中裕燃氣控股有限公司
ZHONGYU GAS HOLDINGS LIMITED

Stock Code 股份代號: 3633

2018

Annual Report

年報

CONTENTS

PAGE(S)

2 FINANCIAL AND OPERATIONAL HIGHLIGHTS

4 CORPORATE INFORMATION

5 CHAIRMAN'S STATEMENT

8 CEO MESSAGE

12 OPERATIONAL STATISTICS

14 MANAGEMENT DISCUSSION AND ANALYSIS

29 BIOGRAPHICAL INFORMATION OF DIRECTORS

32 CORPORATE GOVERNANCE REPORT

42 DIRECTORS' REPORT

57 INDEPENDENT AUDITOR'S REPORT

63 CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

65 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

67 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

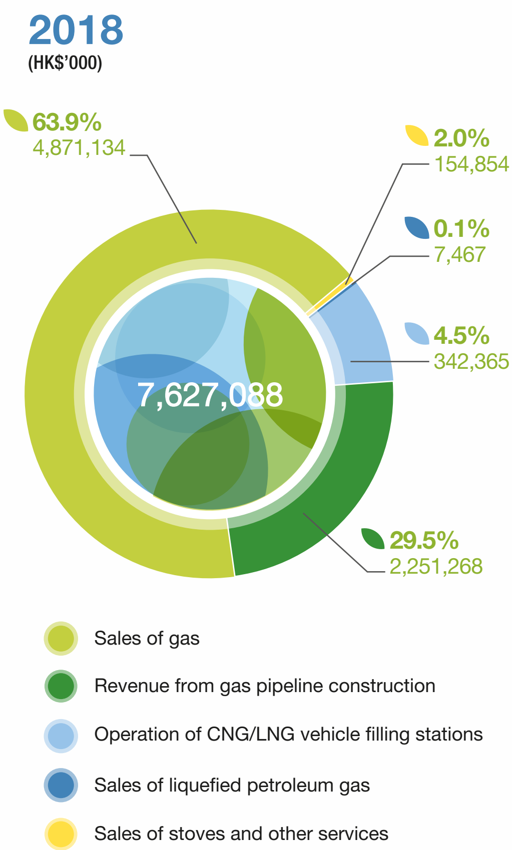
69 CONSOLIDATED STATEMENT OF CASH FLOWS

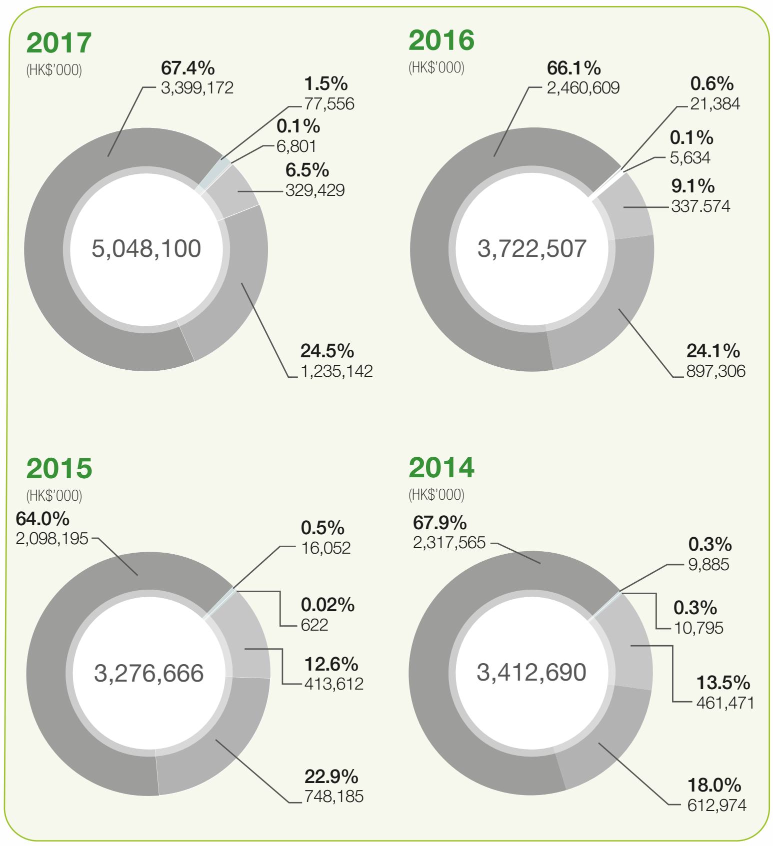
72 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

