2016

	Equity attributable to owners of the Company								
	Share capital	**Share premium account**	**Convertible bonds equity reserve**	**Statutory surplus reserve**	**Exchange translation reserve**	**Share option reserve**	**Accumulated losses**	**Non-controlling interests**	**Total equity**
	HK$'000	HK$'000 (Note a)	HK$'000 (Note 29)	HK$'000 (Note b)	HK$'000 (Note c)	HK$'000 (Note d)	HK$'000	HK$'000	HK$'000
Balance at 1 January 2015	51,306	510,993	–	5,179	64,528	–	(394,670)	9,009	246,345
(Loss)/profit for the year	–	–	–	–	–	–	(91,321)	242	(91,079)
Other comprehensive income	–	–	–	–	(20,447)	–	–	(785)	(21,232)
Total comprehensive income	–	–	–	–	(20,447)	–	(91,321)	(543)	(112,311)
Subscription of shares (Note 33)	6,875	146,025	–	–	–	–	–	–	152,900
Equity-settled share-based transactions (Note 34)	–	–	–	–	–	8,046	–	–	8,046
Lapse of share options (Note 34)	–	–	–	–	–	(70)	70	–	–
Issue of Convertible Bonds (Note 29)	–	–	80,179	–	–	–	–	–	80,179
Transfer to statutory surplus reserve	–	–	–	61	–	–	(61)	–	–
Acquisition of non-controlling interests (Note 38)	–	–	–	–	–	–	–	12,890	12,890
Balance at 31 December 2015 and at 1 January 2016	**58,181**	**657,018**	**80,179**	**5,240**	**44,081**	**7,976**	**(485,982)**	**21,356**	**388,049**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(59,567)**	**(636)**	**(60,203)**
Other comprehensive income	**–**	**–**	**–**	**–**	**(25,696)**	**–**	**–**	**(792)**	**(26,488)**
Total comprehensive income	**–**	**–**	**–**	**–**	**(25,696)**	**–**	**(59,567)**	**(1,428)**	**(86,691)**
Equity-settled share-based transactions (Note 34)	**–**	**–**	**–**	**–**	**–**	**10,855**	**–**	**–**	**10,855**
Lapse of share options (Note 34)	**–**	**–**	**–**	**–**	**–**	**(306)**	**306**	**–**	**–**
Capital contribution to a non-wholly owned subsidiary by a non-controlling shareholder	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,370**	**3,370**
Disposal of subsidiaries (Note 37)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**102**	**102**
Balance at 31 December 2016	**58,181**	**657,018**	**80,179**	**5,240**	**18,385**	**18,525**	**(545,243)**	**23,400**	**315,685**

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2016

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 the Growth Enterprise Market (the "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(p).

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

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 HK$'000	2015 HK$'000
Cash flows from operating activities			
Loss before income tax		**(58,038)**	(89,980)
Adjustments for:			
Depreciation	16	**22,296**	20,630
Amortisation of land use rights	17	**724**	771
Amortisation of other intangible assets	20	**1,391**	1,425
Equity-settled share-based payment expenses	14	**10,855**	8,046
Bank interest income	8	**(102)**	(121)
Finance costs	9	**3,353**	3,176
Fair value loss on investments held for trading	8	**343**	30
Loss/(gain) on disposal of property, plant and equipment	8	**24**	(33)
Impairment loss on property, plant and equipment	16	**–**	20,000
Change in fair value of financial assets/liabilities at fair value through profit or loss	8	**1,904**	18,708
Written off of property, plant and equipment	8	**1,440**	181
Write down of inventories	10	**470**	2,732
Share of losses/(profits) of associates		**930**	(291)
Impairment loss on trade receivables	24	**5,663**	4,258
Bad debt expenses		**164**	–
Impairment loss on other receivables	25	**–**	1,002
Gain on disposal of subsidiaries	37	**(879)**	–
Operating loss before working capital changes		**(9,462)**	(9,466)
(Increase)/decrease in inventories		**(2,730)**	5,806
Decrease/(increase) in trade receivables		**10,156**	(29,599)
Decrease/(increase) in other receivables, deposits and prepayments		**8,094**	(10,152)
Decrease in amounts due from associates		**1,052**	30
(Increase)/decrease in investments held for trading		**(1,598)**	86
Increase in trade payables		**2,113**	9,946
Increase/(decrease) in other payables and accruals		**2,519**	(18,769)
Increase in customers' deposits		**7,073**	3,269
Effect of foreign exchange differences		**(5,243)**	(1,371)
Cash generated from/(used in) operations		**11,974**	(50,220)
Income tax paid		**(906)**	(873)
Bank interest income received		**102**	121
Net cash from/(used in) operating activities		**11,170**	(50,972)

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 HK$'000	2015 HK$'000
Cash flows from investing activities			
Purchases of property, plant and equipment		**(56,173)**	(42,495)
Disposal of subsidiaries, net of cash received	37	**625**	–
Acquisition of subsidiaries, net of cash acquired	38	**–**	(45,863)
Payment for investment in associates		**–**	(1,143)
Prepayment for purchases of items of property, plant and equipment		**–**	(19,093)
Proceeds from disposal of property, plant and equipment		**8,039**	547
Net cash used in investing activities		**(47,509)**	(108,047)
Cash flows from financing activities			
Proceeds from bank borrowings		**–**	60,859
Repayment of bank borrowings		**(1,674)**	(19,093)
Proceeds from other borrowings		**–**	8,831
Repayment of other borrowings		**–**	(44,630)
Repayment of obligations under finance leases		**(5,924)**	(2,634)
Proceeds from subscription of shares	33	**–**	152,900
Proceeds from issuance of convertible bonds	29	**–**	59,799
Capital contribution to a non-wholly owned subsidiary by a non-controlling shareholder		**3,370**	–
Interest paid		**(3,353)**	(3,176)
Net cash (used in)/from financing activities		**(7,581)**	212,856
Net (decrease)/increase in cash and cash equivalents		**(43,920)**	53,837
Cash and cash equivalents at beginning of year		**62,263**	8,708
Effect of foreign exchange rate changes		**(831)**	(282)
Cash and cash equivalents at end of year		**17,512**	62,263
Analysis of the balances of cash and cash equivalents			
Cash at banks and in hand		**17,512**	62,263

Notes to the Financial Statements

31 DECEMBER 2016

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 the GEM of the Stock Exchange.

The principal activity of the Company is investment holding. The Group engages in the manufacture and sale of Polyethylene pipes ("PE pipes") and transmission and distribution of natural gas which operates primarily in the PRC. The activities of the principal subsidiaries are set out in Note 18.

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2016

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.

