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 2019

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

Contents

Expressed in Hong Kong dollars ("HK$")

for identification only

Corporate Information

Board of directors

Executive Directors

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

Non-Executive Director

Mr. Ji Jianghua

Independent Non-Executive Directors

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

Registered office, head office and principal place of business

Registered office

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

Head office and principal place of business

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

Company secretary

Mr. Wong Chun Sing

Compliance officer

Mr. Wong Pui Yiu

Audit committee

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

Nomination committee

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

Remuneration committee

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

Authorised representatives

Ms. Ma Zheng
Mr. Wong Pui Yiu

Principal bankers

China Construction Bank (Asia) Corporation Limited
DBS Bank (Hong Kong) Limited

Share registrar and transfer office

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

Stock code

8117

Website

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

Cayman Islands assistant secretary

Conyers Trust Company (Cayman) Limited

Auditor

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

Hong Kong branch share registrar

Tricor Tengis Limited
Level 54, 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 2019.

Operation

In the year 2019, global environment was not stable and the trade conflict between the People's Republic of China (the "PRC") and the United States of America continued to affect the global economy. International trade was seriously affected but the internal demand of clean energy in the PRC was stable during the trade conflict. In 2019, the gross domestic product of the PRC continued to be positive and under the PRC government policy, the demand of clean energy in PRC was still increasing. These factors had positive impact on the Group's clean energy business and property investment business of the Group although the trade conflict had negative impact on the trading business of the Group.

The Group continued to strengthen its core business in 2019 and operated in three major locations, Yichang, Fujian and Wuhu. The industrial park in Yichang was fully operated in 2019 and all the investment properties were let out. These investment properties contributed stable rental income to the Group since 2018. In Yichang, clean energy business was at early stage and with our experience in the energy sector, we believe we can build up another successful clean energy sector in Yichang soon.

Our natural gas distribution business was performing well and the transmission and distribution of natural gas continued to be the core business segment of the Group in 2019. Natural gas is a kind of clean energy that most large countries, include the PRC, in the world are using and the extent of usage is growing rapidly. In recent years, the PRC government has announced various policies to encourage businesses and citizens to use clean energy in which natural gas is the most promoted energy of all. The policies have benefited the Group's natural gas business.

For the past few years, the Group had been restructuring the natural gas companies in Fujian by selling those companies with smaller size, less contribution and not substantially under our control. In 2019, we further disposed an associated company and only maintained the most sizable company in Fujian. With the concentration of resources, the Fujian operation continued to act as our most well-developed natural gas operation. On the other hand, in December 2019, the Group entered into a sales and purchase agreement to sell the entire 83% equity interest in Wuhu China Primary Natural Gas Pipeline Company Limited# (蕪湖中基天然氣管道有限公司) for RMB82,200,000 and the transaction was completed in early March of 2020. Together with the collection of receivables, such disposal would contribute significant cash inflow to the Group.

In Hong Kong, the electronic component trading business was not performing well in the second half of 2019 due to the trade conflict. We target to look for more customers so as to broaden the customer base.

Chairman's Statement

Results

The reasons of the decrease of revenue in 2019 were the decrease of revenue of the trading business and high operating costs. Although the Group did not achieve profit in 2019, we will see it as the result of restructuring and preparation. Certain impairments on goodwill and receivables were made in line with the business restructure in the last few years.

Future Development

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

The outbreak of Coronavirus disease ("COVID-19") is a challenge to the global economy and to most of the industries. It is anticipated that the global economy will be significantly affected. Luckily, the impact of the COVID-19 to the Group is expected not to be so direct and significant as our business of natural gas distribution and property investment relied more on customers' internal demand and natural gas is necessity. Nevertheless, the Company will closely monitor the situation and assess if there is any impact on the Group's operations and operating results.

Being the Chairman of the Company, I will continue to lead the Board and the Company to achieve our goal. I strongly believe that with the continuous efforts and support of the management team and business partners, the target of the Group is to become one of the leading clean energy operator in certain cities and areas of the PRC. In the meantime, as mentioned several times before, we are still investigating for possible investing opportunities to increase the Company's value. In this respect, I can assure you that the shareholders' return will be increased in the near future.

Appreciation

On behalf of the Board, I would like to express my sincere gratitude to our shareholders, fellow directors, staff, customers, suppliers, professional advisers and business partners for their ongoing support and contributions. 2019 was 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 2020

Management Discussion and Analysis

BUSINESS REVIEW AND FUTURE OUTLOOK

Total revenue of the Group for the year ended 31 December 2019 decreased when compared to the corresponding period in 2018. Such decrease was mainly due to (i) the decrease in revenue of the trading business; and (ii) there was no contribution of revenue from the discontinued operation in 2019. The demand of the electronic components reduced significantly during 2019 when compared to the corresponding period of last year. The decrease mainly due to the uncertainty arised from the US-China trade war. However, impact of such decrease in revenue on the performance and financial result of the Group was not so material. The board (the "Board") of directors (the "Director(s)") believes that revenue of the Group will be improved with the stable development of the clean energy business. As a result, the results of the Group will be improved accordingly.

The natural gas business is still the core business of the Group. Operating scale of the natural gas business segment continued to grow in 2019. The government of the People's Republic of China (the "PRC") has implemented the policies to encourage the use of clean energy in the PRC and the Board considered the prospect of natural gas business is bright. Those policies included the process to change the use of petrol and oil to natural gas for vehicles and industrial users, the set up of the natural gas network department, etc. The Group operated the natural gas business in various areas and provinces in the PRC in 2019. Our customers are mostly industrial customers.

With the Group's experience and network in the natural gas business, the Group has been making good use of natural gas synergy effect in its business development, and has been focusing on natural gas-related clean energy projects. Natural gas combined heat and power cogeneration business is one of the Group's development direction. After years of research and negotiation, the Group has commenced its investment in natural gas combined heat and power cogeneration plant. The Group believes that with the current natural gas distribution and transmission business, the development of natural gas combined heat and power cogeneration business and other natural gas-related clean energy businesses, it is expected that the Group's performance and profitability will be greatly improved in the future.

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

Management Discussion and Analysis

The outbreak of Coronavirus disease ("COVID-19") is a challenge to the global economy and to most of the industries. It is anticipated that the global economy will be significantly affected. Luckily, the impact of the COVID-19 to the Group is expected not to be so direct and significant as our business of natural gas distribution and property investment relied more on customers' internal demand and natural gas is necessity. Nevertheless, the Company will closely monitor the situation and assess if there is any impact on the Group's operations and operating results.

In view of the unstable global economy, 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.

Disposal of Fujian Province Minsheng Gas Company Limited

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

Disposal of Wuhu China Primary Natural Gas Pipeline Company Limited

On 27 December 2019, China Primary Sky Valley (Yichang) Composites Co., Ltd.# (中基天谷（宜昌）複合材料有限公司) (the "Vendor") entered into the sale and purchase agreement with Fanchang County Nantian Electricity Company Limited# (繁昌縣南添電力有限公司) (the "Purchaser") pursuant to which the Vendor agreed to sell and the Purchaser agreed to acquire 83% registered capital of Wuhu China Primary Natural Gas Pipeline Company Limited# (蕪湖中基天然氣管道有限公司) (the "Target Company") (the "Disposal") for a total cash consideration of RMB82,200,000 (equivalent to approximately HK$92,400,000).

The Vendor is a limited liability company established in the PRC and the indirect wholly owned subsidiary of the Company.

The Purchaser is a company established in the PRC and is principally engaged in electricity, heat and cold related infrastructure investment and operations, construction and management of natural gas supply pipelines. The ultimate beneficial owners of the Purchaser are Ms. Li Lei# (李蕾) (90%) and Mr. Shi Linghang# (史領航) ("Mr. Shi") (10%) respectively.

Management Discussion and Analysis

Before Completion, the Target Company has a registered and paid up capital of RMB50,000,000 which is owned as to 83% by the Vendor and the remaining 17% by Mr. Shi.

The Disposal was completed on 6 March 2020. Accordingly, the Target Company ceased to be a subsidiary of the Company and the financial results of the Target Company no longer be consolidated into the financial statements of the Group.

The actual gain or loss as a result of the Disposal to be recorded by the Group is subject to final audit to be performed by the Company's auditors. After deducting the expenses relating to the Disposal (including the relevant legal costs and printing expenses of total approximately HK$800,000), the net proceeds from the Disposal would be approximately HK$91,600,000.

Reference are made to the announcements of the Company dated 30 December 2019 and 7 January 2020 and the circular of the Company dated 13 February 2020 which provide further details relating to the Disposal.

Use of proceed of the subscription of new shares by Winmaxi (BVI) Company Limited

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

As at 31 December 2018, approximately 99% of the proceeds raised have been utilized as intended. The remaining unutilized proceeds of approximately HK$0.7 million were for reserve of the Company for future expansion and investment opportunities and in view of the size amount, was transferred as operating capital of the Group and was fully utilized by the Group for operation costs during the year ended 31 December 2019. There is no material change between the intended use of proceeds and the actual use of proceeds.

Reference are made to the announcement of the Company dated 24 September 2019.

FINANCIAL REVIEW

Total revenue was approximately HK$91,646,000 for the year ended 31 December 2019, which represented a decrease of approximately 47.1% when compared with last year's total revenue of approximately HK$173,224,000. The Board believes that revenue of the Group will be improved with the growing of the natural gas business and increase in contribution from the rental and trading business.

During the year under review, audited loss before income tax was approximately HK$32,767,000 (2018: loss of approximately HK$4,948,000). The loss attributable to owners of the Company was approximately HK$31,260,000 (2018: loss of approximately HK$10,717,000). Loss incurred in 2019 was mainly because of the relatively high operating expenses, such as depreciation and other selling expenses. 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.

Management Discussion and Analysis

BUSINESS OUTLOOK AND PROSPECTS

From 2020 onwards, the Board is optimistic that the Group will perform much better with the expansion of the energy segment, the trading segment and the property investment segment. Currently, the energy segment mainly consists of the natural gas business. The Group has developed a strong natural gas sales network. The network is still expanding and with the clean energy policy carried out by the PRC government, the management believes the natural gas business will grow steadily under the current economic environment and significant revenue will be contributed by the natural gas business. The energy segment will become the core business segment of the Group in the near future.

The land and properties in Yichang will continue to be let out to generate rental income.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, net assets of the Group were approximately HK$369,560,000 (2018: approximately HK$423,027,000) while its total assets were approximately HK$640,727,000 (2018: approximately HK$672,614,000) including cash and bank balances of approximately HK$9,449,000 (2018: approximately HK$38,588,000).

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 2019, current assets of the Group amounted to approximately HK$257,227,000 which included cash and bank balances of approximately HK$2,143,000 and approximately RMB5,395,000 (equivalent to HK$6,035,000), while current liabilities stood at approximately HK$209,301,000. The Group has external borrowings of approximately HK$59,119,000. Equity attributable to owners of the Company amounted to approximately HK$350,801,000. In this regard, the Group was in a net assets position and had a gearing ratio of approximately 17% (borrowings to equity attributable to owners of the Company) as of 31 December 2019.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

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

Management Discussion and Analysis

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2019, certain of the Group's investment properties, land use rights and trade receivables were pledged as security for the Group's borrowings, and the Group did not have any significant contingent liabilities.

SEGMENT INFORMATION

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

CAPITAL STRUCTURE

The ordinary shares of the Company were initially listed on GEM of the Stock Exchange on 13 December 2001. As at 31 December 2019, the issued share capital of the Company was made up of 1,023,987,439 ordinary shares of HK$0.0625 each.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

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

SIGNIFICANT INVESTMENTS/FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group did not made any significant investment during the year ended 31 December 2019. No material plan for future investment was noted as at the date of this annual report.

EMPLOYEE INFORMATION

As at 31 December 2019, the Group had 9 full-time employees working in Hong Kong and 132 full-time employees working in the PRC. Total employees' remuneration (including Directors' remuneration) for the year under review amounted to approximately HK$23,511,000. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

COMPETITION AND CONFLICT OF INTERESTS

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

Management Discussion and Analysis

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules and Code Provisions C.3.3 and C.3.7 of the Code Governance Code (the "Code"). The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. During the year under review, the Audit Committee chaired by Mr. Wan Tze Fan Terence, comprises two other members, 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 annual report, half-yearly report, quarterly reports and announcements. After reviewing the Group's financial statements for the year ended 31 December 2019, the Audit Committee is of the opinion that the financial statements of the Group for the year ended 31 December 2019 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company had not redeemed any of its ordinary shares during the year ended 31 December 2019. 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 2019.

CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with all the code provisions set out in the Code for the year ended 31 December 2019 contained in Appendix 15 of the GEM Listing Rules, with the exception of the following code provisions:

Code Provision A.2.1

Code Provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

For the year 2019, the Company did not have an officer with the title of "Chief Executive". 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. The Board holds the view that this arrangement is appropriate for the Company but the Company does not compromise accountability and independent decision making for this since the Company has an audit committee, all members of which are independent non-executive Directors, to help to ensure the accountability and independence of Ms. Ma Zheng.

Management Discussion and Analysis

Code Provision A.4.1

Code Provision A.4.1 stipulates that the non-executive Directors should be appointed for a specific term, subject to re-election.

During the year under review, the Company has one non-executive Director, Mr. Ji Jianghua and three independent non-executive Directors, they are Mr. Wan Tze Fan Terence, Mr. Chung Chin Keung and Mr. Wang Xiao Bing.

Except for Mr. Ji Jianghua, 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. However, he is subject to retirement by rotation at least once every three years in accordance with the Company's 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.

Biographical Details of Directors and Senior Management

Directors

Ms. Ma Zheng, aged 53
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 30 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 57
Executive Director
Mr. Wong joined the Group in February 2008. He is also the compliance officer of the Company. He has several years of experience in business administration and corporate management. Before joining the Group, he was the general manager of Smart Honest Group Limited, a distributor of semiconductors.

Mr. Ji Jianghua, aged 40
Non-executive Director
Mr. Ji joined the Group in June 2018. Mr. Ji joined China Vanke Co., Ltd.# ("China Vanke") (Shenzhen Stock Exchange: stock code 000002, The Stock Exchange of Hong Kong Limited: stock code 2202) in May 2005 and is now the deputy general manager of the board of directors' office of China Vanke. Before joining China Vanke, he worked as a researcher at Shanghai Jinxin Securities Research Institute Co., Ltd. from August 2004 to May 2005. Mr. Ji graduated from the Tianjin Institute of Finance and Economics (currently Tianjin University of Finance and Economics) in 2001 with a Bachelor's degree in Management. He graduated from Shanghai University in 2004 with a Master's degree in Economics.