204 FINANCIAL SUMMARY

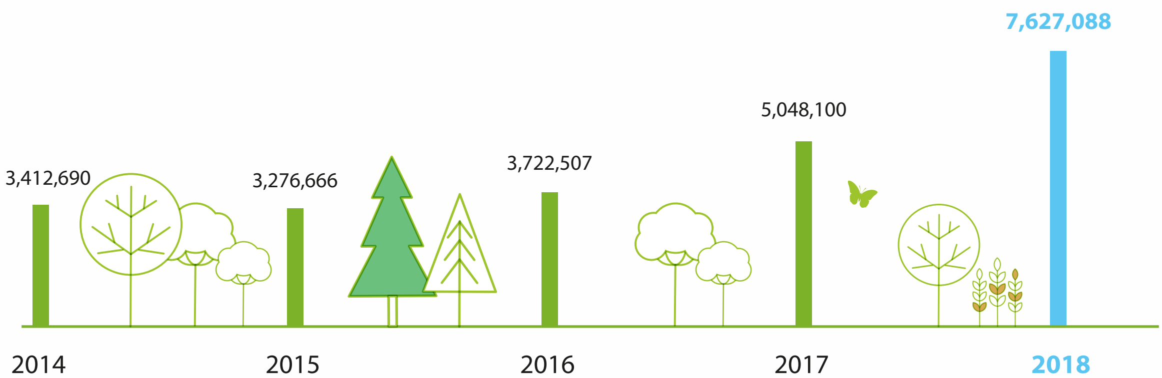
FINANCIAL AND OPERATIONAL HIGHLIGHTS

	For the year ended 31st December,		
	2018	2017	changes
	HK$'000	HK$'000	%
Turnover	**7,627,088**	5,048,100	51.1%
Gross profit	**2,221,873**	1,289,102	72.4%
(Gross margin)	**(29.1%)**	(25.5%)	(3.6%)
Profit attributable to owners of the Company	**620,684**	557,959	11.2%
Adjusted profit attributable to owners of the Company (excluding the net foreign exchange gain/loss and share option expenses)	**1,001,436**	443,212	125.9%
EBITDA	**2,048,801**	1,257,947	62.9%
Basic earnings per share (HK cents)	**24.52**	22.10	11.0%
Proposed final dividend (HK cents)	**7.00**	5.00	40.0%
Unit of natural gas sold ('000 m^3)	**1,615,646**	1,327,480	21.7%
New piped gas connections made (residential households)	**668,577**	365,178	83.1%

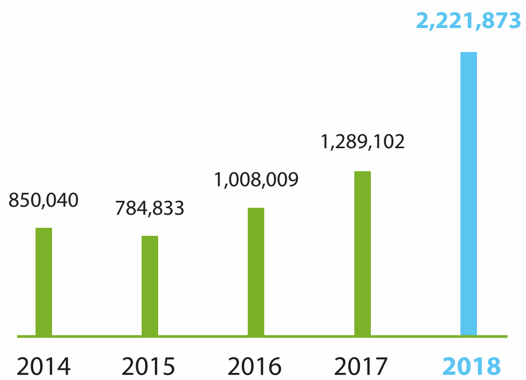




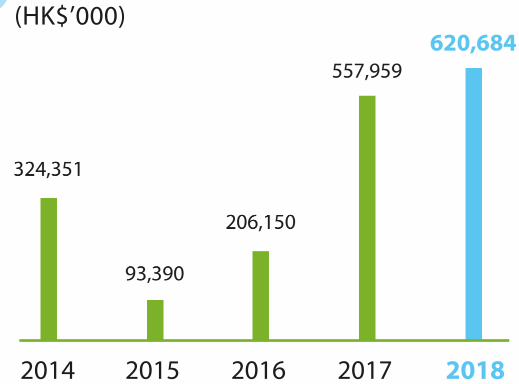
Turnover (HK$'000)