HKFRSs (Amendments)	Annual Improvements 2010-2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 27	Equity Method in Separate Financial Statements

Amendments to HKAS 1 – Disclosure Initiative

The amendments are designed to encourage entities to use judgement in the application of HKAS 1 when considering the layout and content of their financial statements.

Included in the clarifications is that an entity's share of other comprehensive income from equity accounted interests in associates and joint ventures is split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as a single line item within those two groups.

The adoption of the amendments has no significant impact on these financial statements.

Notes to the Financial Statements

31 DECEMBER 2016

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2016 *(Continued)*

Amendments to HKAS 16 and HKAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit the use of a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that amortisation based on revenue is not appropriate for intangible assets. This presumption can be rebutted if either the intangible asset is expressed as a measure of revenue or revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendments are applied prospectively.

The adoption of the amendments has no impact on these financial statements as the Group has not previously used revenue-based depreciation methods.

Amendments to HKAS 27 – Equity Method in Separate Financial Statements

The amendments allow an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements. The amendments are applied retrospectively in accordance with HKAS 8.

The adoption of amendments has no impact on these financial statements as the Company has not elected to apply the equity method in its separate financial statements.

Notes to the Financial Statements

31 DECEMBER 2016

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

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

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

Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[2]
HKFRS 9	Financial Instrument[2]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)[2]
HKFRS 16	Leases[3]
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 2017

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

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

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

Amendments to HKAS 7 – Disclosure Initiative

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

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

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

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

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

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

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

HKFRS 9 (2014) – Financial Instruments

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

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

Notes to the Financial Statements

31 DECEMBER 2016

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

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

HKFRS 9 (2014) – Financial Instruments (Continued)

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

HKFRS 15 – Revenue from Contracts with Customers

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

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

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

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

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

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

Notes to the Financial Statements

31 DECEMBER 2016

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 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.

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 is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

Notes to the Financial Statements

31 DECEMBER 2016

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 the GEM of the Stock Exchange.

(b) Basis of measurement

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

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 other 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.

Notes to the Financial Statements

31 DECEMBER 2016

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

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

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

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.

Notes to the Financial Statements

31 DECEMBER 2016

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

(b) Subsidiaries

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

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

– 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.

Notes to the Financial Statements

31 DECEMBER 2016

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Associates

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

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

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

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.

Notes to the Financial Statements

31 DECEMBER 2016

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Goodwill *(Continued)*

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.

(e) Other intangible assets

(i) Acquired intangible assets

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

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

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

Notes to the Financial Statements

31 DECEMBER 2016

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Other intangible assets *(Continued)*

(i) Acquired intangible assets (Continued)

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(h)).

Notes to the Financial Statements

31 DECEMBER 2016

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(s). In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation. Depreciation of property, plant and equipment commences when the assets are ready for their intended use. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

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

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates are as follows:

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

Notes to the Financial Statements

31 DECEMBER 2016

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

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

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

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

(g) 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.

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

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

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

Notes to the Financial Statements

31 DECEMBER 2016

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Impairment of assets (other than financial assets) *(Continued)*

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

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

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

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

(i) 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.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Financial assets

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

(i) Loans and receivables

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

(ii) Available-for-sale investments

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

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

Notes to the Financial Statements

31 DECEMBER 2016

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(j) Financial assets *(Continued)*

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

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

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

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

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

Notes to the Financial Statements

31 DECEMBER 2016

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(j) Financial assets *(Continued)*

(iv) Impairment

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

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Notes to the Financial Statements

31 DECEMBER 2016

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(j) Financial assets *(Continued)*

(iv) Impairment (Continued)

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

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

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

– 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.

Notes to the Financial Statements

31 DECEMBER 2016

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(j) Financial assets *(Continued)*

(iv) Impairment (Continued)

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.

(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.

Notes to the Financial Statements

31 DECEMBER 2016

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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.

Notes to the Financial Statements

31 DECEMBER 2016

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

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

(ii) Financial liabilities at amortised cost

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

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

(iii) Convertible bonds

Convertible bonds contain financial assets/liabilities at fair value through profit or loss and equity component

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 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 2016

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

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

(iv) Derecognition of financial liabilities

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

(v) Effective interest method

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

(l) 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.

(m) 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 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 2016

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Leases *(Continued)*

The Group as lessee (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.

(n) 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.

(o) 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.

Notes to the Financial Statements

31 DECEMBER 2016

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(o) Income taxes *(Continued)*

(ii) Deferred tax

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

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

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

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.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Income taxes *(Continued)*

(ii) Deferred tax (Continued)

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.

(p) 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.

Transactions and balances

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

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

Notes to the Financial Statements

31 DECEMBER 2016

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(p) Foreign currencies *(Continued)*

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

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

(q) Employees' benefits

(i) Short term benefits

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

(ii) Pension obligations

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

Notes to the Financial Statements

31 DECEMBER 2016

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(q) Employees' benefits *(Continued)*

(ii) Pension obligations (Continued)

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.

(r) 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 2016

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(s) 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.

(t) 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).

Notes to the Financial Statements

31 DECEMBER 2016

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(t) Related parties *(Continued)*

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

(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.

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.

(u) Revenue recognition

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

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

(ii) 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

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5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

(b) 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

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

(c) Impairment of trade and other receivables

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

(d) 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.

(e) Fair value measurement

The fair value measurement of the derivative component of the Convertible Bonds 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's fair value measurement of this derivative component might have a significant risk of causing a material adjustment to the carrying amount of the financial assets/liabilities at fair value through profit or loss at the end of the reporting period (Note 29).

Notes to the Financial Statements

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

(f) 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

Revenue represents the net invoiced amounts received and receivable for sales of PE pipes and natural gas to customers. An analysis of the Group's revenue is as follows:

	2016	2015
	HK$'000	HK$'000
Sales of PE pipes	**33,802**	51,538
Transmission and distribution of natural gas	**148,998**	110,894
	182,800	162,432

7. SEGMENT REPORTING

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

The Group has two reportable segments for the years ended 31 December 2016 and 2015. The segments are managed separately as each business offers different products and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

– Manufacture and sale of PE pipes

– Transmission and distribution of natural gas

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.

There were no inter-segment sales or transfers during the years ended 31 December 2016 and 2015. Corporate revenue and expenses are not allocated to the operating segments as they are not included the measurement of the segment result that is used by the chief operating decision-maker for assessment of segment performance.