Mr. Wan Tze Fan Terence, aged 55
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 which is 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 52
Independent Non-executive Director
Mr. Chung joined the Group in February 2008. Mr. Chung holds a bachelor degree in Business Administration from the Hong Kong Baptist University and a master degree in Business Administration from Manchester Business School. Mr. Chung is a fellow member of The Association of Chartered Certified Accountants, a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of The Institute of Chartered Accountants in England and Wales and a member of The Taxation Institute of Hong Kong. He has more than 27 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 52
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 18 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 49
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 26 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 herein present their report and the audited financial statements for the year ended 31 December 2019.

Principal activities

The principal activity of the Company is investment holding. The principal activities of its major subsidiaries are transmission and distribution of natural gas, trading of electronic components and property investment. Details of the principal activities of its subsidiaries are set out in Note 19 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

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

Business review and future development

Business review of the operations of the Group for the year ended 31 December 2019 and outlook and future prospects are set out in the separate Environmental, Social and Governance (the "ESG") Report 2019 (the "ESG Report") and the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Corporate Governance Report" of this annual report.

The above sections or reference form part of the Director's Report.

Results and appropriations

The results of the Group for the year ended 31 December 2019 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 46 to 148.

The Board does not recommend the payment of any dividend.

Share capital

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

Reserves

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

Distributable reserves

As at 31 December 2019 and 2018, 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 (the "Articles of Association"), the share premium account of HK$714,488,000 is, subject to solvency test, available for distribution to shareholders of the Company.

Directors' Report

Property, plant and equipment

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

Particulars of investment properties

A summary of the particulars of investment properties is set out on page 149.

Pre-emptive rights

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

Dividend policy

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

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

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

The Board does not recommend the payment of final dividend for the year ended 31 December 2019.

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 150.

Purchase, sale or redemption of securities

The Company had not redeemed any of its ordinary shares during the year ended 31 December 2019. 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 2019.

Directors' Report

Directors

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

Executive Directors

Ms. Ma Zheng
Mr. Wong Pui Yiu

Non-Executive Director

Mr. Ji Jianghua

Independent Non-Executive Directors

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

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

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 and Mr. Chung Chin Keung are independent non-executive Directors serving the Company for more than 9 years. Any future re-appointment of Mr. Wan Tze Fan Terence and Mr. Chung Chin Keung 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 and Mr. Chung Chin Keung continue to be independent as they have 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.

Directors' Report

Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on pages 13 and 14.

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 2020 and 1 February 2020 respectively. They are subject to termination by either party giving not less than three months' written notice. These service contracts are exempt from the shareholders' approval requirement under Rule 17.90 of the GEM Listing Rules.

Independence of independent non-executive directors

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

Directors' interests

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

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

As at 31 December 2019, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

Directors' Report

The approximate percentage of interests set out below is based on 1,023,987,439 ordinary shares in issue as at 31 December 2019.

(i) Long position in the ordinary shares of HK$0.0625 each in the Company as at 31 December 2019:

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

(ii) Long position in the underlying shares or debentures of the Company as at 31 December 2019:

Name of Directors	**Type of interests**	**Description of securities**	**Number of underlying shares**	**Approximate percentage of interests**
Ms. Ma Zheng	Beneficial	Share options (Note)	820,000	0.08%
Mr. Wong Pui Yiu	Beneficial	Share options (Note)	3,500,000	0.34%
Mr. Wan Tze Fan Terence	Beneficial	Share options (Note)	700,000	0.07%
Mr. Chung Chin Keung	Beneficial	Share options (Note)	700,000	0.07%
Mr. Wang Xiao Bing	Beneficial	Share options (Note)	700,000	0.07%

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

Directors' Report

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executive of the Company had any other interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations, within the meaning of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Share option

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

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

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

Directors' Report

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

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

On 9 May 2019, the total number of Shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme was refreshed to 102,398,743, being 10% of the number of issued Shares as at 9 May 2019.

As at 31 December 2019, total number of share options can be granted to qualified grantees or granted but not yet lapsed or cancelled were 161,668,743. As a result, 161,668,743 shares of the Company could be issued which represented about 15.79% of the issued share capital of the Company as at 31 December 2019 if all the share options were granted and exercised.

As at 31 December 2019, the remaining life of the Share Option Scheme was approximately 2 years and 5 months.

Directors' Report

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

				Number of share options					
Name or category of participant	Date of grant	Exercise period	Exercise price per share	Outstanding as at 1 January 2019	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31 December 2019
			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	53,250,000	–	–	(400,000)	–	52,850,000
Consultants	12 October 2018	12 October 2018 – 12 October 2019	0.71	90,000,000	–	–	(90,000,000)	–	–
Sub-total				**143,250,000**	**–**	**–**	**(90,400,000)**	**–**	**52,850,000**
Total				**149,670,000**	**–**	**–**	**(90,400,000)**	**–**	**59,270,000**

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 2019, the Company had been notified that the following substantial shareholders having the following interests and short positions, being 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, in the Company. These interests are shown in addition to those disclosed above in respect of the Directors and chief executives:

The approximate percentage of interests set out below is based on 1,023,987,439 ordinary shares in issue as at 31 December 2019.

(i) Long position in the ordinary shares of HK$0.0625 each in the Company as at 31 December 2019:

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

Directors' Report

Notes:

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

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

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

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

(ii) Long position in the underlying shares or debentures of the Company as at 31 December 2019:

Name	Type of interests	Description of derivatives	Number of underlying shares	Approximate percentage of interests
Golden Peak Minerals Limited	Beneficial	Convertible Bonds in the principal amount of HK$60,000,000 (Note)	60,000,000	5.86%

Note:

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

The Convertible Bonds were issued on 8 May 2015.

Directors' Report

Save as disclosed above, as at 31 December 2019, 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 76% of the total sales for the year, and sales to the largest customer included therein amounted to approximately 21%.

Purchases from the Group's largest supplier accounted for approximately 25% of the total purchases for the year and the five largest suppliers accounted for approximately 75% 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 2019.

Corporate governance

A report on the principal corporate governance practice adopted by the Company is set out on pages 29 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 and Code Provisions C.3.3 and C.3.7 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 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 2019, the Audit Committee is of the opinion that the financial statements of the Group for the year ended 31 December 2019 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 43 to the financial statements. The Directors are of the opinion that the related party transactions were conducted on normal commercial terms and in the ordinary course of business and did not require reporting pursuant to Chapter 20 of the GEM Listing Rules.

Directors' Report

Competition and conflict of interests

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

Principal risks and uncertainties

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

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

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

Environmental policies and performance

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

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. Detail information on the ESG practices adopted by the Company is set out in the ESG Report which is presented in a separate report and published on the websites of the Company and the HKEX.

Compliance with relevant laws and regulations

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

Relationship with employees, customers and suppliers

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

Directors' Report

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

Permitted indemnity provision

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

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

Sufficiency of public float

The Company had maintained sufficient public float throughout the year ended 31 December 2019.

Contingent liabilities

As at 31 December 2019, the Directors were not aware of any material contingent liabilities.

Significant event after the reporting date

Save as disclosed above, 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 2020

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 2019 contained in Appendix 15 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (collectively referred as the "GEM Listing Rules"), with the exception of two deviations as set out under section (D) and (F) below. The application of the relevant principles and the reasons for the abovementioned deviations are contained in this report.

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

(B) Directors' securities transactions

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

(C) Board of directors

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

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

Board Meetings

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

Corporate Governance Report

In case where a conflict of interest may arise involving a substantial shareholder or a director, such matter will be discussed through an actual meeting and will not be dealt with by written resolutions. Independent non-executive Directors with no conflict of interest will be presented 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 8 Board meetings in 2019. At least 14 days' notice of the regular Board meetings were given to all Directors, who were all given an opportunity to include matters in the agenda for discussion. Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each regular board meeting or committee meeting to keep Directors apprised of the latest development and financial position of the Company and to enable them to make informed decisions. The Directors attended the meetings in persons or through other means of electronic communication in accordance with the Articles of Association. During regular Board meetings, the Directors discussed and formulated the overall strategies of the Group, reviewed and approved the annual, interim and quarterly results, as well as discussed and decided on other significant matters of the Group. All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board. Individual attendance records of each Director at the respective Board and committee meetings are set out in the section of "Directors' Attendance Record at Meetings" of this report.

Continuous Professional Development

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

Corporate Governance Report

The individual training record of each Director received for the year ended 31 December 2019 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
Non-executive Director	
Mr. Ji Jianghua	Yes
Independent non-executive Directors	
Mr. Wan Tze Fan Terence	Yes
Mr. Chung Chin Keung	Yes
Mr. Wang Xiao Bing	Yes

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

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

(D) Chairman and chief executive officer

For the year 2019, the Company still did not have an officer with the title of "Chief Executive Officer". The Code envisages that the management of the Board should rest with the Chairman, whereas the day-to-day management of the Company's business should rest with the Chief Executive. Ms. Ma Zheng, the Chairman, is also a director of some of the Company's operating subsidiaries. This constitutes a deviation of code provision A.2.1 of the Code. The Board holds the view that this arrangement is appropriate for the Company but the Company does not compromise accountability and independent decision making for this since the Company has an audit committee, all members of which are independent non-executive Directors, to help to ensure the accountability and independence of Ms. Ma Zheng.

Corporate Governance Report

(E) Appointment and re-election of directors

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

(F) Non-executive directors and independent non-executive directors

During the year under review, the Company had one non-executive Director, Mr. Ji Jianghua and three independent non-executive Directors, they were Mr. Wan Tze Fan Terence, Mr. Chung Chin Keung and Mr. Wang Xiao Bing. Except for Mr. Ji Jianghua, 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 and Mr. Chung Chin Keung are independent non-executive Directors serving the Company for more than 9 years. Any future re-appointment of Mr. Wan Tze Fan Terence and Mr. Chung Chin Keung 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 and Mr. Chung Chin Keung continue to be independent as they have satisfied all the criteria for independence set out in Rule 5.09 of the GEM Listing Rules.

(G) Responsibilities of directors

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

Corporate governance functions

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

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

Corporate Governance Report

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

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

(a) significant breach of compliance policies;

(b) significant compliance incidents; and

(c) disciplinary actions taken by authorities;

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

(5) To pay attention to the 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 2019, the Board discharged its duties by reviewing and monitoring the Company's compliance with the Code and other legal and regulatory requirements, reviewing and updating the policy for notifiable transactions, connected transactions and inside information and the code of conduct regarding securities transactions by Directors, reviewing, facilitating and monitoring the training and continuous professional development of the Directors and reviewing the disclosures in this Corporate Governance Report.

(H) Remuneration committee

The Board has established a remuneration committee with specific written terms of reference in compliance with the code provision B.1.2 of the Code. These terms of reference were already reviewed by all Directors before they were adopted. During the year under review, the remuneration committee comprised only of the independent non-executive Directors, namely Mr. Wan Tze Fan Terence, Mr. Chung Chin Keung and Mr. Wang Xiao Bing. Mr. Chung Chin Keung has been appointed as chairman of the remuneration committee with effect from 12 November 2019. The remuneration committee had held one meeting during 2019.

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

Corporate Governance Report

(I) Nomination committee

The Company established the nomination committee on 22 March 2012 with written terms of reference in compliance with the code provision A.5.2 of the Code. The primary role and function of the nomination committee, among other things, are to (i) review the structure, size and composition of the Board at least once a year and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (ii) assess the independence of independent non-executive Directors; and (iii) make recommendations to the Board on the appointment and re-appointment of Directors. During the year under review, the nomination committee comprises three members, Mr. Wan Tze Fan Terence, Mr. Chung Chin Keung and Mr. Wang Xiao Bing, all of them are independent non-executive Directors. Mr. Chung Chin Keung has been appointed as Chairman of the nomination committee with effect from 12 November 2019.

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

(J) Audit committee

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules and code provisions C.3.3 and C.3.7 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 2019 annual report, 2019 quarterly reports and 2019 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 2019 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	8	4	1	1	1
Executive Directors					
Ms. Ma Zheng *(Chairman)*	7/8	4/4	0/1	0/1	1/1
Mr. Wong Pui Yiu	8/8	4/4	0/1	0/1	1/1
Non-executive Director					
Mr. Ji Jianghua	4/8	0/4	0/1	0/1	0/1
Independent non-executive Directors					
Mr. Wan Tze Fan Terence *(Chairman of audit committee)*	8/8	4/4	1/1	1/1	1/1
Mr. Chung Chin Keung *(Chairman of remuneration committee and nomination committee)*	7/8	3/4	0/1	0/1	0/1
Mr. Wang Xiao Bing	6/8	2/4	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 2019.

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 40 to 45.

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$1,560,000 (2018: approximately HK$1,520,000) was charged to the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019 for audit services provided by the external auditor. No non-audit services was provided by the external auditor in 2019.

(L) *Risk management and internal control*

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

Risk management and internal control systems

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

Process used to identify, evaluate and manage significant risks

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

Main features of risk management and internal control systems

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

Corporate Governance Report

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

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

The IA Team performed review on the major operating units of the Group in the fourth quarter of 2019 in compliance with the requirements under Code Provision C.2 of the Code, according to the scope of review agreed and directed by the Audit Committee covering the Group's material controls in financial, operational and compliance aspects. The review identified certain internal control weaknesses and risks but none of them are significant. The IA Team reported to the Audit Committee and the Audit Committee is satisfied that although there were areas that need to be improved, there has been no major deficiency noted in the areas of the Company's risk management and internal control systems being reviewed after implementation of recommendations of the internal control defects reported by the IA Team. Accordingly, the Board considered the risk management and internal control systems to be effective and have been implemented with adequate resources.

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

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

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

Corporate Governance Report

Effectiveness of the system

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

(M) Company secretary

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

(N) Communication with shareholders

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

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

(O) Investor relations

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

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

(P) Shareholders' rights

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

Corporate Governance Report

(Q) *Right to convene extraordinary general meeting*

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

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

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 46 to 148, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Independent Auditor's Report

(1) Valuation of investment properties

The Group's investment properties amounted to HK$210,614,000 as at 31 December 2019 and a fair value gain of HK$1,260,000 was accounted for under "gain arising from changes in fair value of investment properties" in the consolidated statement of profit or loss and other comprehensive income.