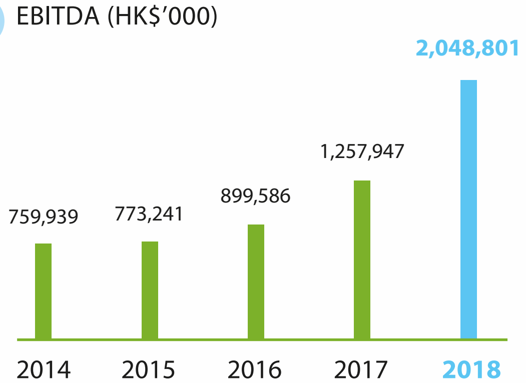
Gross Profit (HK$'000)



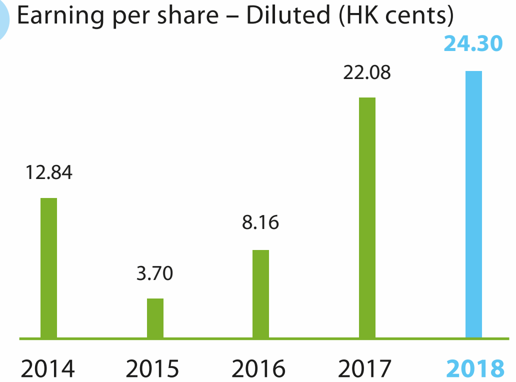
Profit attributable to owners of the Company (HK$'000)



EBITDA (HK$'000)



Earning per share – Diluted (HK cents)



CORPORATE INFORMATION

Executive Directors

Mr. Wang Wenliang *(Chairman)*
Mr. Lui Siu Keung *(Chief Executive Officer)*
Mr. Lu Zhaoheng
Mr. Li Yan *(appointed with effect from 25th February, 2019)*
Mr. Jia Kun *(appointed with effect from 25th February, 2019)*

Non-executive Director

Mr. Xu Yongxuan *(Vice Chairman)*

Independent Non-executive Directors

Mr. Li Chunyan
Dr. Luo Yongtai
Ms. Liu Yu Jie

Company Secretary

Mr. Lui Siu Keung

Authorised Representatives

Mr. Wang Wenliang
Mr. Lui Siu Keung

Audit Committee

Mr. Li Chunyan *(Chairman)*
Dr. Luo Yongtai
Ms. Liu Yu Jie

Remuneration Committee

Mr. Li Chunyan *(Chairman)*
Dr. Luo Yongtai
Ms. Liu Yu Jie

Nomination Committee

Mr. Li Chunyan *(Chairman)*
Dr. Luo Yongtai
Ms. Liu Yu Jie

Hong Kong Legal Advisors

Reed Smith Richards Butler

Auditor

Deloitte Touche Tohmatsu

Corporate Website

www.zhongyugas.com

Stock Code

3633

Registered Office

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

Head Office and Principal Place of Business in Hong Kong

Units 04-06, 28th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Principal Share Registrar and Transfer Office

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Branch Share Registrar and Transfer Office in Hong Kong

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

Principal Bankers

The Hong Kong & Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Hang Seng Bank Limited
Standard Chartered Bank
Chiyu Banking Corporation Limited
Taishin International Bank
Dah Sing Bank, Limited
Far Eastern International Bank
Industrial Bank Co., Ltd.