Notes to the Financial Statements

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7. SEGMENT REPORTING (Continued)

(a) Reportable segments

For the year ended 31 December 2016

	Manufacture and sale of PE pipes HK$'000	Transmission and distribution of natural gas HK$'000	Total HK$'000
Revenue from external customers	33,802	148,998	182,800
Reportable segment (loss)/profit	(22,502)	8,689	(13,813)
Reportable segment assets	103,383	299,066	402,449
Reportable segment liabilities	(14,637)	(91,686)	(106,323)
Other segment information:			
Bank interest income	17	63	80
Unallocated			22
Total bank interest income			102
Fair value loss on investments held for trading			(343)
Share of losses of associates	–	(930)	(930)
Depreciation	(11,404)	(9,723)	(21,127)
Unallocated			(1,169)
Total depreciation			(22,296)
Amortisation of land use rights	(686)	(38)	(724)
Amortisation of other intangible assets	–	(1,391)	(1,391)
Impairment loss on trade receivables	(5,663)	–	(5,663)
Written off of property, plant and equipment	(681)	(756)	(1,437)
Unallocated			(3)
Total written off of property, plant and equipment			(1,440)
Interests in associates	–	5,218	5,218
Additions to non-current assets	3,434	60,009	63,443
Unallocated			1,194
Total additions to non-current assets			64,637

Notes to the Financial Statements

31 DECEMBER 2016

7. SEGMENT REPORTING *(Continued)*

(a) Reportable segments *(Continued)*

For the year ended 31 December 2015

	Manufacture and sale of PE pipes HK$'000	Transmission and distribution of natural gas HK$'000	Total HK$'000
Revenue from external customers	51,538	110,894	162,432
Reportable segment (loss)/profit	(33,948)	2,279	(31,669)
Reportable segment assets	170,254	243,146	413,400
Reportable segment liabilities	(16,928)	(88,151)	(105,079)
Other segment information:			
Bank interest income	19	24	43
Unallocated			78
Total bank interest income			121
Loss on disposal of investments held for trading			(1,019)
Fair value loss on investments held for trading			(30)
Share of (losses)/profits of associates	(406)	697	291
Depreciation	(12,421)	(7,622)	(20,043)
Unallocated			(587)
Total depreciation			(20,630)
Amortisation of land use rights	(733)	(38)	(771)
Amortisation of other intangible assets	–	(1,425)	(1,425)
Impairment loss on trade receivables	(4,258)	–	(4,258)
Impairment loss on other receivables	(1,002)	–	(1,002)
Impairment loss on property, plant and equipment	(20,000)	–	(20,000)
Interests in associates	71	6,438	6,509
Additions to non-current assets	852	125,492	126,344
Unallocated			8,120
Total additions to non-current assets			134,464

Notes to the Financial Statements

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7. SEGMENT REPORTING (Continued)

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

	2016 HK$'000	2015 HK$'000
Loss before income tax		
Reportable segment loss	**(13,813)**	(31,669)
Unallocated other income and gains and losses	**(382)**	(19,504)
Corporate and other unallocated expenses	**(40,490)**	(35,631)
Finance costs	**(3,353)**	(3,176)
Consolidated loss before income tax	**(58,038)**	(89,980)

	2016 HK$'000	2015 HK$'000
Assets		
Reportable segment assets	**402,449**	413,400
Cash and cash equivalents	**17,512**	62,263
Unallocated corporate assets	**56,995**	74,578
Consolidated total assets	**476,956**	550,241

	2016 HK$'000	2015 HK$'000
Liabilities		
Reportable segment liabilities	**(106,323)**	(105,079)
Deferred tax liabilities	**(6,392)**	(7,449)
Unallocated corporate liabilities	**(48,556)**	(49,664)
Consolidated total liabilities	**(161,271)**	(162,192)

(c) Geographical information

All operating assets and operations of the Group during the years ended 31 December 2016 and 2015 were located in the PRC.

Notes to the Financial Statements

31 DECEMBER 2016

7. SEGMENT REPORTING (Continued)

(d) Information about major customers

For the year ended 31 December 2016, revenue from three customers (all in the transmission and distribution of natural gas segment) amounted to HK$36,217,000, HK$29,800,000 and HK$21,066,000 respectively and each contributed to 10% or more of the Group's total revenue.

For the year ended 31 December 2015, revenue from a customer (all in the transmission and distribution of natural gas segment) amounted to HK$20,480,000 and contributed to 10% or more of the Group's total revenue.

8. OTHER INCOME AND GAINS AND LOSSES

	2016 HK$'000	2015 HK$'000
Sundry income	**3,179**	1,048
Bank interest income	**102**	121
Loss on disposal of investments held for trading	**–**	(1,019)
Written off of property, plant and equipment	**(1,440)**	(181)
(Loss)/gain on disposal of property, plant and equipment	**(24)**	33
Fair value loss on investments held for trading	**(343)**	(30)
Change in fair value of financial assets/liabilities at fair value through profit or loss (Note 29)	**(1,904)**	(18,708)
Gain on disposal of subsidiaries	**879**	–
	449	(18,736)

9. FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Interest on bank loans and other borrowings	**2,010**	2,796
Finance lease interest	**1,343**	380
	3,353	3,176

Notes to the Financial Statements

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10. LOSS BEFORE INCOME TAX

	2016 HK$'000	2015 HK$'000
Loss before income tax is arrived at after charging:		
Cost of inventories sold	**149,077**	132,245
Write down of inventories (Note 23)	**470**	2,732
Auditor's remuneration	**1,350**	1,280
Minimum operating lease payments in respect of land and buildings	**4,251**	3,798
Depreciation of property, plant and equipment (Note 16)		
– Owned	**20,348**	20,199
– Held under finance leases	**1,948**	431

Note: Depreciation charge included an amount of HK$15,472,000 (2015: HK$13,620,000) recognised as cost of inventories sold for the year.

11. INCOME TAX

	2016 HK$'000	2015 HK$'000
Current tax – PRC		
– provision for the year	**2,162**	1,074
– under provision in respect of prior years	**34**	58
	2,196	1,132
Deferred tax liabilities (Note 32)		
– current year	**(31)**	(33)
Income tax	**2,165**	1,099

No provision has been made for Hong Kong Profits Tax as the Group had no assessable profit arising in Hong Kong during the current and prior years.

Notes to the Financial Statements

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11. INCOME TAX (Continued)

In accordance with the PRC Enterprise Income Tax Law approved by the National People's Congress on 16 March 2007 (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:

	2016	2015
	HK$'000	HK$'000
Loss before income tax	**(58,038)**	(89,980)
Income tax credit calculated at the statutory PRC EIT tax rate of 25% (2015: 25%)	**(14,510)**	(22,495)
Effect of different tax rates of subsidiaries operating in Hong Kong	**1,761**	1,301
Tax effect of expenses not deductible for taxation purposes	**10,254**	15,574
Tax effect of non-taxable items	**(1,292)**	(250)
Tax effect on unused tax losses and other temporary differences not recognised	**5,918**	6,911
Under provision in respect of prior years	**34**	58
Income tax for the year	**2,165**	1,099

12. DIVIDEND

The board of directors does not recommend the payment of any dividend for the year ended 31 December 2016 (2015: Nil).