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

Refer to Notes 4(g), 5(e), and 17 to the consolidated financial statements.

How the matter was addressed in our audit

Our audit team included a valuation expert. Our audit procedures to access the valuation of investment properties included the following:

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

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

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

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

Independent Auditor's Report

(2) *Impairment testing*

Goodwill

As at 31 December 2019, the carrying amount of goodwill amounted to approximately HK$17,631,000, which for impairment testing purposes was allocated to two cash-generating units ("CGUs") engaged in the Group's natural gas business. During the year, the Group recognised an impairment loss on goodwill of HK$2,941,000 in the consolidated statement of profit or loss and other comprehensive income.

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

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

How the matter was addressed in our audit

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

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

(ii) checking the reasonableness of input data used in the Group's future cash flow projection of each CGU to supporting evidence, such as sales contracts and orders, and considering the reasonableness of these 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 2019 figures included in the prior year's forecast, by reference to future plans and by performing independent market analysis;

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

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

Independent Auditor's Report

Other Information in the Annual Report

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

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

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

Directors' Responsibilities for the Consolidated Financial Statements

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

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

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

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.

Independent Auditor's Report

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional 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

Wendy W.Y. Fong
Practising Certificate Number: P06821

Hong Kong, 23 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	**2019 HK$'000**	2018 HK$'000
Continuing operations			
Revenue	6	**91,646**	143,859
Other income and gains and losses	8	**1,154**	(1,403)
Changes in inventories of finished goods		**(55,301)**	(111,269)
Staff costs, including directors' remuneration	14	**(23,511)**	(26,077)
Depreciation		**(19,232)**	(13,229)
Amortisation of land use rights		**–**	(174)
Amortisation of other intangible assets	21	**(378)**	(378)
Gain arising from changes in fair value of investment properties	17	**1,260**	40,824
Gain on disposal of an associate	42	**8,394**	67
Impairment loss on goodwill	20	**(2,941)**	–
Impairment loss on trade receivables	25(b)	**(4,304)**	(1,922)
Recovery of impairment loss on trade receivables previously recognised	25(b)	**4,519**	–
Write off of other receivables		**(1,593)**	–
Other operating expenses		**(27,886)**	(29,011)
Share of (loss)/profit of an associate		**(94)**	530
Finance costs	9	**(4,500)**	(3,763)
Loss before income tax	10(a)	**(32,767)**	(1,946)
Income tax	11	**(466)**	(9,499)
Loss from continuing operations		**(33,233)**	(11,445)
Discontinued operations			
Loss from discontinued operations	10(b)	**–**	(3,002)
Loss for the year		**(33,233)**	(14,447)
Attributable to:			
Owners of the Company			
– From continuing operations		**(31,260)**	(7,715)
– From discontinued operations		**–**	(3,002)
		(31,260)	(10,717)
Non-controlling interests		**(1,973)**	(3,730)
Loss for the year		**(33,233)**	(14,447)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Surplus on revaluation of properties transferred from property, plant and equipment and land use rights to investment properties, net of tax		**–**	26,856
Changes in fair value of equity instruments at fair value through other comprehensive income		**(7)**	(13)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(9,102)**	(19,626)
Share of other comprehensive income of an associate		**–**	97
Items reclassified to profit or loss:			
Exchange differences reclassified to profit or loss upon disposal of an associate	42	**83**	–
Other comprehensive (loss)/income for the year		**(9,026)**	7,314
Total comprehensive loss for the year		**(42,259)**	(7,133)
Total comprehensive (loss)/income attributable to:			
Owners of the Company			
– From continuing operations		**(39,875)**	6,639
– From discontinued operations		**–**	(3,531)
Non-controlling interests		**(2,384)**	(10,241)
		(42,259)	(7,133)
Losses per share from continuing and discontinued operations	13		
– Basic		**(0.031)**	(0.011)
– Diluted		**(0.031)**	(0.011)
Losses per share from continuing operations	13		
– Basic		**(0.031)**	(0.008)
– Diluted		**(0.031)**	(0.008)

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	16	**152,815**	264,935
Investment properties	17	**210,614**	196,513
Land use rights	18	**–**	18,373
Goodwill	20	**17,631**	28,042
Other intangible assets	21	**2,427**	2,822
Interest in an associate	22	**–**	3,715
Equity instruments measured at fair value through other comprehensive income	23	**13**	20
Total non-current assets		**383,500**	514,420
Current assets			
Inventories	24	**4,402**	2,748
Trade receivables	25	**10,826**	31,442
Other receivables, deposits and prepayments	26	**52,508**	85,117
Investments held for trading	27	**94**	299
Cash and cash equivalents	28	**8,178**	38,588
		76,008	158,194
Assets classified as held for sale	29	**181,219**	–
Total current assets		**257,227**	158,194
Total assets		**640,727**	672,614
Current liabilities			
Trade payables	30	**11,627**	22,083
Other payables and accruals	31	**82,592**	110,681
Financial liabilities at fair value through profit or loss	32	**14,746**	12,907
Loans from a major shareholder	33	**35,893**	398
Obligations under finance leases	38	**–**	6,733
Lease liabilities	38	**7,526**	–
Borrowings	34	**34,509**	52,936
Tax payable		**393**	493
		187,286	206,231
Liabilities classified as held for sale	29	**22,015**	–
Total current liabilities		**209,301**	206,231
Net current assets/(liabilities)		**47,926**	(48,037)

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Loans from a major shareholder	33	–	13,246
Deferred tax liabilities	35	**27,196**	27,154
Obligations under finance leases	38	–	2,956
Lease liabilities	38	**10,060**	–
Borrowings	34	**24,610**	–
Total non-current liabilities		**61,866**	43,356
Total liabilities		**271,167**	249,587
NET ASSETS		**369,560**	423,027
Equity			
Share capital	36	**63,999**	63,999
Reserves		**286,802**	338,737
Equity attributable to owners of the Company		**350,801**	402,736
Non-controlling interests		**18,759**	20,291
TOTAL EQUITY		**369,560**	423,027

These financial statements were approved and authorised for issue by the board of directors on 23 March 2020.

Ma Zheng
Director

Wong Pui Yiu
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Equity attributable to owners of the Company											
	Share capital HK$'000 (Note 36)	**Share premium account HK$'000** (Note a)	**Convertible bonds equity reserve HK$'000** (Note 32)	**Statutory surplus reserve HK$'000** (Note b)	**Exchange translation reserve HK$'000** (Note c)	**Share option reserve HK$'000** (Note d)	**Property revaluation reserve HK$'000** (Note e)	**Financial assets at fair value through other comprehensive reserve HK$'000**	**Accumulated losses HK$'000**	**Total HK$'000**	**Non-controlling interests HK$'000**	**Total equity HK$'000**
Balance at 31 December 2018 and at 1 January 2019	**63,999**	**727,375**	**80,179**	**5,109**	**29,208**	**32,418**	**34,512**	**(13)**	**(570,051)**	**402,736**	**20,291**	**423,027**
Loss for the year	-	-	-	-	-	-	-	-	**(31,260)**	**(31,260)**	**(1,973)**	**(33,233)**
Other comprehensive income:												
Exchange differences on translation of foreign operations	-	-	-	-	**(8,608)**	-	-	-	-	**(8,608)**	**(411)**	**(9,019)**
Changes in fair value of equity instruments at fair value through over comprehensive income	-	-	-	-	-	-	-	**(7)**	-	**(7)**	-	**(7)**
Total comprehensive income	-	-	-	-	**(8,608)**	-	-	**(7)**	**(31,260)**	**(39,875)**	**(2,384)**	**(42,259)**
Lapse of share options (Note 37)	-	-	-	-	-	**(7,365)**	-	-	**7,365**	-	-	-
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	**(12,060)**	**(12,060)**	**(1,299)**	**(13,359)**
Contributions from non-controlling interests	-	-	-	-	-	-	-	-	-	-	**2,151**	**2,151**
Balance at 31 December 2019	**63,999**	**727,375**	**80,179**	**5,109**	**20,600**	**25,053**	**34,512**	**(20)**	**(606,006)**	**350,801**	**18,759**	**369,560**

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2019

Notes:

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

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

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

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

(e) Property revaluation reserve arose from a change in use from owner-occupied properties to investment properties carried at fair value.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
Cash flows from operating activities			
Loss before income tax from continuing operations		**(32,767)**	(1,946)
Loss before income tax from discontinued operation		**–**	(3,002)
		(32,767)	(4,948)
Adjustments for:			
Depreciation	16	**19,232**	16,351
Amortisation of land use rights	18	**–**	614
Amortisation of other intangible assets	21	**378**	378
Equity-settled share-based payment expenses	14&37	**–**	9,777
Bank interest income	8	**(57)**	(68)
Finance costs	9	**4,500**	3,763
Fair value loss on investments held for trading	8	**205**	101
Loss/(gain) on disposal of property, plant and equipment	8	**797**	(2,981)
Change in fair value of financial liabilities at fair value through profit or loss	8	**1,839**	4,896
Write off of property, plant and equipment	8	**20**	1,352
Reversal of impairment loss on inventories		**–**	(2,215)
Reversal of impairment loss on property, plant and equipment	8	**–**	(2,002)
Gain arising from changes in fair value of investment properties	17	**(1,260)**	(40,824)
Share of loss/(profit) of an associate		**94**	(530)
Impairment loss on goodwill	20	**2,941**	–
Impairment loss on trade receivables	25(b)	**4,304**	6,267
Recovery of impairment loss on trade receivables previously recognised	25(b)	**(4,519)**	(3,312)
Write off of other receivables		**1,593**	–
Gain on disposal of an associate	42	**(8,394)**	(67)
Operating loss before working capital changes		**(11,094)**	(13,448)
(Increase)/decrease in inventories		**(1,844)**	13,311
Decrease in trade receivables		**18,479**	74,542
Decrease/(increase) in other receivables, deposits and prepayments		**15,864**	(3,992)
Decrease in trade payables		**(10,456)**	(73,611)
Increase/(decrease) in other payables and accruals		**13,598**	(9,204)
Decrease in customers' deposits		**–**	(7,235)
Cash generated from/(used in) operations		**24,547**	(19,637)
Income tax paid		**(251)**	(478)
Bank interest income received		**57**	68
Net cash generated from/(used in) operating activities		**24,353**	(20,047)

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
Cash flows from investing activities			
Purchases of property, plant and equipment	41(a)	**(31,340)**	(34,408)
Purchase of land use rights	16	**(2,576)**	–
Proceeds from disposal of an associate	42	**11,932**	1,520
Capital expenditure on investment properties	17	**(39,723)**	–
Purchases of other intangible assets	21	**–**	(910)
Acquisition of non-controlling interests		**(6,704)**	–
Proceeds from disposal of property, plant and equipment		**561**	2,981
Net cash used in investing activities		**(67,850)**	(30,817)
Cash flows from financing activities			
Proceeds from borrowings		**33,072**	21,060
Repayment of borrowings		**(26,089)**	(11,671)
Repayment of principal portion of lease liabilities		**(10,232)**	–
Prepayment of principal portion of obligations under finance leases		**–**	(9,708)
Proceeds from subscription of shares		**–**	76,175
Loans from a major shareholder		**24,082**	10,059
Proceeds from non-controlling shareholder contribution		**2,151**	–
Repayment of loans from a major shareholder		**(1,833)**	(426)
Interest paid		**(4,500)**	(3,763)
Net cash generated from financing activities		**16,651**	81,726
Net (decrease)/increase in cash and cash equivalents		**(26,846)**	30,862
Cash and cash equivalents at beginning of year		**38,588**	10,841
Effect of foreign exchange rate changes		**(2,293)**	(3,115)
Cash and cash equivalents at end of year (including cash and cash equivalents classified as held for sale)		**9,449**	38,588
Less: Cash and cash equivalents classified as held for sale	29	**(1,271)**	–
Cash and cash equivalents at end of year		**8,178**	38,588
Analysis of the balances of cash and cash equivalents			
Cash at banks and in hand		**8,178**	38,588

Notes to the Financial Statements

31 DECEMBER 2019

1. ORGANISATION AND OPERATIONS

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

The principal activity of the Company is investment holding. The Group engages in the transmission and distribution of natural gas, and property investment primarily in the People's Republic of China ("PRC"), and trading of electronic components in Hong Kong. The activities of the principal subsidiaries are set out in Note 19.

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2019

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.

HKFRS 16	Leases
HK(IFRIC)-Int23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features and Negative Compensation
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

HKFRS 16 – Leases

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("HKAS 17"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the consolidated statement of financial position as a right-of-use assets and a lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (v) of this note.

Notes to the Financial Statements

31 DECEMBER 2019

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2019 (Continued)

HKFRS 16 – Leases (Continued)

(i) Impact of the adoption of HKFRS 16 (Continued)

The Group has adopted HKFRS 16 using the cumulative effect approach from the date of initial application of 1 January 2019. Under this approach, certain opening account balances were reclassified or adjusted as detailed below at 1 January 2019. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The following tables summarised the impact of transition to HKFRS 16 on consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows (increase/(decrease)):

	HK$'000
Consolidated statement of financial position as at 1 January 2019	
Right-of-use assets presented in property, plant and equipment (Note 16(i))	56,547
Non-current portion of land use rights (Note 18)	(18,373)
Current portion of land use rights included in other receivables, deposits and prepayments (Note 18)	(742)
Lease liabilities (non-current)	14,773
Lease liabilities (current)	5,427
Obligations under finance leases (non-current)	(2,956)
Obligations under finance leases (current)	(6,733)

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 as at 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

	HK$'000
Reconciliation of operating lease commitments to lease liabilities	
Operating lease commitments as at 31 December 2018	11,776
Less: short term leases for which lease terms end within 31 December 2019	(786)
Less: future interest expenses	(481)
Add: finance leases liabilities as of 31 December 2018	9,689
Add: exchange realignment	2
Total lease liabilities as of 1 January 2019	20,200

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 is 9%.