CHAIRMAN'S STATEMENT

To our valued shareholders,

Looking back on the 40th anniversary of China's Reform and Opening Up in 2018, the government was pursuing environmental protection policies, such as using clean energy with greater determination and measures to achieve the goal of reducing air pollutant emissions and strengthen the control of the impact of smog. Natural gas policies such as Clean Winter Heating Plan for Northern China, the 13th Five-Year Plan for Energy Development, the Blue Sky Defence War, the "coal-to-gas" projects in the industrial and commercial sectors, and the Gas for Coal Replacement Projects in villages and towns, further improved the level of cleanliness and accelerated the country's natural gas consumption rapidly. The natural gas industry was booming and the industry scale continued to grow.

In the past 16 years, Zhongyu Gas Holdings Limited (the "Company", together with its subsidiaries, collectively referred to as the "Group") has developed into an integrated energy service provider through the trend of energy transformation and favorable policies. We cover four major businesses – gas pipeline construction and connection, sales of gas, operation of compressed natural gas or liquefied natural gas ("CNG/LNG") vehicles filling stations, and value-added services (sales of stoves and related equipment). The performance in 2018 has also reached a historical peak, with indicators such as sales revenue, sales volume and number of new users increasing substantially. The Group's development and consistently outstanding performance have been recognised and supported by the capital market. The Group was awarded the Listed Company Award of Excellence 2018 – Main Board by Hong Kong Economic Journal, due to its outstanding achievements in profitability and operational efficiency. In addition, the Group successfully entered the Hang Seng Composite Mid-Cap Index and Hong Kong Stock Connect in early 2019, becoming one of the models of gas stocks in domestic and overseas capital markets.

In order to thank the shareholders and investors for their long-term support, the Board of Directors proposed to pay a final dividend of HK7 cents per share to share the accomplishments with shareholders.

In the year of 2018, the Group responded to the national village revitalization strategy, vigorously promoted the "coal-to-gas" projects in the countryside and actively participated in the Blue Sky Defence War, fulfilling its social responsibility. The number of new piped gas connections made for residential households in 2018 was 445,324 (2017: 111,126) under the Group's "coal-to-gas" projects. Together with industrial and commercial customers and customers from non "coal-to-gas" projects, 671,196 new customers were added in 2018, and our accumulated number of pipeline gas customers reached 2,890,624, laying a solid foundation for future growth. In addition to the gas sales, the Group had continued to strengthen its development in its existing markets in 2018. Our own retail brand Zhongyu Phoenix launched the market in an all-round way, and has been deeply involved in the customers' daily life, providing them with safe and efficient stove equipment and services, increasing customer loyalty and raising people's awareness of the Group's brand image.

Prospects

With the continuous improvement of China's national economic and social development and the quality of life of the people, China has put forward new and higher requirements for the clean energy industry. The Group will continue to advance with the times and continue to expand and infiltrate the existing market on the basis of consolidating our main business of natural gas, actively expand our business to other potential areas, strengthen the development of value-added services, and accelerate the all-round development of clean energy.

By strengthening the analysis of industry policies and market environment, the Group will increase its efforts to develop new customers with high-usage, especially high-margin industrial and commercial customers. As for the rural "coal-to-gas" projects, our business has reached a large scale, and the current focus is to accelerate the improvement of operation management, enhance compliance measures, and improve the user's awareness of gas consumption. Regarding the value-added business, the Group adhered to the basic business of urban gas, while continued to strengthen its presence in the rural areas by engaging in the "coal-to-gas" projects. We continued to improve our coverage and strengthen our own retail brand. We prioritised businesses which are related to our core business with industrial advantages and sustainable development, further achieving vertical integration of the value chain in different stages of the business.