Notes to the Financial Statements

31 DECEMBER 2016

13. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the loss for the year attributable to owners of the Company of HK$59,567,000 (2015: HK$91,321,000), and the weighted average number of ordinary shares of 930,898,000 (2015: 878,459,000) in issue during the year.

The computation of diluted loss per share for the years ended 31 December 2016 and 2015 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 2016 and 2015 are the same.

14. STAFF COSTS, INCLUDING DIRECTORS' REMUNERATION

	2016	2015
	HK$'000	HK$'000
Salaries and allowances	**26,361**	21,432
Retirement benefit scheme contributions	**2,571**	2,599
Equity-settled share-based payment expenses	**10,855**	8,046
	39,787	32,077

Staff salaries of HK$1,457,000 (2015: HK$2,059,000) were included in cost of inventories sold for the year.

Notes to the Financial Statements

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

Notes to the Financial Statements

31 DECEMBER 2016

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 payments (Note (ii)) HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
2015					
Executive directors:					
Ms. Ma Zheng	–	1,160	94	21	1,275
Mr. Wong Pui Yiu	–	673	400	18	1,091
	–	1,833	494	39	2,366
Independent non-executive directors:					
Mr. Wan Tze Fan Terence	174	–	80	–	254
Mr. Chung Chin Keung	174	–	80	–	254
Mr. Wang Xiao Bing	174	–	80	–	254
	522	–	240		762

Notes:

(i) During the current and prior years, no emolument was paid by the Group to any director 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(r). Further details of the options granted are set out in Note 34.

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

(b) Five highest paid individuals

The five highest paid individuals during the year included two (2015: two) directors, details of whose remuneration are set out in Note 15(a) above. Details of the remuneration of the remaining three (2015: three) non-director, highest paid individuals for the year are as follows:

	2016 HK$'000	2015 HK$'000
Basic salaries, share options and other benefits	**4,379**	3,579
Discretionary bonuses	**144**	143
Retirement benefit scheme contributions	**49**	50
	4,572	3,772

Their emoluments fell within the following bands:

	Number of individuals	
	2016	2015
Nil – HK$1,000,000	**–**	1
HK$1,000,000 – HK$2,000,000	**2**	2
HK$2,000,000 – HK$3,000,000	**1**	–
	3	3

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

	Number of individuals	
	2016	2015
HK$1,000,000 – HK$2,000,000	**1**	1

Notes to the Financial Statements

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16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000 (Note (i))	Leasehold improvements HK$'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									
At 1 January 2015	110,778	377	1,905	4,206	122,119	611	11,843	7,417	259,256
Acquired through business combinations	–	–	14	–	66,709	63	201	804	67,791
Additions	–	1,226	310	–	1,568	707	931	53,778	58,520
Disposal	–	–	–	–	(667)	–	–	–	(667)
Write off	–	(376)	(453)	–	–	(109)	(1,798)	–	(2,736)
Reclassification	–	–	38	4,907	44,268	(38)	–	(49,175)	–
Exchange realignment	(4,965)	–	(62)	(190)	(8,815)	(25)	(491)	(343)	(14,891)
At 31 December 2015 and 1 January 2016	105,813	1,227	1,752	8,923	225,182	1,209	10,686	12,481	367,273
Additions	280	211	15	–	2,128	65	343	61,595	64,637
Disposal	–	–	(9)	–	(7,415)	(143)	–	(2,175)	(9,742)
Write off	(913)	–	(13)	(755)	–	–	(155)	–	(1,836)
Disposal of subsidiaries	–	–	–	–	(6,388)	(78)	(2,044)	(853)	(9,363)
Reclassification	2,633	–	–	3,446	1,698	–	10,950	(18,727)	–
Exchange realignment	(6,787)	–	(101)	(577)	(14,404)	(36)	(606)	(604)	(23,115)
At 31 December 2016	101,026	1,438	1,644	11,037	200,801	1,017	19,174	51,717	387,854
Accumulated depreciation and impairment									
At 1 January 2015	46,438	377	1,166	11	55,951	174	3,915	–	108,032
Depreciation	4,749	34	323	212	13,812	146	1,354	–	20,630
Impairment losses (Note (iii))	1,331	–	–	–	18,669	–	–	–	20,000
Disposal	–	–	–	–	(153)	–	–	–	(153)
Write off	–	(376)	(453)	–	–	(108)	(1,618)	–	(2,555)
Exchange realignment	(1,537)	–	(32)	(2)	(1,704)	(3)	(154)	–	(3,432)
At 31 December 2015 and 1 January 2016	50,981	35	1,004	221	86,575	209	3,497	–	142,522
Depreciation	4,494	420	296	399	14,980	340	1,367	–	22,296
Disposal	–	–	(4)	–	(1,600)	(75)	–	–	(1,679)
Write off	(246)	–	(10)	–	–	–	(140)	–	(396)
Disposal of subsidiaries	–	–	–	–	(1,163)	(49)	(675)	–	(1,887)
Exchange realignment	(2,512)	–	(63)	(62)	(4,246)	(11)	(175)	–	(7,069)
At 31 December 2016	52,717	455	1,223	558	94,546	414	3,874	–	153,787
Net book value									
At 31 December 2016	48,309	983	421	10,479	106,255	603	15,300	51,717	234,067
At 31 December 2015	54,832	1,192	748	8,702	138,607	1,000	7,189	12,481	224,751

Notes to the Financial Statements

31 DECEMBER 2016

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes:

(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 2016 were HK$18,934,000 (2015: 11,501,000) and HK$1,550,000 (2015: HK$869,000) respectively.

(iii) As at 31 December 2015, the directors evaluated the financial performance of the Group's cash generating unit of manufacture and sale of PE pipes (the "CGU") in light of the persistent net losses suffered by the Group and excess production capacity noted during the year ended 31 December 2015. An impairment loss of HK$20 million was recognised for the year ended 31 December 2015 which represented the write-down of certain property, plant and equipment in the manufacture and sale of PE pipes segment to the recoverable amount. This was recognised in the consolidated statement of profit or loss and other comprehensive income as an expense. The directors determined the recoverable amount 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 extrapolated cash flow projections by applying a long-term growth rate of 3% beyond the five-year. An average gross margin of 14% was applied to the cash flow projections for the budget periods. The projected cash flows were discounted using post-tax discount rate of 17.9%. The key assumptions had been determined based on past performance and management expectations of market development. The discount rate used reflected specific risks relating to this business. The fair value on which the recoverable amount was based on is categorised as a Level 3 measurement.