Notes to the Financial Statements

31 DECEMBER 2019

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2019 (Continued)

HKFRS 16 – Leases (Continued)

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the consolidated statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Notes to the Financial Statements

31 DECEMBER 2019

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2019 (Continued)

HKFRS 16 – Leases (Continued)

(iii) Accounting as a lessee (Continued)

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. For right-of-use asset that meets the definition of an investment property, they are carried at fair value.

For the Group, leasehold land and buildings that were held for rental or capital appreciation purpose would continue to be accounted for under HKAS 40 and would be carried at fair value. For leasehold land and buildings which is held for own use would continue to be accounted for under HKAS 16 and would be carried at cost less accumulated depreciation and any accumulated impairment loss. The adoption of HKFRS 16 therefore does not have any significant impact on these right-of-use assets.

Notes to the Financial Statements

31 DECEMBER 2019

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2019 (Continued)

HKFRS 16 – Leases (Continued)

(iii) Accounting as a lessee (Continued)

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Accounting as a lessor

The Group has leased out its investment properties to a number of tenants. As the accounting under HKFRS 16 for a lessor is substantially unchanged from the requirements under HKAS 17, the adoption of HKFRS 16 does not have significant impact on these consolidated financial statements.

Notes to the Financial Statements

31 DECEMBER 2019

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2019 (Continued)

HKFRS 16 – Leases (Continued)

(v) Transition

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as adjustments to certain opening account balances at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases under HKAS 17 at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position immediately before the date of initial application. For all these right-of-use assets, the Group has applied practical expedient on its assessment of whether leases are onerous applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application by the amount of any provision for onerous leases recognised in the consolidated statement of financial position immediately before the date of initial application.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases; (iii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 January 2019 and (iv) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int4.

Notes to the Financial Statements

31 DECEMBER 2019

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2019 (Continued)

HKFRS 16 – Leases (Continued)

(v) Transition (Continued)

The Group has also leased a motor vehicle and certain plant and machinery which previously were classified as finance leases under HKAS 17. The Group has elected to adopt the cumulative effect method upon the adoption of HKFRS 16 as of 1 January 2019. The Group did not change the initial carrying amounts of recognised leased assets and liabilities at the date of initial application of leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the corresponding lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities (i.e. obligations under finance leases) measured under HKAS 17.

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

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

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

The adoption of the interpretation has no impact on these financial statements as the Group did not have any uncertain tax positions.

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

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

The adoption of these amendments has no impact on these financial statements as the Group does not have any prepayable financial assets with negative compensation.

Notes to the Financial Statements

31 DECEMBER 2019

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2019 (Continued)

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

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

The adoption of these amendments has no impact on these financial statements as the Group does not have any joint operations.

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

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

The adoption of these amendments has no impact on these financial statements as the Group does not have any dividends recognised during the year.

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

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

The adoption of these amendments has no impact on these financial statements as the Group does not have any borrowing costs that fulfilled the capitalisation requirements in accordance to HKAS 23.

Notes to the Financial Statements

31 DECEMBER 2019

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 HKFRS 3	Definition of a business[1]
Amendments to HKAS 1 and HKAS 8	Definition of material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]

[1] Effective for annual periods beginning on or after 1 January 2020

Amendments to HKFRS 3 – Definition of a business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process".

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of "outputs" and a "business" to focus on returns from selling goods and services to customers, rather than on cost reductions. An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

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

Amendments to HKAS 1 and HKAS 8 – Definition of material

The amendments clarify the definition and explanation of "material", aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

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

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 – Interest Rate Benchmark Reform

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

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

Notes to the Financial Statements

31 DECEMBER 2019

3. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

These financial statements have been prepared under the historical cost convention except for certain properties and financial instruments, which are measured at fair values.

4. PRINCIPAL ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

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

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

Notes to the Financial Statements

31 DECEMBER 2019

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 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.

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

Notes to the Financial Statements

31 DECEMBER 2019

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(b) Subsidiaries

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

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

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

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

– Other contractual arrangements; and

– Historic patterns in voting attendance.

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

(c) Associates

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

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

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.

Notes to the Financial Statements

31 DECEMBER 2019

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(d) Goodwill

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

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

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

Notes to the Financial Statements

31 DECEMBER 2019

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Other intangible assets

(i) Acquired intangible assets

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

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

Customer relationships	10 years
Energy use right	unit per consumption

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

(ii) Impairment

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

Notes to the Financial Statements

31 DECEMBER 2019

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. When an item of property, plant and equipments is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in Note 4(m).

The cost of an item of property, plant and equipments comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy in Note 4(u). 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%
Plant and machinery	10%
Furniture, fixtures and office equipment	20% – 33%
Motor vehicles	20%

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

Since 1 January 2019 upon new adoption of HKFRS16, right-of-use assets are depreciated over their expected useful life on the same basis as owned assets, or where shorter, the term of relevant lease.

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

Notes to the Financial Statements

31 DECEMBER 2019

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(f) Property, plant and equipment (Continued)

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

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

(g) Investment properties

Investment properties are land and/or buildings which are owned or held under leasehold interest either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

(h) Land use rights (accounting policies applied until 31 December 2018)

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

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

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

- property, plant and equipment (including right-of-use assets) under cost model;
- interests in subsidiaries;
- interests in associates; and
- other intangible assets

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

Notes to the Financial Statements

31 DECEMBER 2019

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

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

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

(j) Inventories

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

Notes to the Financial Statements

31 DECEMBER 2019

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(k) Financial Instruments

(i) Financial assets

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

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

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

Debt instruments

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

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

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

Notes to the Financial Statements

31 DECEMBER 2019

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(k) Financial Instruments (Continued)

(i) Financial assets (Continued)

Debt instruments (Continued)

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

Equity instruments

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

(ii) Impairment loss on financial assets

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

Notes to the Financial Statements

31 DECEMBER 2019

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Financial Instruments (Continued)

(ii) Impairment loss on financial assets (Continued)

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

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

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

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due unless the Group has reasonable and supportable information that a more lagging default criteria is more appropriate.

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

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

Notes to the Financial Statements

31 DECEMBER 2019

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(k) Financial Instruments (Continued)

(iii) Financial liabilities

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

Financial liabilities at fair value through profit or loss

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

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

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

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

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

Notes to the Financial Statements

31 DECEMBER 2019

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(k) Financial Instruments (Continued)

(iv) Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

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

Convertible bonds

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

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

Subsequent to initial recognition, financial assets or 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 2019

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Financial Instruments (Continued)

(v) Effective interest method

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

(vi) Derecognition

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

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

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

(l) 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.

Notes to the Financial Statements

31 DECEMBER 2019

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(m) Non-current assets and disposal groups held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale when:

– they are available for immediate sale;
– management is committed to a plan to sell;
– it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
– an active programme to locate a buyer has been initiated;
– the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
– a sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups (other than deferred tax assets and financial assets) classified as held for sale are measured at the lower of:

– their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
– fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the consolidated statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the consolidated statement of financial position.

The results of operations disposed of during the year are included in profit or loss up to the date of disposal.

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the consolidated statement of profit or loss and other comprehensive income.

Notes to the Financial Statements

31 DECEMBER 2019

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Leasing (accounting policies applied from 1 January 2019)

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. For right-of-use asset that meets the definition of an investment property, they are carried at fair value.

The Group accounts for leasehold land and buildings that are held for rental or capital appreciation purpose under HKAS 40 and are carried at fair value. The Group accounts for leasehold land and buildings which is held for own use under HKAS 16 and are carried at cost less accumulated depreciation and any accumulated impairment loss.

Notes to the Financial Statements

31 DECEMBER 2019

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Leasing (accounting policies applied from 1 January 2019) (Continued)

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

Accounting as a lessor

The Group has leased out its investment properties to a number of tenants. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

Notes to the Financial Statements

31 DECEMBER 2019

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Leases (accounting policies applied until 31 December 2018)

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

The Group as lessee

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

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

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.

(p) Provisions and contingent liabilities

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

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

Notes to the Financial Statements

31 DECEMBER 2019

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(q) Income taxes

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

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

Notes to the Financial Statements

31 DECEMBER 2019

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Foreign currencies

Functional and presentation currency

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

Transactions and balances

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

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

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.

Notes to the Financial Statements

31 DECEMBER 2019

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(s) Employees' benefits

(i) Short term benefits

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

(ii) Pension obligations

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

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

(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.

Notes to the Financial Statements

31 DECEMBER 2019

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(t) 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.

(u) Borrowing costs

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

Notes to the Financial Statements

31 DECEMBER 2019

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(v) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

31 DECEMBER 2019

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(v) Related parties (Continued)

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

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

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

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

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

(w) Revenue recognition

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

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

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

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

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

Notes to the Financial Statements

31 DECEMBER 2019

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(w) Revenue recognition (Continued)

Transmission and distribution of natural gas

(a) Trading of natural gas

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

(b) Natural gas transportation managing fee

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

Trading of electronic components

Customers obtain control of electronic components, i.e. mobile phone flash memory, when goods are delivered to and have been accepted. Revenue is recognised upon when the customers accepted the goods, without any right of return or rebate granted. There is generally one performance obligation. No credit term was granted to the customer as payment was due when the sales invoices were issued for the customers. Contracts generally have no right of return and no variable consideration.

Rental income

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

Manufacture and sale of Polyethylene pipes ("PE pipes") (business ceased in 2018)

Customers obtained control of the PE pipes when the goods were delivered to and had been accepted, without any right of return or rebate granted. Revenue was thus recognised upon when the customers accepted the PE pipes. There was generally only one performance obligation. Invoices were usually payable within 30 days.

Interest income

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

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

(b) 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.

(c) Impairment of trade and other receivables

The loss allowances for trade and other receivables are based on assumptions about risk of default and ECL rates. The Group uses judgement in making these assumptions and estimating the ECLs, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Notes to the Financial Statements

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

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

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

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

The Group measures the below items at fair value:

– Investment properties (Note 17);

– Equity instrument measured at fair value through other comprehensive income (Note 23);

– Investments held for trading (Note 27); and

– Financial liabilities at fair value through profit or loss (Note 32).

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

Notes to the Financial Statements

31 DECEMBER 2019

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

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

	2019 HK$'000	2018 HK$'000
Continuing operations		
Revenue from contracts with customers		
Transmission and distribution of natural gas	**66,452**	55,752
Sales of electronic components	**14,242**	85,460
Revenue from other sources		
Gross rental income	**10,952**	2,647
	91,646	143,859
Discontinued operations		
Revenue from contracts with customers		
Sales of PE pipes	**–**	29,365
	91,646	173,224

Trade receivables from contracts with customers as at 31 December 2019 amounted to HK$11,735,000 (2018: HK$31,442,000).

Notes to the Financial Statements

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7. SEGMENT REPORTING

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

The Group has three reportable segments for the years ended 31 December 2019 (2018: four). The segments are managed separately as each business offers different products and requires different business strategies. The following summary describes the operations of each of the Group's reportable segments:

Revenue from contracts with customers within the scope of HKFRS 15

– Transmission and distribution of natural gas

– Trading of electronic components

– Manufacture and sale of PE pipes (ceased its business in 2018)

Revenue from other sources

– Property investment

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

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

Inter-segment transfer of non-current assets are priced at net book value as at transfer date. There was no inter-segment sale or transfer during the years ended 31 December 2019 and 2018. Central revenue and expenses are not allocated to the operating segments as they are not included in the measurement of the segment result that is used by the chief operating decision-maker for assessment of segment performance.

Notes to the Financial Statements

31 DECEMBER 2019

7. SEGMENT REPORTING (Continued)

(a) Reportable segments

For the year ended 31 December 2019

	Transmission and distribution of natural gas HK$'000	Trading of electronic components HK$'000	Property investment HK$'000	Total HK$'000
Revenue from external customers	66,452	14,242	10,952	91,646
Reportable segment (loss)/profit	(3,685)	(1,749)	7,148	1,714
Reportable segment assets	331,596	4,164	253,016	588,776
Reportable segment liabilities	(68,039)	(1,528)	(65,751)	(135,318)
Other segment information:				
Bank interest income	10	35	4	49
Unallocated				8
Total bank interest income				57
Share of loss of an associate	(94)	-	-	(94)
Gain on disposal of an associate	8,394	-	-	8,394
Depreciation	(14,584)	-	(1,712)	(16,296)
Unallocated				(2,936)
Total depreciation				(19,232)
Amortisation of other intangible assets	(378)	-	-	(378)
Impairment loss on goodwill	(2,941)	-	-	(2,941)
Recovery of impairment loss on trade receivables previously recognised	44	-	-	44
Unallocated				4,475
Total recovery of impairment loss on trade receivables previously recognised				4,519
Impairment loss on trade receivables	(32)	(849)	-	(881)
Unallocated				(3,423)
Total impairment loss on trade receivables				(4,304)
Write off of other receivables	(1,187)	-	-	(1,187)
Unallocated				(406)
Total write off of other receivables				(1,593)
Bad debt recovery	433	-	-	433
Unallocated				960
Total bad debt recovery				1,393
Gain/(loss) on disposal of property, plant and equipment	-	160	(957)	(797)
Gain arising from changes in fair value of investment properties	-	-	1,260	1,260
Additions to non-current assets	33,586	-	22,801	56,387
Unallocated				1,698
Total additions to non-current assets				58,085

Notes to the Financial Statements

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7. SEGMENT REPORTING (Continued)

(a) Reportable segments (Continued)

For the year ended 31 December 2018

	Continuing operations				Discontinued operations	
	Transmission and distribution of natural gas HK$'000	Trading of electronic components HK$'000	Property investment HK$'000	Total HK$'000	Manufacture and sale of PE pipes HK$'000	Total HK$'000
Revenue from external customers	55,752	85,460	2,647	143,859	29,365	173,224
Reportable segment (loss)/profit	(5,768)	63	44,586	38,881	(3,002)	35,879
Reportable segment assets	324,444	10,757	232,976	568,177	9,916	578,093
Reportable segment liabilities	(57,040)	(16,582)	(81,398)	(155,020)	(3,503)	(158,523)
Other segment information:						
Bank interest income	12	5	–	17	96	113
Unallocated						51
Total bank interest income						164
Share of profit of an associate	530	–	–	530	–	530
Gain on partial disposal of an associate	67	–	–	67	–	67
Depreciation	(12,255)	(645)	–	(12,900)	(3,122)	(16,022)
Unallocated						(329)
Total depreciation						(16,351)
Amortisation of land use rights	(174)	–	–	(174)	(440)	(614)
Amortisation of other intangible assets	(378)	–	–	(378)	–	(378)
Recovery of impairment loss on trade receivables previously recognised	–	–	–	–	3,312	3,312
Impairment loss on trade receivables	(735)	(300)	(887)	(1,922)	(4,345)	(6,267)
Reversal of impairment loss on inventories	–	–	–	–	2,215	2,215
Gain on disposal of property, plant and equipment	–	–	–	–	2,981	2,981
Gain arising from changes in fair value of investment properties	–	–	40,824	40,824	–	40,824
Interest in an associate	3,715	–	–	3,715	–	3,715
Additions to non-current assets	13,880	–	58,599	72,479	306	72,785