The directors performed the same impairment review as at 31 December 2016 and considered that no further impairment on the property, plant and equipment related to the CGU is required.

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17. LAND USE RIGHTS

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

	2016 HK$'000	2015 HK$'000
In the PRC, held under medium-term lease	**28,361**	31,171
At 1 January	**31,171**	33,380
Amortisation	**(724)**	(771)
Exchange realignment	**(2,086)**	(1,438)
At 31 December	**28,361**	31,171
Less: Current portion included in other receivables, deposits and prepayments	**(724)**	(774)
Non-current portion	**27,637**	30,397

The Group held two parcels of leasehold land located in the PRC under lease terms of 50 years commencing on 28 February 2005 and 17 December 2005 respectively.

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18. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2016 were as follows:

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Principal activity
e-gameasia.com Ltd	BVI/Hong Kong	10,279,450 ordinary shares of HK$1 each	100%	100%	–	Investment holding
Billybala Software (BVI) Limited	BVI/Hong Kong	1 ordinary share of US$0.01 each	100%	100%	–	Investment holding
China Primary Energy Holdings Limited	BVI/Hong Kong	20,000,000 ordinary shares of US$1 each	100%	100%	–	Investment holding
Billybala iGame Limited	Hong Kong	7 ordinary shares	100%	–	100%	Provision of administrative services to group companies
China Primary Sky Valley (Yichang) Composites Co. Ltd. (Note (iii))	PRC	HK$122,380,000	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) New Material Scientific Investments Co. Ltd. (formerly known as Yaoqixin Technology (Shenzhen) Co., Ltd) (Note (iii))	PRC	HK$17,850,000	80.23%	–	80.23%	Provision of administrative services to group companies
Fujian China Primary Energy Limited ("Fujian CP Energy") (Note (iii))	PRC	RMB20,000,000	70%	–	70%	Transmission and distribution of natural gas
Ningguo China Primary Energy Limited ("Ningguo CP") (Note (iii))	PRC	RMB10,000,000	100%	–	100%	Transmission and distribution of natural gas
Wuhu Shengyuteng Natural Gas Pipeline Company Limited ("Wuhu Shengyuteng") (Note (iii))	PRC	RMB50,000,000	75%	–	75%	Transmission and distribution of natural gas
Zhongshan China Primary Energy Limited (Note (iii))	PRC	RMB11,500,000	100%	–	100%	Transmission and distribution of natural gas
Tengchong China Primary Energy Limited (Note (iii))	PRC	RMB11,431,000	100%	–	100%	Transmission and distribution of natural gas

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18. 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.

19. GOODWILL

	2016	2015
	HK$'000	HK$'000
At 1 January	**32,814**	24,660
Arising from business combinations	**–**	8,154
Exchange realignment	**(3,450)**	–
At 31 December	**29,364**	32,814

Impairment testing on goodwill

The Group recognised goodwill in total of HK$29,364,000 (2015: HK$32,814,000) arising from its acquisition of three businesses which were allocated to the cash generating units ("CGUs") relating to the Group's transmission and distribution of natural gas business in the PRC.

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19. GOODWILL *(Continued)*

Impairment testing on goodwill *(Continued)*

For the purpose of the goodwill impairment test, the directors determined the recoverable amounts of the CGUs by reference to fair value less costs of disposal based on business valuations performed by an independent firm of professional valuers using the income approach. The income approach is based on cash flow projections from financial budgets covering a five-year period plus extrapolated cash flow projections by applying a long-term growth rate of 3% (2015: 3%) beyond the five-year. Post-tax discount rates of 12.36% (2015: 12.04%), 17.35% (2015: 17.98%) and 14.25% (2015: 14.49%) and gross margins of 27% (2015: 28%), 29% (2015: 28%) and 29%-35% (2015: 21%-24%) are used for cash flow projections of the three CGUs respectively.

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

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

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20. OTHER INTANGIBLE ASSETS

	Customer relationships HK$'000	Exclusive rights of natural gas operations HK$'000	Total HK$'000
Cost			
At 1 January 2015	5,450	20,537	25,987
Exchange realignment	(211)	(921)	(1,132)
At 31 December 2015 and 1 January 2016	5,239	19,616	24,855
Disposal of subsidiaries (Note 37)	(1,600)	–	(1,600)
Exchange realignment	(239)	(1,249)	(1,488)
At 31 December 2016	3,400	18,367	21,767
Amortisation			
At 1 January 2015	271	73	344
Amortisation	542	883	1,425
At 31 December 2015 and 1 January 2016	813	956	1,769
Amortisation	508	883	1,391
Disposal of subsidiaries (Note 37)	(355)	–	(355)
Exchange realignment	(115)	–	(115)
At 31 December 2016	851	1,839	2,690
Net book value			
At 31 December 2016	2,549	16,528	19,077
At 31 December 2015	4,426	18,660	23,086

20. OTHER INTANGIBLE ASSETS (Continued)

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

Customer relationships is amortised on a straight-line method over the period of 10 years. Ningguo CP obtained an operating license for a period of 30 years from 12 May 2008 to 11 May 2038 and is amortised on a straight-line method over the remaining term of 23 years from the date of acquisition.

The Group's goodwill (Note 19) and the other intangible assets listed above which arose from the business acquisition of Fujian CP Energy and Ningguo CP in 2014 are allocated to their respective natural gas business CGUs for impairment testing as detailed in Note 19.

21. INTERESTS IN ASSOCIATES

	2016	2015
	HK$'000	HK$'000
Share of net assets	**5,218**	6,509
Amounts due from associates	**–**	380

The amounts due from associates classified as current assets were unsecured, interest free and fully settled during the year.

Details of the Group's associates are as follows:

Name	**Form of business structure**	**Place of establishment and operation**	**Percentage of paid up capital held indirectly by the Company**	**Principal activity**
Minsheng Natural Gas Company Limited ("Minsheng")	Corporation	PRC	30%	Transmission and distribution of natural gas
Shenzhen China Primary Sky Valley New Material Scientific and Technical Development Company Limited	Corporation	PRC	29%	Development and trading of Fibre Reinforced Plastic ("FRP")

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21. INTERESTS IN ASSOCIATES (Continued)

The English names of the associates represent the best effort by the Company's management to translate from their Chinese names as the associates have no official English names.

Summarised financial information of Minsheng (material associate)

	2016	2015
	HK$'000	HK$'000
As at 31 December		
Current assets	**5,181**	8,784
Non-current assets	**28,702**	29,144
Current liabilities	**(20,398)**	(20,935)
Non-current liabilities	**(573)**	(620)

	2016	2015
	HK$'000	HK$'000
Year ended 31 December		
Revenue	**11,838**	15,727
(Loss)/profit for the year	**(2,524)**	3,292
Other comprehensive income	**(203)**	(79)
Total comprehensive income	**(2,727)**	3,213

22. AVAILABLE-FOR-SALE INVESTMENTS

	2016	2015
	HK$'000	HK$'000
Listed outside Hong Kong	**33**	33

22. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

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

There was a significant decline in the market value of this investment in the year 2014. The directors considered that such a decline indicated that the investment had been impaired and an impairment loss of HK$3,863,000 had been recognised in profit or loss for the year ended 31 December 2014. The carrying amount of the investment approximates its quoted market price as at 31 December 2015 and 2016.

23. INVENTORIES

	2016	2015
	HK$'000	HK$'000
Raw materials	**5,331**	6,469
Work in progress	**1,563**	325
Finished goods (net of provision of HK$4,064,000 (2015: HK$7,724,000))	**2,391**	2,213
	9,285	9,007

During the year ended 31 December 2016, the directors had written off obsolete inventories of HK$3,629,000 which are determined to be worthless. The amount was fully offset against the provision for inventories. The Group also made a provision of HK$470,000 during the year (2015: HK$2,732,000) to reduce the cost of finished goods to their net realisable value. The provision was recognised as cost of inventories sold for the year (Note 10).

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24. TRADE RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade receivables	**91,249**	103,791
Less: Provision for impairment	**(37,669)**	(34,220)
	53,580	69,571

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

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

	2016 HK$'000	2015 HK$'000
At 1 January	**34,220**	31,368
Impairment loss recognised	**5,663**	4,258
Exchange realignment	**(2,214)**	(1,406)
At 31 December	**37,669**	34,220

At 31 December 2016, the Group's trade receivables of HK$37,669,000 (2015: HK$34,220,000 were individually determined to be impaired. These receivables have been long outstanding and management assessed them to be irrecoverable. The Group does not hold any collateral over these balances.

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24. 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:

	2016 HK$'000	2015 HK$'000
Within 30 days	**31,974**	25,604
31 – 60 days	**2,549**	4,582
61 – 90 days	**2,918**	2,901
Over 90 days	**16,139**	36,484
	53,580	69,571

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

	2016 HK$'000	2015 HK$'000
Not past due	**36,263**	52,902
Less than 31 days past due	**2,297**	4,531
31 – 60 days past due	**6,896**	755
61 – 90 days past due	**581**	630
Over 90 days but less than 1 year past due	**4,680**	1,498
More than 1 year past due	**2,863**	9,255
	17,317	16,669
	53,580	69,571

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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25. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2016 HK$'000	2015 HK$'000
Non-current assets		
Prepayments (Note)	–	19,093
Current assets		
Other receivables and deposits	50,549	42,709
Prepayments	39,901	39,206
	90,450	81,915
Less: Provision for impairment loss on other receivables and prepayments	(10,528)	(11,256)
	79,922	70,659

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

	2016 HK$'000	2015 HK$'000
At 1 January	11,256	10,735
Impairment loss recognised	–	1,002
Exchange realignment	(728)	(481)
At 31 December	10,528	11,256

Note: As at 31 December 2015, the Group had a prepayment of HK$19,093,000 made to a third party for purchases of items of property, plant and equipment for the natural gas business. Due to the prolonged delay of the project, the Group and this third party agreed on 5 January 2017 to cancel the project pursuant to terms as stipulated in an agreement. The balance will be fully refunded by this third party to the Group by instalments in 2017. Accordingly, this prepayment is reclassified from non-current asset to current asset as at 31 December 2016.

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26. INVESTMENTS HELD FOR TRADING

	2016 HK$'000	2015 HK$'000
Listed equity securities held at fair value		
– listed in Hong Kong	**1,261**	6

27. CASH AND CASH EQUIVALENTS

At the end of reporting period, cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$14,737,000 (2015: HK$12,845,000). 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 bank 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.

28. TRADE PAYABLES

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

	2016 HK$'000	2015 HK$'000
Within 30 days	**14,873**	8,536
31 – 60 days	**8,436**	4,092
61 – 90 days	**5,279**	3,528
Over 90 days	**4,790**	15,387
	33,378	31,543

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29. 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.

29. CONVERTIBLE BONDS (Continued)

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

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

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

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). The effective interest rate of the debt component on initial recognition is 7.5569% per annum. An independent professional valuer, Greater China Appraisal Limited, determined the effective rate of the debt component as at grant date and the fair value of the derivatives as at grant date of HK$31,297,000 and as at 31 December 2015 and 2016 of HK$13,126,000 and HK$12,047,000 respectively. The equity component is determined as the residual amount, essentially the issue proceeds of the Convertible Bonds less the liability component including derivatives as at grant date.

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29. CONVERTIBLE BONDS (Continued)

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

	Financial assets/ (liabilities) at fair value through profit or loss	Convertible bonds equity reserve	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2015	–	–	–
Issue of Convertible Bonds during the year	20,380	(80,179)	(59,799)
Change in fair value	(18,708)	–	(18,708)
At 31 December 2015 and 1 January 2016	1,672	(80,179)	(78,507)
Change in fair value	(1,904)	–	(1,904)
At 31 December 2016	(232)	(80,179)	(80,411)

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30. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payment 2016 HK$'000	**Present value 2016 HK$'000**	Minimum lease payment 2015 HK$'000	Present value 2015 HK$'000
Not later than one year	**9,014**	**7,931**	6,030	4,963
Later than one year and not later than five years	**8,505**	**8,031**	10,180	9,387
	17,519	**15,962**	16,210	14,350
Less: Future finance lease	**(1,557)**		(1,860)	
Present value of lease obligations	**15,962**		14,350	
Less: Due within one year, included under current liabilities		**(7,931)**		(4,963)
Due in the second to fifth years, included under non-current liabilities		**8,031**		9,387

The Group entered into finance leases for motor vehicles and liquefied natural gas tanks with lease term of 3 years. Interest rates under the leases ranged from 8.26% to 8.92% (2015: from 8.16% 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 are 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.

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31. BORROWINGS

	2016 HK$'000	2015 HK$'000
Current		
Secured bank loan due for repayment within one year (i)	**3,906**	1,790
Non-current		
Secured bank loan due for repayment within two to five years (i)	**33,483**	39,976
	37,389	41,766

(i) The bank loan of HK$37,389,000 (2015: HK$41,766,000) as at 31 December 2016 is secured by the Group's equity interest of two subsidiaries, namely Wuhu Shengyuteng and Ningguo CP, certain properties of a director and a director's family member, the corporate guarantee of the Company and a director's personal guarantee. The bank loan bears interest at base rate of People's Bank of China plus 20% of the base rate per annum and is repayable within five years. The weighted average base rate of People's Bank of China plus 20% of the base rate per annum in respect of the bank loan is 5.7% (2015: 5.7%) during the year ended 31 December 2016.