Notes to the Financial Statements

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7. SEGMENT REPORTING (Continued)

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

	2019 HK$'000	2018 HK$'000
Loss before income tax and discontinued operations		
Total reportable segment's profit	**1,714**	35,879
Segment loss from discontinued operations	**–**	3,002
Unallocated other income and gains and losses	**(1,831)**	(4,874)
Corporate and other unallocated expenses	**(28,150)**	(32,190)
Finance costs	**(4,500)**	(3,763)
Consolidated loss before income tax from continuing operations	**(32,767)**	(1,946)

	2019 HK$'000	2018 HK$'000
Assets		
Total reportable segment's assets	**588,776**	578,093
Cash and cash equivalents	**8,178**	38,588
Unallocated corporate assets	**43,773**	55,933
Consolidated total assets	**640,727**	672,614

	2019 HK$'000	2018 HK$'000
Liabilities		
Total reportable segment's liabilities	**(135,318)**	(158,523)
Deferred tax liabilities	**(27,196)**	(27,154)
Unallocated corporate liabilities	**(108,653)**	(63,910)
Consolidated total liabilities	**(271,167)**	(249,587)

Notes to the Financial Statements

31 DECEMBER 2019

7. SEGMENT REPORTING (Continued)

(c) Disaggregation of revenue from contracts with customers

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

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

For the year ended 31 December 2019

	Continuing operations				Discontinued operations	
	Transmission and distribution of natural gas HK$'000	Trading of electronic components HK$'000	Property investment HK$'000	Total HK$'000	Manufacture and sale of PE pipes HK$'000	Total HK$'000
Primary geographical markets						
Hong Kong	–	14,242	–	14,242	–	14,242
PRC	66,452	–	10,952	77,404	–	77,404
	66,452	14,242	10,952	91,646	–	91,646
Major products/services						
Sales of goods	56,233	14,242	–	70,475	–	70,475
Management fee for natural gas transportation	10,219	–	–	10,219	–	10,219
Rental income	–	–	10,952	10,952	–	10,952
	66,452	14,242	10,952	91,646	–	91,646

For the year ended 31 December 2018

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

Notes to the Financial Statements

31 DECEMBER 2019

7. SEGMENT REPORTING (Continued)

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

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

	2019 **HK$'000**	2018 HK$'000
Hong Kong	**14,242**	85,460
PRC (place of domicile)	**77,404**	87,764
	91,646	173,224

(d) Information about major customers

For the year ended 31 December 2019, revenue from a customer in trading of electronic components and a customer in transmission and distribution of natural gas segment amounted to HK$14,242,000 and HK$38,802,000 respectively. Each of these two customers contributed to 10% or more of the Group's total revenue.

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

8. OTHER INCOME AND GAINS AND LOSSES

	2019 **HK$'000**	2018 HK$'000
Continuing operations		
Sundry income	**2,439**	2,721
Bad debt recovery	**1,393**	–
Exchange gains, net	**126**	155
Bank interest income	**57**	68
Reversal of impairment loss on property, plant and equipment (Note 16(ii))	**–**	2,002
Write off of property, plant and equipment	**(20)**	(1,352)
Fair value loss on investments held for trading	**(205)**	(101)
Loss on disposal of property, plant and equipment	**(797)**	–
Change in fair value of financial liabilities at fair value through profit or loss (Note 32)	**(1,839)**	(4,896)
	1,154	(1,403)

Notes to the Financial Statements

31 DECEMBER 2019

9. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Continuing operations		
Interest on bank loans and other borrowings	**2,461**	2,489
Interest on loans from a major shareholder	**1,216**	207
Interest on lease liabilities	**823**	–
Interest on finance leases	**–**	1,067
	4,500	3,763

10. LOSS BEFORE INCOME TAX

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

	2019 HK$'000	2018 HK$'000
Continuing operations		
Cost of inventories sold	**62,577**	121,102
Auditor's remuneration	**1,560**	1,520
Minimum operating lease payments for leases previously classified as operating leases under HKAS 17	**–**	4,340
Short-term lease expenses	**1,023**	–
Depreciation of property, plant and equipment		
– Owned	**13,204**	8,197
– Right-of-use assets (Note)	**6,028**	–
– Held under finance leases	**–**	5,032
	19,232	13,229
Equity-settled share-based payments to the consultants of the Group (Note 37(b))	**–**	7,200

Note:

The Group has initially applied HKFRS 16 using the cumulative effect approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The amortised carrying amount of land use rights and depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment are also identified as right-of-use assets. After initial recognition of right-of-use assets at 1 January 2019, the Group as lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information has not been restated (Note 2(a)(i)).

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10. LOSS BEFORE INCOME TAX (Continued)

(b) Discontinued operations

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

	2018 HK$'000
Revenue	29,365
Other income	3,773
Expenses	(36,140)
Loss before income tax	(3,002)
Income tax	–
Loss for the year from discontinued operations	(3,002)
Operating cash flows	(35,383)
Investing cash flows	2,675
Financing cash flows	–
Total cash flows	(32,708)

Notes to the Financial Statements

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11. INCOME TAX

	2019 **HK$'000**	2018 HK$'000
Current tax – PRC		
– tax for the year	**151**	357
– over provision in respect of prior years	**–**	(1,064)
	151	(707)
Deferred tax liabilities (Note 35)		
– current year	**315**	10,206
Total income tax for the year	**466**	9,499

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

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

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

	2019 **HK$'000**	2018 HK$'000
Loss from continuing operations before income tax	**(32,767)**	(1,946)
Loss from discontinued operations before income tax	**–**	(3,002)
Loss before income tax	**(32,767)**	(4,948)
Income tax credit calculated at the statutory PRC EIT tax rate of 25% (2018: 25%)	**(8,192)**	(1,237)
Effect of different tax rates of subsidiaries operating in Hong Kong	**1,498**	2,186
Tax effect of expenses not deductible for taxation purposes	**6,902**	6,392
Tax effect of non-taxable items	**(3,710)**	(873)
Tax effect of unused tax losses and other temporary differences not recognised	**7,461**	4,968
Utilisation of previously unrecognised tax losses	**(3,493)**	(873)
Over provision in respect of prior years	**–**	(1,064)
Income tax for the year	**466**	9,499

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12. DIVIDEND

The board of directors does not recommend the payment of any dividend for the year ended 31 December 2019 (2018: Nil).

13. LOSSES PER SHARE

From continuing and discontinued operations

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

	2019 **HK$'000**	2018 HK$'000
Loss for the year attributable to owners of the Company	**(31,260)**	(10,717)

From continuing operations

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

	2019 **HK$'000**	2018 HK$'000
Loss for the year from continuing and discontinued operations	**(31,260)**	(10,717)
Less: loss for the year from discontinued operations	**–**	(3,002)
Loss from continuing operations	**(31,260)**	(7,715)

The denominator used for both loss per share from continuing and discontinued operations is the weighted average number of ordinary shares of 1,023,987,000 (2018: 1,006,900,000) in issue during the year.

The computation of diluted losses per share for the years ended 31 December 2019 and 2018 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 losses per share. Accordingly, the basic and diluted loss per share for the years ended 31 December 2019 and 2018 are the same.

From discontinued operations

Basic and diluted losses per share from the discontinued operation is HK$0.003 per share, based on the loss for the year ended 31 December 2018 from the discontinued operations.

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

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14. STAFF COSTS, INCLUDING DIRECTORS' REMUNERATION

	2019 HK$'000	2018 HK$'000
Salaries and allowances	**21,934**	24,646
Retirement benefit scheme contributions	**1,577**	2,126
Equity-settled share-based payment expenses	**–**	2,577
	23,511	29,349
Staff costs, including directors' remuneration is attributable to:		
– Loss from continuing operations	**23,511**	26,077
– Loss from discontinued operations	**–**	3,272
	23,511	29,349

15. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Executive directors and non-executive directors

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
2019				
Executive directors:				
Ms. Ma Zheng	–	1,237	18	1,255
Mr. Wong Pui Yiu	–	694	18	712
	–	1,931	36	1,967
Non-executive director:				
Mr. Ji Jianghua	180	–	–	180
Independent non-executive directors:				
Mr. Wan Tze Fan Terence	180	–	–	180
Mr. Chung Chin Keung	180	–	–	180
Mr. Wang Xiao Bing	180	–	–	180
	540	–	–	540
	720	1,931	36	2,687

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

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

	Fees HK$'000	Salaries and allowances HK$'000	Share-based payment (Note(ii)) HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
2018					
Executive directors:					
Ms. Ma Zheng	–	1,214	32	18	1,264
Mr. Wong Pui Yiu	–	802	136	18	956
	–	2,016	168	36	2,220
Non-executive director:					
Mr. Ji Jianghua	110	–	–	–	110
Independent non-executive directors:					
Mr. Wan Tze Fan Terence	180	–	27	–	207
Mr. Chung Chin Keung	180	–	27	–	207
Mr. Wang Xiao Bing	180	–	27	–	207
	540	–	81	–	621
	650	2,016	249	36	2,951

Notes:

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

(ii) These amounts represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the accounting policy for share-based payments as set out in Note 4(t) to the financial statements. Further details of the options granted are set out in Note 37 to the financial statements.

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

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

(b) Five highest paid individuals

The five highest paid individuals during the year included two (2018: two) directors, details of whose remuneration are set out in Note 15(a) above. Details of the remuneration of the remaining three (2018: three) non-director, highest paid individuals for the year are as follows:

	2019 HK$'000	2018 HK$'000
Basic salaries, share options and other benefits	2,178	2,543
Discretionary bonuses	145	145
Retirement benefit scheme contributions	54	54
	2,377	2,742

Their emoluments fell within the following bands:

	Number of individuals	
	2019	2018
HK$Nil – HK$500,000	1	1
HK$500,001 – HK$1,000,000	1	1
HK$1,000,001 – HK$1,500,000	1	1
	3	3

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

	Number of individuals	
	2019	2018
HK$500,001 – HK$1,000,000	1	1

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16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000 (Note (i))	Land use rights HK$'000	Leasehold improvements HK$'000	Computer equipment HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost									
As 1 January 2018	82,433	–	1,454	1,642	321,308	1,060	11,951	16,542	436,390
Additions	135	–	–	55	2,807	162	852	11,368	15,379
Disposals	–	–	–	–	(63,014)	–	–	–	(63,014)
Write off	–	–	(163)	(3)	–	(28)	(352)	(1,104)	(1,650)
Reclassification	12,367	–	–	–	228	–	–	(12,595)	–
Transfer to investment properties (Note(iii))	(17,007)	–	–	–	–	–	–	–	(17,007)
Exchange realignment	(4,228)	–	(12)	(75)	(14,719)	(18)	(510)	(909)	(20,471)
At 31 December 2018	73,700	–	1,279	1,619	246,610	1,176	11,941	13,302	349,627
Initial application of HKFRS16	10,511	23,921	–	–	–	–	–	–	34,432
Restated balance at 1 January 2019	84,211	23,921	1,279	1,619	246,610	1,176	11,941	13,302	384,059
Additions	8,027	2,576	162	104	10,680	9	920	19,356	41,834
Disposals	(93)	–	–	–	(1,529)	–	–	–	(1,622)
Write off	–	–	–	–	–	–	–	(20)	(20)
Reclassification	5,292	–	–	–	587	–	–	(5,879)	–
Classified as held for sale (Note 29)	–	–	–	(159)	(168,099)	(158)	(691)	(2,500)	(171,607)
Exchange realignment	(1,175)	(417)	(1)	(26)	(6,606)	(11)	(176)	(157)	(8,569)
At 31 December 2019	96,262	26,080	1,440	1,538	81,643	1,016	11,994	24,102	244,075
Accumulated depreciation and impairment									
At 1 January 2018	41,771	–	871	1,231	92,391	719	6,570	–	143,553
Depreciation	3,356	–	393	136	10,823	319	1,324	–	16,351
Disposals	–	–	–	–	(63,014)	–	–	–	(63,014)
Write off	–	–	–	(3)	–	(27)	(268)	–	(298)
Transfer to investment properties (Note(iii))	(6,342)	–	–	–	–	–	–	–	(6,342)
Exchange realignment	(1,090)	–	(1)	(54)	(4,134)	(14)	(265)	–	(5,558)
At 31 December 2018	37,695	–	1,263	1,310	36,066	997	7,361	–	84,692
Initial application of HKFRS 16	–	4,806	–	–	–	–	–	–	4,806
Restated balance at 1 January 2019	37,695	4,806	1,263	1,310	36,066	997	7,361	–	89,498
Depreciation	4,708	558	9	99	11,570	97	2,191	–	19,232
Disposals	(30)	–	–	–	(234)	–	–	–	(264)
Classified as held for sale (Note 29)	–	–	–	–	(15,386)	(136)	(591)	–	(16,113)
Exchange realignment	(465)	(81)	(1)	(26)	(415)	(8)	(97)	–	(1,093)
At 31 December 2019	41,908	5,283	1,271	1,383	31,601	950	8,864	–	91,260
Net book value									
At 31 December 2019	54,354	20,797	169	155	50,042	66	3,130	24,102	152,815
At 31 December 2018	36,005	–	16	309	210,544	179	4,580	13,302	264,935

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16. PROPERTY, PLANT AND EQUIPMENT (Continued)

Note:

(i) Right-of-use assets are included in items of property, plant and equipment below:

	Land and buildings HK$'000	Land use rights HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Total HK$'000
At 1 January 2019 (Note 2(a)(i))	10,511	19,115	709	26,212	56,547
Additions	5,758	2,576	–	2,160	10,494
Depreciation	(3,026)	(558)	(239)	(2,205)	(6,028)
Exchange realignment	(95)	(336)	(14)	(497)	(942)
At 31 December 2019	13,148	20,797	456	25,670	60,071

The carrying amounts of the Group's assets held under finance leases included in the total amounts of plant and machinery and motor vehicles at 31 December 2018 were HK$26,212,000 and HK$709,000 respectively. As at 1 January 2019 upon initial application of HKFRS 16, assets held under finance leases as at 31 December 2018 were reclassified as right-of-use assets (Note 2(a)(i)).

Rights of use on motor vehicles and plant and machinery were held by entering into hire purchase arrangements, with lease term of 3 years. The leases do not have options to renew or any contingent rental provisions. These right-of-use assets are secured by corporate guarantee of a subsidiary of the Company, personal guarantee by a major shareholder of the Company, Ms. Ma Zheng , and a director of a subsidiary of the Company, Mr Yuan Geng.

(ii) During the year ended 31 December 2018, the use of certain properties previously held for own use had been changed to long term leasing purpose, as evidenced by the signing of the operational agreement with the PRC government for the change in use of the properties and commencement of long term operating leases. These properties, with total carrying amounts of HK$20,190,000 (including HK$9,525,000 classified as land use rights) and total fair values as at the date of change in use of HK$58,000,000 (including the land use rights), were transferred from "leasehold land and buildings" in property, plant and equipment and "land use rights" to "investment properties" (Note 17) accordingly. As a result of the transfer at fair values of the properties as at the date of change in use, a revaluation surplus, net of tax, of HK$26,856,000 had been recognised in other comprehensive income and accumulated in the other property revaluation reserve and a reversal of impairment loss of HK$2,002,000 had been recognised in consolidated profit or loss.

(iii) As at 31 December 2019, certain of the Group's land use rights with aggregate carrying amount of approximately HK$6,250,000 (2018: HK$Nil) were pledged to secure bank borrowings granted to the Group (Note 34).

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17. INVESTMENT PROPERTIES

The Group's investment properties are industrial properties in the PRC. The Group determined the fair value of the Group's investment properties at the end of the reporting period on market value basis carried out by Greater China Appraisal Limited ("Greater China"), an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment properties being valued.

The investment properties are leased to third parties under operating leases, further summary details of which are included in Note 39.

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

	2019	2018
	HK$'000	HK$'000
Opening balance	**196,513**	42,839
Fair values of property, plant and equipment and land use rights as at date of transfer into investment properties	**–**	58,000
Additions		
– Subsequent expenditure	**16,251**	56,496
Gain from remeasurement to fair value	**1,260**	40,824
Exchange realignment	**(3,410)**	(1,646)
Closing balance	**210,614**	196,513

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

Significant unobservable inputs

	2019	2018
Term yield	**6%**	6%
Reversionary yield	**6.5%**	6.5%
Market rental	**RMB11.7 to 12.9 per square meter**	RMB11.5 to 12 per square meter

The higher the term yield and reversionary yield, the lower the fair value. The higher the rental growth rate, the higher the fair value. There were no changes to the valuation techniques during the year.

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17. INVESTMENT PROPERTIES (Continued)

Significant unobservable inputs (Continued)

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

During the years ended 31 December 2019 and 2018, there were no transfers into or out of Level 3 or any other Level. The Group's policy is to recognise transfers between Levels of the fair value hierarchy as at the end of the reporting period in which they occur.

As at 31 December 2019, certain of the Group's investment properties with aggregate carrying value of HK$200,815,000 (2018: HK$100,397,000) were pledged to secure the bank and other loans granted to the Group as set out in Note 34.

18. LAND USE RIGHTS

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

	HK$'000
At 1 January 2018	30,856
Transfer to investment properties (Note 16(iii))	(9,525)
Amortisation	(614)
Exchange realignment	(1,602)
At 31 December 2018	19,115
Less: Current portion included in other receivables, deposits and prepayments	(742)
Non-current portion	18,373
Initial application of HKFRS 16	(18,373)
At 1 January 2019 and 31 December 2019	–

All these land use rights are held under medium-term lease outside Hong Kong.

Upon the initial application of HKFRS 16, land use rights (including the amount portion included in other receivables, deposits and prepayments) amounting to HK$19,115,000 as at 31 December 2018 was reclassified as right-of-use assets included in property, plant and equipment as at 1 January 2019 (Note 16(i)).

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19. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's principal subsidiaries are 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	British Virgin Islands ("BVI")/Hong Kong	10,279,450 ordinary shares of HK$1 each	100%	100%	–	Investment holding
Billybala Software (BVI) Limited	BVI/Hong Kong	1 ordinary share of US$0.01 each	100%	100%	–	Investment holding
China Primary Energy Holdings Limited	BVI/Hong Kong	20,000,000 ordinary shares of US$1 each	100%	100%	–	Investment holding
Billybala iGame Limited	Hong Kong	7 ordinary shares of HK$1 each	100%	–	100%	Provision of administrative services to group companies
China Primary Sky Valley (Yichang) Composites Co. Ltd. (Note (iii))	PRC	HK$74,360,000	100%	–	100%	Property investment
China Primary Energy (Shenzhen) Limited (Note (iii))	PRC	HK$250,000,000	100%	–	100%	Investment holding
China Primary (Shenzhen) Energy Technology Co. Ltd. (Note (iii))	PRC	HK$20,696,000	80.23%	–	80.23%	Provision of administrative services to group companies
Fujian China Primary Energy Limited ("Fujian CP Energy") (Note (iii))	PRC	RMB20,000,000	70%	–	70%	Transmission and distribution of natural gas
Wuhu China Primary Natural Gas Pipeline Company Limited (Note (iii))	PRC	RMB50,000,000	83%	–	83%	Transmission and distribution of natural gas
Tengchong China Primary Energy Limited (Note (iii))	PRC	RMB20,000,000	100%	–	100%	Transmission and distribution of natural gas
Yichang City Yiling District China Primary Thermal Power Limited (Note (iii))	PRC	RMB40,000,000	100%	–	100%	Operating of heat and power cogeneration plant

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19. PARTICULARS OF SUBSIDIARIES (Continued)

Particulars of the Company's principal subsidiaries are as follows: (Continued)

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Principal activity
Three Gorges Changgang New Energy (Yichang) Company Limited (Note (iii))	PRC	RMB3,616,000	100%	–	100%	Development and use of new energy technology
China Primary (Yichang) Plastic Pipes Company Limited (Note (iii))	PRC	HK$26,560,000	100%	–	100%	Property investment
China Primary (Yichang) New Energy Company Limited (Note (iii))	PRC	HK$8,710,000	100%	–	100%	New energy technology promotion services and technical consulting service
China Primary (Yichang) New Materials Company Limited (Note (iii))	PRC	HK$12,750,000	100%	–	100%	Production of PE pipes and trading of composite materials
Wuhu Shi Da New Energy Technology Company Limited (Note (iii))	PRC	RMB10,000,000	75%	–	75%	Transmission and distribution of natural gas
Nanping China Primary Natural Gas Logistics Company Limited (Note (iii))	PRC	RMB10,000,000	70%	–	100%	Transmission and distribution of natural gas

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19. PARTICULARS OF SUBSIDIARIES (Continued)

Notes:

(i) The business structure of each of these subsidiaries is limited liability company.

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

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

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

20. GOODWILL

	2019	2018
	HK$'000	HK$'000
At 1 January	**28,042**	29,575
Impairment loss recognised	**(2,941)**	–
Exchange realignment	**(166)**	(1,533)
	24,935	28,042
Classified as held for sale (Note 29)	**(7,304)**	–
At 31 December	**17,631**	28,042

As at 31 December 2018, the Group recognised goodwill in total of HK$28,042,000 arising from its acquisition of three businesses engaged in transmission and distribution of natural gas business in the PRC. During the year ended 31 December 2019, goodwill of HK$7,304,000 relating to the Disposal Company (as defined in Note 29) was classified as assets held for sale. For goodwill impairment testing at the end of the reporting period, the goodwill carrying amounts were allocated to the remaining two CGUs as follows:

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20. GOODWILL (Continued)

	2019 (Before impairment testing) HK$'000	Less: impairment loss recognised HK$'000	2019 (After impairment testing) HK$'000
CGU 1	16,638	(2,941)	13,697
CGU 2	3,934	–	3,934
	20,572	(2,941)	17,631

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

CGU 1

The directors determined the recoverable amount of CGU 1 of HK$38,512,000 as at 31 December 2019 from its fair value less costs of disposal based on the business valuation performed by Greater China using the income approach. The income approach was adopted to arrive at fair value of the CGU, based on cash flow projections by applying a long-term growth rate of 3% (2018: 3%) beyond the five-year. Post-tax discount rate of 17.84% (2018: 17.87%) and gross margin of 29% (2018: 87%) were used for cash flow projection. The directors estimated a decrease in customers' demand for natural gas in the coming year and revenue growth at a slow pace in the subsequent years within the projection period. Based on this analysis, the directors recognised an impairment loss on goodwill relating to CGU 1 of HK$2,941,000 for the year and concluded that no class of assets other than goodwill was impaired.

CGU 2

The directors determined the recoverable amounts of CGU 2 as at 31 December 2019 from its fair value less costs of disposal based on the business valuation performed by Greater China using the income approach. The income approach was adopted to arrive at fair value of the CGU, based on cash flow projections by applying a long-term growth rate of 3% (2018: 3%) beyond the five-year. Post-tax discount rate of 21.15% (2018: 21.53%) and gross margins of 43% (2018: 20.6%) were used for cash flow projection. The directors concluded that CGU 2 demonstrated sufficient cash flows to justify the carrying value of the goodwill and no impairment of goodwill was necessary as at the end of reporting period.

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21. OTHER INTANGIBLE ASSETS

	Customer relationships HK$'000	Energy use right HK$'000	Total HK$'000
Cost			
At 1 January 2018	3,658	–	3,658
Addition	–	910	910
Exchange realignment	(190)	–	(190)
At 31 December 2018 and 1 January 2019	3,468	910	4,378
Exchange realignment	(60)	(16)	(76)
At 31 December 2019	3,408	894	4,302
Amortisation			
At 1 January 2018	1,278	–	1,278
Amortisation	378	–	378
Exchange realignment	(100)	–	(100)
At 31 December 2018 and 1 January 2019	1,556	–	1,556
Amortisation	378	–	378
Exchange realignment	(59)	–	(59)
At 31 December 2019	1,875	–	1,875
Net book value			
At 31 December 2019	1,533	894	2,427
At 31 December 2018	1,912	910	2,822

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

Energy use right was acquired by the Group during the year ended 31 December 2018. As the Group has not yet commenced the operation, hence no amortisation was provided for the years ended 31 December 2019 and 2018.

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

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22. INTEREST IN AN ASSOCIATE

	2019	2018
	HK$'000	HK$'000
Share of net assets	**–**	3,715

Details of the associate as at 31 December 2018 is as follows:

Name	**Form of business structure**	**Place of establishment and operation**	**Percentage of paid up capital held indirectly by the Company**	**Principal activity**
Minsheng Natural Gas Company Limited ("Minsheng")	Corporation	PRC	21%	Transmission and distribution of natural gas

On 25 January 2019, the Group disposed of its 21% equity interest in the associate to an independent third party for a consideration of RMB10,500,000 (equivalent to HK$11,932,000) which resulted to a gain on disposal of HK$8,394,000 (Note 42).

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

23. EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019	2018
	HK$'000	HK$'000
Listed equity securities, at FVOCI	**13**	20

The balance represented the listed equity securities which is listed and traded on the OTC Bulletin Board in the United States. The fair value was based on quoted market price as at 31 December 2019. The equity investment was irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

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24. INVENTORIES

	2019 HK$'000	2018 HK$'000
Finished goods	4,592	2,748
Classified as held for sale (Note 29)	(190)	–
	4,402	2,748

For the year ended 31 December 2018, the Group made a reversal of provision of HK$2,215,000 to increase the carrying amount of finished goods to their net realisable value.

25. TRADE RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables	20,104	40,727
Less: provision for impairment	(6,926)	(9,285)
	13,178	31,442
Classified as held for sale (Note 29)	(2,352)	–
	10,826	31,442

(a) For the trading of electronic components, no credit term is granted to the customers as payment is due when the sales invoices were issued to customers. The Group's credit terms with its customers relating to the business of transmission and distribution of natural gas are within 30 days to 60 days. For the business of property investment, the Group granted a credit period of 30 days to the tenants. The Group sets a maximum credit limit for each customer and seeks to maintain strict control over its outstanding receivables. The sales department and the management of the responsible department for the sales together perform the credit control function to minimise credit risk. Overdue balances are reviewed and followed up regularly by senior management. Further details on the Group's credit policy and credit risk arising from trade debtors are set out in Note 45(a).

Notes to the Financial Statements

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25. TRADE RECEIVABLES (Continued)

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

	2019 HK$'000	2018 HK$'000
At 1 January	**9,285**	36,831
Amount written off during the year	**(1,972)**	(28,597)
Impairment loss recognised (Note (ii))	**4,304**	6,267
Recovery of impairment loss previously recognised	**(4,519)**	(3,312)
Exchange realignment	**(172)**	(1,904)
At 31 December	**6,926**	9,285

Note:

(i) The Group recognised impairment loss based on the accounting policy stated in Note 4(k)(ii).

(ii) During the year, the Group recognised the impairment loss on trade receivables of HK$1,797,000 (2018: HK$4,264,000) by using the lifetime ECL provision to measure collectively for customers who are not being assessed individually under HKFRS 9. On the other hand, the Group individually assessed the credit loss of trade receivables which have been long outstanding and management assessed them to be irrecoverable. As at 31 December 2019, impairment loss on these trade receivables of HK$2,507,000 (2018: HK$2,003,000) was recognised.

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25. TRADE RECEIVABLES (Continued)

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

	2019	2018
	HK$'000	HK$'000
Within 30 days	**9,960**	7,039
31 – 60 days	**200**	2,603
61 – 90 days	**–**	4,935
Over 90 days	**3,018**	16,865
	13,178	31,442

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

	2019	2018
	HK$'000	HK$'000
Not past due	**5,367**	7,325
Less than 31 days past due	**4,793**	1,357
31 – 60 days past due	**–**	4,711
61 – 90 days past due	**–**	1,361
Over 90 days but less than 1 year past due	**974**	12,016
More than 1 year past due	**2,044**	4,672
	7,811	24,117
	13,178	31,442

(e) As at 31 December 2019, trade receivables of HK$913,000 were pledged to secure a bank loan granted to the Group (Note 34).