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

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32. DEFERRED TAX

The details of the deferred tax liabilities recognised and movements during the year are set out below:

	Accelerated tax depreciation	Fair value adjustments arising from acquisition of subsidiaries	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2015	(1,008)	(7,047)	(8,055)
Through business combinations	–	221	221
Credited to profit or loss for the year (Note 11)	33	–	33
Exchange realignment	45	307	352
At 31 December 2015 and 1 January 2016	(930)	(6,519)	(7,449)
Disposal of subsidiaries (Note 37)	–	545	545
Credited to profit or loss for the year (Note 11)	31	–	31
Exchange realignment	60	421	481
At 31 December 2016	(839)	(5,553)	(6,392)

As at 31 December 2016, the Group had unused tax losses arising in Hong Kong of HK$1,733,000 (2015: HK$1,733,000) and the PRC of HK$96,420,000 (2015: HK$75,399,000) 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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33. SHARE CAPITAL

	Number of Shares	Amount
	'000	HK$'000
Authorised:		
Ordinary shares of HK$0.0625 each at 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	1,920,000	120,000
Issued and fully paid:		
Ordinary shares of HK$0.0625 each at 1 January 2015	820,898	51,306
Subscription of shares (Note)	110,000	6,875
Ordinary shares of HK$0.0625 each at 31 December 2015, 1 January 2016 and 31 December 2016	930,898	58,181

Note:

On 9 June 2015, the Company entered into the subscription agreement to allot and issue 110,000,000 new shares at HK$1.39 per new share to the subscriber who is an independent third party. The subscription of shares was completed on 24 June 2015. Following the subscription of new shares, an amount of HK$6,875,000 and HK$146,025,000 were credited to share capital and share premium account respectively (Note 44).

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34. SHARE OPTION SCHEME

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

On 8 May 2012, a share option scheme (the "Share Option Scheme") was adopted by the shareholders of the Company. The purpose of the Share Option Scheme is to provide incentives and rewards to eligible participants who would contribute to the success of the Group's operations. Under the terms of the Share Option Scheme, the board of directors 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.

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 of directors, 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).

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34. SHARE OPTION SCHEME (Continued)

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

The exercise price for shares under the Share Option Scheme may be determined by the board of directors 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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34. SHARE OPTION SCHEME (Continued)

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

2016

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

Notes to the Financial Statements

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34. SHARE OPTION SCHEME (Continued)

2015

Name or category of participant	Date of grant	Exercise period	Exercise price per share HK$	Number of share options: Outstanding as at 1 January 2015	Granted during the year	Lapsed during the year	Outstanding as at 31 December 2015
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	–	75,300,000	(3,100,000)	72,200,000
Sub-total				–	75,300,000	(3,100,000)	72,200,000
Total				–	81,720,000	(3,100,000)	78,620,000

2,250,000 (2015: 3,100,000) share options were lapsed upon resignation of certain employees during the year. Accordingly, HK$306,000 (2015: HK$70,000) was transferred from share option reserve to accumulated losses upon lapse of share options during the year.

The fair value of the share options granted to the directors and employees on 10 April 2015 was HK$3,005,000 (HK$0.4681 each) and HK$30,986,000 (HK$0.4115 each), of which the Group recognised share-based payment of HK$10,855,000 (2015: HK$8,046,000) during the year ended 31 December 2016 (Note 14).

Notes to the Financial Statements

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34. SHARE OPTION SCHEME (Continued)

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

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

35. OPERATING LEASES

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

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

	2016 **HK$'000**	2015 HK$'000
Within one year	**2,723**	3,998
After one year but within five years	**1,649**	4,813
	4,372	8,811

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36. CAPITAL COMMITMENTS

	2016 HK$'000	2015 HK$'000
Contracted for but not provided:		
– acquisition of property, plant and equipment	**69,741**	11,424

37. DISPOSAL OF SUBSIDIARIES

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

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

Notes to the Financial Statements

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37. DISPOSAL OF SUBSIDIARIES (Continued)

(a) *(Continued)*

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

Net cash outflow arising on disposal:

	HK$'000
Cash and bank balances disposed of	(93)

Notes to the Financial Statements

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37. DISPOSAL OF SUBSIDIARIES (Continued)

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

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

Notes to the Financial Statements

31 DECEMBER 2016

37. DISPOSAL OF SUBSIDIARIES (Continued)

(b) *(Continued)*

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

Net cash inflow arising on disposal:

	HK$'000
Cash consideration	788
Cash and bank balances disposed of	(70)
	718

Notes to the Financial Statements

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38. ACQUISITION OF A SUBSIDIARY

On 17 December 2014, the Group entered into the acquisition agreement with an independent party to acquire for 75% equity interest of Wuhu Shengyuteng. Wuhu Shengyuteng 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 31 July 2015, which was the acquisition date for accounting purposes.

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

	HK$'000
Property, plant and equipment	67,791
Inventories	192
Trade receivables	603
Other receivables, deposits and prepayments	3,392
Cash and cash equivalents	959
Deferred tax assets	221
Other payables and accruals	(21,600)
Non-controlling interests	(12,890)
	38,668
Cash consideration for acquisition of 75% equity interest of the acquiree	46,822
Goodwill on acquisition	8,154

An analysis of the cash flows in respect of acquisition of Wuhu Shengyuteng was as follows:

	HK$'000
Cash consideration paid	(46,822)
Cash and cash equivalents acquired	959
Net cash outflow of cash and cash equivalents included in cash flows from investing activities	45,863

38. ACQUISITION OF A SUBSIDIARY (Continued)

The fair values of property, plant and equipment of HK$67,791,000 at the date of acquisition was determined by an independent professional valuer.

The fair value and gross contractual amounts of the trade receivables and other receivables, deposits and prepayments as at the date of acquisition amounted to HK$603,000 and HK$3,392,000 respectively. None of these receivables had been impaired and it is expected that the full contractual amounts can be collected.

The goodwill arising from the acquisition of Wuhu Shengyuteng, which was not deductible for tax purposes, was 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 Shengyuteng had contributed HK$5,105,000 to the Group's revenue and loss of HK$1,050,000 to the Group's loss for the year ended 31 December 2015. If the acquisition had occurred on 1 January 2015, the Group's revenue and loss would have been HK$166,680,000 and HK$69,868,000 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 2015, nor was it intended to be a projection of future performance.

39. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation. Except for those disclosed elsewhere in the financial statements, the Group had no other significant related party transactions during the years ended 31 December 2016 and 2015.

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

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40. 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 Note 31 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 5% to 15% determined as the proportion of net debts to total equity as defined above.