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26. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2019 HK$'000	2018 HK$'000
Other receivables and deposits	**30,609**	50,526
Finance lease deposits	**–**	3,256
Value added tax recoverable	**20,411**	18,530
Loan to a non-controlling shareholder (Note)	**1,119**	–
Prepayments	**15,736**	13,762
	67,875	86,074
Less: provision for impairment loss on other receivables and prepayments	**(957)**	(957)
	66,918	85,117
Classified as held for sale (Note 29)	**(14,410)**	–
	52,508	85,117

Note:

The loan is unsecured, interest-bearing at 8% per annum and will be repayable on 26 June 2020.

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

	2019 HK$'000	2018 HK$'000
At 1 January	**957**	11,325
Amounts written off during the year	**–**	(9,782)
Exchange realignment	**–**	(586)
At 31 December	**957**	957

27. INVESTMENTS HELD FOR TRADING

	2019 HK$'000	2018 HK$'000
Listed equity securities held at fair value – listed in Hong Kong	**94**	299

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28. CASH AND CASH EQUIVALENTS

At the end of the reporting period, cash and cash equivalents of the Group denominated in RMB amounted to HK$6,531,000 (including those classified as held for sale) (2018: HK$21,713,000). RMB is not freely convertible into other currencies. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

29. ASSETS AND LIABILITIES OF THE DISPOSAL COMPANY CLASSIFIED AS HELD FOR SALE

On 27 December 2019, the Group entered into the sale and purchase agreement (the "Sale and Purchase Agreement) with an independent third party purchaser, pursuant to which the purchaser agreed to purchase and the Group agreed to sell the entire 83% equity interest in Wuhu China Primary Natural Gas Pipeline Company Limited (the "Disposal Company") for a consideration of RMB82,200,000 (equivalent to approximately HK$92,400,000). This disposal transaction constituted a major transaction of the Company under Chapter 19 of the GEM Listing Rules. Further details of this transaction are set out in the Company's circular dated 13 February 2020. As detailed in the Company's announcement dated 3 March 2020, the Company's proposed resolution for the approval of the Sale and Purchase Agreement was duly passed by the shareholders in the extraordinary general meeting held on 3 March 2020 and the disposal was duly completed on 6 March 2020.

The following major classes of assets and liabilities relating to the Disposal Company have been classified as held for sale in the consolidated statement of financial position as at 31 December 2019:

	2019 HK$'000
Assets	
Property, plant and equipment (Note 16)	**155,494**
Goodwill (Note 20)	**7,304**
Inventories (Note 24)	**190**
Trade receivables (Note 25)	**2,352**
Other receivables, deposits and prepayments (Note 26)	**14,410**
Cash and cash equivalents	**1,271**
Deferred tax assets (Note 35)	**198**
	181,219
Liabilities	
Other payables and accruals (Note 31)	**(22,015)**
Net assets directly associated with the Disposal Company	**159,204**

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29. ASSETS AND LIABILITIES OF THE DISPOSAL COMPANY CLASSIFIED AS HELD FOR SALE (Continued)

The fair value less costs to sell of the Disposal Company was estimated using the consideration stated in the Sales and Purchase Agreement and pursuant to the supplemental agreement entered into between the Group and the purchaser, the Disposal Company will repay the advance to the Group of RMB107,811,000 (equivalent to approximately HK$120,600,000). Non-current assets classified as held for sale are measured at the lower of their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy and fair value less costs to sell.

30. TRADE PAYABLES

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

	2019	2018
	HK$'000	HK$'000
Within 30 days	**6,452**	251
31 – 60 days	**–**	1,183
61 – 90 days	**–**	3,513
Over 90 days	**5,175**	17,136
	11,627	22,083

31. OTHER PAYABLES AND ACCRUALS

	2019	2018
	HK$'000	HK$'000
Other payables and accruals	**99,709**	106,920
Rental deposit received	**4,898**	3,761
	104,607	110,681
Classified as held for sale (Note 29)	**(22,015)**	–
	82,592	110,681

Other payables and accruals mainly included the construction costs payable to contractors of HK$54,212,000 (2018: HK$77,684,000), and HK$6,655,000 (2018: HK$Nil) payable to a former non-controlling shareholder.

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32. CONVERTIBLE BONDS

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

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

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

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

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

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

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32. CONVERTIBLE BONDS (Continued)

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

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

Given there is a debt (i.e unavoidable obligation to pay the interest coupon) and equity (i.e. principal of the loan, settlement mechanism of which is at the issuer's option) element to this hybrid instrument, it is a compound instrument. The liability component of the Convertible Bonds are measured first, at the fair value of a similar liability that does not have an associated equity conversion feature, but including derivatives (i.e. the issuer's early redemption option). An independent professional valuer, Greater China Appraisal Limited, determined the fair value of the derivatives as at grant date of HK$31,297,000 and as at 31 December 2019 and 2018 of HK$387,000 and HK$1,016,000 respectively. The equity component is determined as the residual amount, essentially the issue proceeds of the Convertible Bonds less the liability component including derivatives as at grant date.

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

	Financial liabilities at fair value through profit or loss	**Convertible bonds equity reserve**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2018	(8,011)	(80,179)	(88,190)
Change in fair value	(4,896)	–	(4,896)
At 31 December 2018 and 1 January 2019	(12,907)	(80,179)	(93,086)
Change in fair value	(1,839)	–	(1,839)
At 31 December 2019	(14,746)	(80,179)	(94,925)

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33. LOANS FROM A MAJOR SHAREHOLDER

	2019 HK$'000	2018 HK$'000
Loans from a major shareholder comprised of:		
– Current portion	**35,893**	398
– Non-current portion	**–**	13,246
	35,893	13,644

The balance represented loans advanced by Ms. Ma Zheng, a director and major shareholder of the Company. The loans are unsecured, interest-bearing ranged from 5.5% per annum to 15% per annum and repayable within one year.

On 1 September 2019, Ms. Ma Zheng granted a loan facility of RMB50,000,000 (approximately to HK$56,180,000) to the Company, of which RMB18,140,000 (approximately to HK$20,283,000) was utilised as at 31 December 2019.

34. BORROWINGS

	2019 HK'000	2018 HK'000
Current		
– Secured bank term loans	**24,441**	41,552
– Unsecured bank loan	**2,237**	–
– Secured bank revolving loan	**3,356**	–
– Secured other loan	**4,475**	11,384
	34,509	52,936
Non-current		
– Secured bank term loans	**24,610**	–
Total	**59,119**	52,936

Notes to the Financial Statements

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34. BORROWINGS (Continued)

Notes:

Certain of the Group's bank and other loans were secured by the following:

(i) Certain investment properties (Note 17);

(ii) Certain land use rights (Note 16);

(iii) Certain trade receivables (Note 25);

(iv) Corporate guarantees by certain subsidiaries of the Company;

(v) Personal guarantees by a major shareholder of the Company, Ms. Ma Zheng, and legal charge over her property; and legal charge over the property owned by Mr. Lin Jian Dong, a related party of Ms. Ma Zheng;

(vi) Personal guarantees by two directors of the subsidiaries, Mr. Wang Jin Lin and Mr. Wei Bu Ti and a key management of a subsidiary, Ms. Ma Yi, and two independent third parties.

As at 31 December 2019, the effective interest rate of the interest-bearing borrowing was 5.549% per annum (2018: 5.852% per annum).

The carrying amounts of all borrowings are carried at amortised cost and approximate their fair values which carry interest at fixed rates.

The carrying amounts of the borrowings are denominated in RMB.

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35. DEFERRED TAX LIABILITIES

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

	Fair value adjustments arising from acquisition of subsidiaries	Fair value adjustments on investment properties	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2018	(711)	(7,685)	(8,396)
Charged to profit or loss for the year (Note 11)	–	(10,206)	(10,206)
Charged to other comprehensive income for the year	–	(8,952)	(8,952)
Exchange realignment	38	362	400
At 31 December 2018 and 1 January 2019	(673)	(26,481)	(27,154)
Charged to profit or loss for the year (Note 11)	–	(315)	(315)
Deferred tax asset classified as held for sale (Note 29)	(198)	–	(198)
Exchange realignment	11	460	471
At 31 December 2019	(860)	(26,336)	(27,196)

As at 31 December 2019, the Group had unused tax losses arising in Hong Kong of HK$1,733,000 (2018: HK$1,733,000) and the PRC of HK$101,785,000 (2018: HK$86,497,000) which are available for offset against future taxable profits of the group companies. Tax losses arising in Hong Kong and the PRC can be carried forward indefinitely and for a period of five years respectively. Deferred tax assets have not been recognised in respect of these losses as they have arisen in the group companies that have been loss-making for some years.

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36. SHARE CAPITAL

	Number of Shares '000	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.0625 each at 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	1,920,000	120,000
Issued and fully paid:		
Ordinary shares of HK$0.0625 each at 1 January 2018	930,898	58,181
Subscription of shares	93,089	5,818
Ordinary shares of HK$0.0625 each at 31 December 2018, 1 January 2019 and 31 December 2019	1,023,987	63,999

Note:

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

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37. SHARE OPTION SCHEME

(a) Equity-settled share option scheme

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

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

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

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

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

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37. SHARE OPTION SCHEME (Continued)

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

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37. SHARE OPTION SCHEME (Continued)

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

Share options granted on 10 April 2015

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

2019				Number of share options		
Name or category of participant	Date of grant	Exercise period	Exercise price *HK$*	Outstanding as at 1 January 2019	Lapsed during the year	Outstanding as at 31 December 2019
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	53,250,000	(400,000)	52,850,000
Sub-total				**53,250,000**	**(400,000)**	**52,850,000**
Total				**59,670,000**	**(400,000)**	**59,270,000**

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37. SHARE OPTION SCHEME (Continued)

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

2018				Number of share options		
Name or category of participant	Date of grant	Exercise period	Exercise price HK$	Outstanding as at 1 January 2018	Lapsed during the year	Outstanding as at 31 December 2018
Directors						
Ms. Ma Zheng	10 April 2015	1 April 2018 – 7 May 2022	0.87	820,000	–	820,000
Mr. Wong Pui Yiu	10 April 2015	1 April 2018 – 7 May 2022	0.87	3,500,000	–	3,500,000
Mr. Wan Tze Fan Terence	10 April 2015	1 April 2018 – 7 May 2022	0.87	700,000	–	700,000
Mr. Chung Chin Keung	10 April 2015	1 April 2018 – 7 May 2022	0.87	700,000	–	700,000
Mr. Wang Xiao Bing	10 April 2015	1 April 2018 – 7 May 2022	0.87	700,000	–	700,000
Sub-total				6,420,000	–	6,420,000
Others						
Employees	10 April 2015	1 April 2018 – 7 May 2022	0.87	68,050,000	(14,800,000)	53,250,000
Sub-total				68,050,000	(14,800,000)	53,250,000
Total				74,470,000	(14,800,000)	59,670,000

400,000 (2018: 14,800,000) share options were lapsed upon resignation of certain employees during the year. Accordingly, HK$165,000 (2018: HK$5,884,000) was transferred from share option reserve to accumulated losses upon lapse of share options during the year. The weighted average remaining contractual life was 2.4 years (2018: 3.4 years).

The fair value of the share options granted to the directors and employees on 10 April 2015 was HK$3,005,000 (HK$0.4681 each) and HK$30,986,000 (HK$0.4115 each), of which the Group did not need to recognise the share-based payment (2018: HK$2,577,000) during the year ended 31 December 2019, because the vesting period was ended with the year ended 31 December 2018.

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37. SHARE OPTION SCHEME (Continued)

(b) Equity-settled service contracts

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

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

The share options had vested during the year ended 31 December 2018. The Company recognised the total expense of HK$7,200,000 (Note 10) for the year ended 31 December 2018. During the year ended 31 December 2019, all share options had been lapsed, and no option was exercised during the exercise period.

38. OBLIGATIONS UNDER FINANCE LEASES/LEASE LIABILITIES

HKFRS 16 was adopted by the Group from the date of initial application as of 1 January 2019 without restatement of comparative figures. Comparative information relates solely to leases previously classified as obligations under finance leases. For an explanation of the transitional requirements that were applied as at 1 January 2019, see Note 2(a). The accounting policies applied subsequent to the date of initial application, 1 January 2019, as disclosed in Note 4(n).

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38. OBLIGATIONS UNDER FINANCE LEASES/LEASE LIABILITIES (Continued)

Lease liabilities

Future lease payments are due as follows:

	2019		2018	
	Minimum lease payments HK$'000	**Present value of lease liabilities HK$'000**	Minimum lease payments HK$'000	Present value of obligations under finance leases HK$'000
Not later than one year	**8,072**	**7,526**	7,260	6,733
Later than one year and not later than five years	**7,797**	**7,016**	3,151	2,956
Later than five years	**3,380**	**3,044**	–	–
	19,249	**17,586**	10,411	9,689
Less: future finance charge	**(1,663)**		(722)	
Present value of lease liabilities/finance lease obligations	**17,586**		9,689	
Less: due within one year		**(7,526)**		(6,733)
Due after one year		**10,060**		2,956

During the year ended 31 December 2019, total lease paid is HK$11,055,000 (including both principal and interest) (2018: HK$15,115,000).

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38. *OBLIGATIONS UNDER FINANCE LEASES/LEASE LIABILITIES (Continued)*

Operating leases – lessee

The total future minimum lease payments for the year ended 31 December 2018 were due as follows:

	2018 HK$
Not later than one year	3,502
Later than one year and not later than two years	2,645
Later than two years and not later than five years	3,587
Later than five years	2,042
	11,776

39. *OPERATING LEASES*

As lessor

At the end of each reporting period, the undiscounted lease payments receivable by the Group in future periods in respect of leased properties under non-cancellable leases as follows:

	2019 **HK$'000**	2018 HK$'000
Within one year	**13,730**	7,388
Later than one year and not later than two years	**13,299**	8,348
Later than two years and not later than three years	**13,743**	9,387
Later than three years and not later than four years	**14,638**	9,557
Later than four years and not later than five years	**14,769**	9,538
Over five years	**36,640**	19,599
	106,819	63,817

40. *CAPITAL COMMITMENTS*

	2019 **HK$'000**	2018 HK$'000
Contracted for but not provided:		
– acquisition of property, plant and equipment	**43,168**	8,423

Notes to the Financial Statements

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41. NOTES SUPPORTING THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Non-cash transactions

During the year, the Group initially recognised lease liabilities HK$10,511,000 on new adoption of HKFRS 16, and entered into lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK$7,918,000 (2018: HK$2,484,000).