41. 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.

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41. FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. As at 31 December 2016, the Group has a certain concentration of credit risk as 34% (2015: 22%) of the total trade receivables was due from the Group's two largest customers in relation to the natural gas business.

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 24 and 25 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 shows the liquidity risk analysis of the Group as at 31 December 2016 and 2015.

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

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41. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Liquidity risk *(Continued)*

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
2015					
Trade payables	31,543	31,543	31,543	–	–
Other payables and accruals	63,081	63,081	63,081	–	–
Obligations under finance leases	14,350	16,210	6,030	6,030	4,150
Borrowings	41,766	50,846	4,171	6,455	40,220
	150,740	161,680	104,825	12,485	44,370

(c) Interest rate risk

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

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41. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Interest rate risk *(Continued)*

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

	2016		2015	
	Effective interest rate %	**HK$'000**	Effective interest rate %	HK$'000
Variable rate				
Borrowings	**5.700%**	**37,389**	5.700%	41,766
Bank balances	**0.642%**	**(15,899)**	0.685%	(17,608)
Obligations under finance leases	**8.590%**	**15,962**	8.540%	14,350
Total net borrowings		**37,452**		38,508

It is estimated that as at 31 December 2016, 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$375,000 (2015: HK$385,000).

(d) Currency risk

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

(e) Price risk – Equity price risk

The Group is not exposed to material equity price changes arising from equity instruments classified as trading securities and available-for-sale equity securities as their carrying amounts as at 31 December 2016 and 2015 are not significant.

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41. FINANCIAL RISK MANAGEMENT (Continued)

(f) Fair value estimations

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.

42. 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 2016 and 2015 may be categorised as follows:

	2016	2015
	HK$'000	HK$'000
Financial assets		
Loans and receivables at amortised cost (including cash and cash equivalents)	**116,909**	173,366
Financial assets at fair value through profit or loss	**–**	1,672
Investments held for trading at fair value through profit or loss	**1,261**	6
Available-for-sale investments, at fair value	**33**	33
Financial liabilities		
Financial liabilities measured at amortised cost	**145,661**	150,740
Financial liabilities at fair value through profit or loss	**232**	–

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables, amounts due from associates, trade and other payables, finance leases and borrowings.

Due to their short term nature, the carrying value of cash and cash equivalents, trade and other receivables, amounts due from associates, trade payables, and other payables and accruals approximates fair value.

The fair value of borrowings and obligations under 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.

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

(b) Financial instruments measured at fair value

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

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

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

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

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

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

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

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

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

	2015			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets				
Financial assets at fair value through profit or loss	–	–	1,672	1,672
Investments held for trading				
– Listed	6	–	–	6
Available-for-sale investments	33	–	–	33
Financial liabilities				
Financial liabilities at fair value through profit or loss	–	–	–	–

There were no transfers between levels during the year.

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

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

	2016	2015
	HK$'000	HK$'000
At 1 January	**1,672**	–
Upon the issuance of Convertible Bonds during the year	**–**	20,380
Change in fair value recognised in profit or loss (included in other income and gains and losses)	**(1,904)**	(18,708)
At 31 December	**(232)**	1,672

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

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43. HOLDING COMPANY'S STATEMENT OF FINANCIAL POSITION

	Notes	**2016** HK$'000	2015 HK$'000
Non-current assets			
Interests in subsidiaries		**450,804**	542,012
Available-for-sale investments		**33**	33
Total non-current assets		**450,837**	542,045
Current assets			
Other receivables, deposits and prepayments		**153**	198
Financial assets at fair value through profit or loss		**–**	1,672
Cash and cash equivalents		**34**	157
Total current assets		**187**	2,027
Total assets		**451,024**	544,072
Current liabilities			
Other payables and accruals		**2,787**	2,103
Amounts due to subsidiaries		**157,594**	157,636
Financial liabilities at fair value through profit or loss		**232**	–
Total current liabilities		**160,613**	159,739
Net current liabilities		**(160,426)**	(157,712)
NET ASSETS		**290,411**	384,333
Equity			
Share capital	33	**58,181**	58,181
Reserves	44	**232,230**	326,152
TOTAL EQUITY		**290,411**	384,333

These financial statements were approved and authorised for issue by the board of directors on 23 March 2017.

Ma Zheng	**Wong Pui Yiu**
Director	*Director*

Notes to the Financial Statements

31 DECEMBER 2016

44. RESERVES OF THE COMPANY

	Share premium account HK$'000 (Note)	Convertible bonds equity reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total equity HK$'000
Balance at 1 January 2015	498,106	–	–	(318,016)	180,090
Loss and total comprehensive income for the year	–	–	–	(88,188)	(88,188)
Subscription of shares (Note 33)	146,025	–	–	–	146,025
Equity-settled share-based transactions (Note 34)	–	–	8,046	–	8,046
Lapse of share options (Note 34)	–	–	(70)	70	–
Issue of Convertible Bonds (Note 29)	–	80,179	–	–	80,179
Balance at 31 December 2015 and 1 January 2016	644,131	80,179	7,976	(406,134)	326,152
Loss and total comprehensive income for the year	–	–	–	(104,777)	(104,777)
Equity-settled share-based transactions (Note 34)	–	–	10,855	–	10,855
Lapse of share options (Note 34)	–	–	(306)	306	–
Balance at 31 December 2016	644,131	80,179	18,525	(510,605)	232,230

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.

Financial Summary

(EXPRESSED IN HONG KONG DOLLARS)

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

Results

	Year ended 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**182,800**	162,432	88,428	29,939	39,192
Other income and gains and losses	**449**	(18,736)	(1,885)	979	6,494
Cost of sales and operating expenses	**(237,934)**	(230,500)	(132,223)	(75,446)	(121,877)
Operating loss	**(54,685)**	(86,804)	(45,680)	(44,528)	(76,191)
Finance costs	**(3,353)**	(3,176)	(521)	(17)	(45)
Loss before income tax	**(58,038)**	(89,980)	(46,201)	(44,545)	(76,236)
Income tax	**(2,165)**	(1,099)	(60)	(33)	(314)
Loss for the year	**(60,203)**	(91,079)	(46,261)	(44,578)	(76,550)
(Loss)/profit attributable to:					
Owners of the Company	**(59,567)**	(91,321)	(46,605)	(44,578)	(76,550)
Non-controlling interests	**(636)**	242	344	–	–
	(60,203)	(91,079)	(46,261)	(44,578)	(76,550)

Assets and Liabilities

	31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**476,956**	550,241	373,556	550,965	582,189
Total liabilities	**(161,271)**	(162,192)	(127,211)	(302,982)	(298,485)
	315,685	388,049	246,345	247,983	283,704