(b) Reconciliation of liabilities arising from financing activities:

	Convertible bonds (Note 32) HK$'000	Loans from a major shareholder (Note 33) HK$'000	Obligations under finance leases/lease liabilities (Note 38) HK$'000	Borrowings (Note 34) HK$'000
At 31 December 2018	12,907	13,644	9,689	52,936
Initial application of HKFRS 16	–	–	10,511	–
Restated balance as at 1 January 2019	12,907	13,644	20,200	52,936
Proceeds from borrowings	–	–	–	33,072
Repayment of borrowings	–	–	–	(26,089)
Loans from a major shareholder	–	24,082	–	–
Repayment of loans from a major shareholder	–	(1,833)	–	–
Repayment of principal portion of lease liabilities	–	–	(10,232)	–
Interest on lease liabilities	–	–	(823)	–
Interest on loans	–	(1,216)	–	(2,461)
Total changes from financing cash flows	–	21,033	(11,055)	4,522
Exchange adjustments	–	–	(300)	(800)
Changes in fair value	1,839	–	–	–
Other changes:				
Interest expense	–	1,216	–	2,461
Interest on lease liabilities	–	–	823	–
New lease liabilities	–	–	7,918	–
Total other changes	–	1,216	8,741	2,461
At 31 December 2019	14,746	35,893	17,586	59,119

Notes to the Financial Statements

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41. NOTES SUPPORTING THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Reconciliation of liabilities arising from financing activities: (Continued)

	Convertible bonds (Note 32) HK$'000	Loans from a major shareholder (Note 33) HK$'000	Obligations under finance leases (Note 38) HK$'000	Borrowings (Note 34) HK$'000
At 1 January 2018	8,011	4,202	17,719	45,625
Changes from cash flows:				
Proceeds from borrowings	–	–	–	21,060
Repayment of borrowings	–	–	–	(11,671)
Interest paid	–	(207)	–	(2,489)
Loan from a major shareholder	–	10,059	–	–
Repayment of loan from a major shareholder	–	(426)	–	–
Repayment of obligations under finance leases	–	–	(9,708)	–
Interest on finance leases	–	–	(1,067)	–
Total changes from financing cash flows	–	9,426	(10,775)	6,900
Exchange adjustments	–	(191)	(806)	(2,078)
Changes in fair value	4,896	–	–	–
Other changes:				
Interest expense	–	207	–	2,489
Interest on finance leases	–	–	1,067	–
New finance leases	–	–	2,484	–
Total other changes	–	207	3,551	2,489
At 31 December 2018	12,907	13,644	9,689	52,936

Notes to the Financial Statements

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42. DISPOSAL OF AN ASSOCIATE

(i) On 25 January 2019, the Group disposed of its entire 21% equity interest of the associate, Minsheng, to an independent third party for a consideration of RMB10,500,000 (equivalent to HK$11,932,000). The gain on disposal of the associate was as follows:

	2019 **HK$'000**
Proceeds received from disposal of Minsheng	**11,932**
Less:	
Carrying amount of disposed investment measured under equity method	**(3,621)**
Gain on disposal before reclassification of exchange reserve	**8,311**
Reclassification of other comprehensive income reserve into profit or loss	**83**
Gain on disposal of an associate	**8,394**

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

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

Notes to the Financial Statements

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43. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation. During the year ended 31 December 2019, the Group paid and accrued loan interest of HK$1,216,000 (2018: HK$207,000) to Ms. Ma Zheng, a director and a major shareholder of the Company. Except for those disclosed elsewhere in these financial statements, the Group had no other significant related party transactions during the years ended 31 December 2019 and 2018.

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

44. CAPITAL RISK MANAGEMENT

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

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

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

The gearing ratios were as follows:

	2019 **HK$'000**	2018 HK$'000
Bank and other borrowings	**59,119**	52,936
Total debts	**59,119**	52,936
Total equity	**350,801**	402,736
Gearing ratio	**17%**	13%

Notes to the Financial Statements

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45. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk, currency risk and price risk. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

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

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.

In assessing credit risk exposure on other receivables, the management considers there is a low risk of default and the expected credit loss of other receivables is immaterial, based on the counter parties' past payment record.

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

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or counterparty. The default risk experienced in the industry in which the customers operate also has an influence on credit risk, but to a lesser extent. As at 31 December 2019, the Group has a certain concentration of credit risk as 37% (2018: 36%) of the total trade receivables were due from the Group's two largest customers in relation to trading of electronic components and transmits and distribution of natural gas segment. These two largest customers represented a private company in Hong Kong and a private company in PRC.

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

Notes to the Financial Statements

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45. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2019 and 2018:

As at 31 December 2019

	Expected loss rate (%)	**Gross carrying amount HK$'000**	**Loss allowance HK$'000**	**Net carrying amount HK$'000**
Collective assessment				
Current (not past due)	**–**	**5,367**	**–**	**5,367**
Less than 31 days past due	**0.06-1.36%**	**4,797**	**(4)**	**4,793**
31-60 days past due	**–**	**–**	**–**	**–**
61-90 days past due	**–**	**–**	**–**	**–**
Over 90 days but less than 1 year past due	**1.21-24.77%**	**1,274**	**(300)**	**974**
More than 1 year past due	**31.84-99.60%**	**5,230**	**(3,186)**	**2,044**
		16,668	**(3,490)**	**13,178**
Individual assessment	**100%**	**3,436**	**(3,436)**	**–**
		20,104	**(6,926)**	**13,178**

As at 31 December 2018

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

Notes to the Financial Statements

31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Expected loss rates are based on actual loss experience over the past 4 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

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

Receivables that were past due but not individually credit-impaired related to a number of independent customers with good track record with the Group. Based on the lifetime ECLs assessment, the management estimated the impairment provision made for those receivables amounted to HK$1,797,000 for the year ended 31 December 2019 (2018: HK$4,264,000).

Receivables that were past due but individually credit-impaired related to balance of a number of independent customers which have been long outstanding and management assessed them to be irrecoverable. As at 31 December 2019, HK$2,507,000 of impairment loss of these trade receivables was recognised (2018: HK$2,003,000).

The movement in the loss allowance account in respect of trade receivables during the years ended 31 December 2019 and 2018 is set out to the consolidated financial statements (Note 25(b)).

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

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

Notes to the Financial Statements

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45. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk

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

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

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

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000
2019						
Trade payables	11,627	11,627	11,627	–	–	–
Other payables and accruals	82,592	82,592	82,592	–	–	–
Loans from a major shareholder	35,893	35,893	35,893	–	–	–
Lease liabilities	17,586	19,249	8,072	4,083	3,714	3,380
Borrowings	59,119	59,119	34,509	3,915	13,983	6,712
	206,817	208,480	172,693	7,998	17,697	10,092

Notes to the Financial Statements

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45. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000
2018						
Trade payables	22,083	22,083	22,083	–	–	–
Other payables and accruals	108,722	108,722	108,722	–	–	–
Loans from a major shareholder	13,644	13,954	10,685	3,269	–	–
Obligations under finance leases	9,689	10,411	7,260	3,151	–	–
Borrowings	52,936	52,936	52,936	–	–	–
	207,074	208,106	201,686	6,420	–	–

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

	Maturity Analysis – bank loans subject to a repayment on demand clause based on scheduled repayments					
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000
31 December 2019	**59,119**	**59,119**	**23,247**	**11,199**	**16,389**	**8,284**
31 December 2018	52,936	56,542	31,915	10,284	14,343	–

Notes to the Financial Statements

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45. FINANCIAL RISK MANAGEMENT (Continued)

(c) Interest rate risk

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

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

	2019		2018	
	Effective interest rate %	**HK'000**	Effective interest rate %	HK'000
Variable rate				
Borrowings	**5.549%**	**59,119**	5.852%	52,936
Bank balances	**0.703%**	**(8,104)**	0.424%	(38,566)
Total net borrowings		**51,015**		14,370

It is estimated that as at 31 December 2019, 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$510,000 (2018: HK$144,000).

(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 FVTPL and FVOCI under HKFRS 9 because their carrying amounts as at 31 December 2019 and 2018 are not significant.

(f) Fair values estimation

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

Notes to the Financial Statements

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46. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2019 and 2018 may be categorised as follows:

	2019 HK$'000	2018 HK$'000
Financial assets		
Financial assets measured at amortised cost (including cash and cash equivalents)	**53,398**	122,855
Investments held for trading at fair value through profit or loss	**94**	299
Financial assets at fair value through other comprehensive income – Equity investments	**13**	20
Financial liabilities		
Financial liabilities measured at amortised cost	**256,028**	207,074
Financial liabilities at fair value through profit or loss	**14,746**	12,907

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables, trade and other payables, loans from a major shareholder, finance leases and borrowings.

Due to their short term nature, the carrying value of cash and cash equivalents, trade and other receivables, trade and other payables and loans from a major shareholder approximates to their fair value.

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

Notes to the Financial Statements

31 DECEMBER 2019

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

(b) Financial instruments measured at fair value

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

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

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

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

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

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

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

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

	2019			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets				
Investments held for trading – Listed	**94**	**–**	**–**	**94**
Financial assets at fair value through other comprehensive income				
– Listed equity investments	**13**	**–**	**–**	**13**
Financial liabilities				
Financial liabilities at fair value through profit or loss	**–**	**–**	**14,746**	**14,746**

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

There were no transfers between levels during the year.

Notes to the Financial Statements

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

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

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

	2019 HK$000	2018 HK$000
At 1 January	**(12,907)**	(8,011)
Change in fair value recognised in profit or loss (included in other income and gains and losses)	**(1,839)**	(4,896)
At 31 December	**(14,746)**	(12,907)

Information about level 3 fair value measurements

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

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

Notes to the Financial Statements

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47. HOLDING COMPANY'S STATEMENT OF FINANCIAL POSITION

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment		**386**	541
Interests in subsidiaries		**428,828**	492,772
Equity instruments measured at fair value through other comprehensive income		**13**	20
Total non-current assets		**429,227**	493,333
Current assets			
Other receivables, deposits and prepayments		**3,042**	2,690
Cash and cash equivalents		**199**	11,156
Total current assets		**3,241**	13,846
Total assets		**432,468**	507,179
Current liabilities			
Other payables and accruals		**3,588**	2,268
Amounts due to subsidiaries		**158,424**	158,456
Financial liabilities at fair value through profit or loss		**14,746**	12,907
Loan from a major shareholder		**19,061**	–
Total current liabilities		**195,819**	173,631
Net current liabilities		**(192,578)**	(159,785)
NET ASSETS		**236,649**	333,548
Equity			
Share capital	36	**63,999**	63,999
Reserves	48	**172,650**	269,549
TOTAL EQUITY		**236,649**	333,548

These financial statements were approved and authorised for issue by the board of directors on 23 March 2020.

Ma Zheng
Director

Wong Pui Yiu
Director

Notes to the Financial Statements

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48. RESERVES OF THE COMPANY

	Share premium account HK$'000 (Note)	Convertible bonds equity reserve HK$'000	Share option reserve HK$'000	Fair value through other comprehensive income reserve HK$'000	Accumulated losses HK$'000	Total equity HK$'000
Balance at 1 January 2018	644,131	80,179	28,525	–	(540,306)	212,529
Loss and total comprehensive income for the year	–	–	–	(13)	(23,101)	(23,114)
Subscription of shares (Note 36)	70,357	–	–	–	–	70,357
Equity-settled share-based transactions (Note 37)	–	–	9,777	–	–	9,777
Lapse of share options (Note 37)	–	–	(5,884)	–	5,884	–
Balance at 31 December 2018 and 1 January 2019	714,488	80,179	32,418	(13)	(557,523)	269,549
Loss and total comprehensive income for the year	–	–	–	(7)	(96,892)	(96,899)
Lapse of share options (Note 37)	–	–	(7,365)	–	7,365	–
Balance at 31 December 2019	714,488	80,179	25,053	(20)	(647,050)	172,650

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.

49. EVENTS AFTER REPORTING DATE

Since the outbreak of the coronavirus disease 2019 ("COVID-19"), the directors have been monitoring the development of COVID-19 and assessing its impact to the Group's operations. The Group's operations have not experienced any material disruptions as the Group is principally engaged in natural gas distribution and property investment in the PRC, the Board is not aware of any material adverse impact to the Group' financial or trading position caused by COVID-19. The director will continue to closely monitor the market situation and continuously evaluate the impact of COVID-19 on the Group's operations.

Particulars of Investment Properties

31 DECEMBER 2019

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

Financial Summary

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

Results

	Year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**91,646**	173,224	194,908	182,800	162,432
Other income and gains and losses	**1,154**	2,370	16,661	449	(18,736)
Cost of sales and operating expenses	**(121,067)**	(176,779)	(225,424)	(237,934)	(230,500)
Operating loss	**(28,267)**	(1,185)	(13,855)	(54,685)	(86,804)
Finance costs	**(4,500)**	(3,763)	(4,359)	(3,353)	(3,176)
Loss before income tax	**(32,767)**	(4,948)	(18,214)	(58,038)	(89,980)
Income tax	**(466)**	(9,499)	(5,069)	(2,165)	(1,099)
Loss for the year	**(33,233)**	(14,447)	(23,283)	(60,203)	(91,079)
(Loss)/profit attributable to:					
Owners of the Company	**(31,260)**	(10,717)	(20,732)	(59,567)	(91,321)
Non-controlling interests	**(1,973)**	(3,730)	(2,551)	(636)	242
	(33,233)	(14,447)	(23,283)	(60,203)	(91,079)

Assets and Liabilities

	31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**640,727**	672,614	617,670	476,956	550,241
Total liabilities	**(271,167)**	(249,587)	(273,462)	(161,271)	(162,192)
	369,560	423,027	344,208	315,685	388,049