National policies promoted the natural gas consumption and stimulated the sustained and rapid development of the natural gas industry. It was estimated that the national natural gas consumption in 2019 will reach 308 billion m^3, representing a year-on-year growth of 11.4%. In view of this favorable condition, the Group is now focusing on identifying opportunities for mergers and acquisitions, especially high-quality projects that can achieve synergies with current operating projects, in order to further expand the coverage of our business. In January 2019, the Group acquired the exclusive concession rights of two gas projects in Mengzhou City and Wen County of Henan Province respectively through the acquisition of 100% equity of two natural gas companies, which have obtained relevant permission to operate piped gas business locally and provide ancillary services. Mengzhou City and Wen County are adjacent to Jiaozuo City, the main market of the Group. The acquisitions further expanded the Group's market share in Henan Province and consolidated its regional advantages and enhance its reputation. In addition, both Mengzhou City and Wen County are mature markets with stable customer base and revenue. The acquisitions are expected to bring positive financial contributions to the Group.

In recent years, China has been promoting smart grids and distributed energy to facilitate energy production, consumption, technology and institutional reform. The Group also regards it as one of its development priorities. The Group will actively and systematically develop, optimize its operation and management mechanism, and make use of the technological advantages of its subsidiaries, and strive to develop a series of new projects involving high-quality smart energy as demonstration projects to make the Group's business more diversified and competitive.

As always, the Group regards safety, quality, efficiency and effectiveness as its core values, especially safety. No matter in business management or daily work, safety is a necessary condition to support the long-term development of the Group. In terms of efficiency, strengthening the development of informatisation is one of the goals of this year. Comprehensive informatisation can effectively enhance the management and compliance of the Group's businesses, improve the level of customer service, and facilitate resource integration and process optimisation. The Group has successfully completed the trial of the Group's cloud based information system in 2018 and will fully implement such system this year. At the same time, the Group has continuously strengthened the internal control of quality, enhanced the management system and structure of various departments, emphasised on risk prevention and control, and promoted the overall healthy development of the Group.

The Group truely believes that talent is the cornerstone of the Group's development and has been diligently improving its talent system to strengthen the Company's core competitiveness and improve corporate governance and transparency. In February 2019, the Company appointed Mr. Li Yan ("Mr. Li") and Mr. Jia Kun ("Mr. Jia") as executive directors. On behalf of the Board of Directors, I would like to welcome them to join the board and believe that with their extensive experience and expertise, Mr. Li and Mr. Jia will bring great benefit to the future development of the Group.

In the coming year, our team will work together closely to provide customers with quality and efficient integrated services in the energy sector, and strive to become the most valuable integrated energy service provider, and drive the development of the Group to the next level unremittingly.

Appreciation

Last but not least, I would like to take this opportunity to thank the management and staff sincerely for their dedication and hard work, and thank all the shareholders and customers of the Group for their long-term support and trust.

Wang Wenliang
Chairman
Hong Kong

26th March, 2019

CEO MESSAGE

To our valued shareholders,

On behalf of management and fellow staff, I am pleased to deliver another set of remarkable annual results of the Group for the year ended 31st December, 2018 (the "Year").

As a growing natural gas distributor and service provider, the Group has continued to excel and deliver promising results since 2012. Under the favorable "coal-to-gas" conversion policy and the greatly promoted direction of the use of cleaner fuel and emission reduction by the People's Republic of China (the "PRC") government, the Group has grasped the chance to expand its network over the nation. As of 31st December, 2018, we covered a number of densely populated and affluent provinces, namely Henan, Hebei, Jiangsu, Shangdong, Jilin, Fujian, Heilongjiang, Zhejiang and Anhui, serving approximately 12,521 industrial and commercial customers and 2,878,103 residential households. The unit of natural gas sold increased by 21.7% year-on-year ("yoy") to 1,615,646,000 m^3 in 2018, achieving a record-breaking result. Our own retail brand, "中裕鳳凰" (Zhongyu Phoenix) has also been well recognised among the residential customers for its safe and reliable gas related products and services in the covered areas.

RESULTS

Excluding the net foreign exchange loss of HK$321,905,000 (2017: gain of HK$114,747,000) and share option expenses of HK$58,847,000 (2017: nil), adjusted profit attributable to owners of the Company would amount to HK$1,001,436,000 (2017: HK$443,212,000), representing an increase of 125.9%. EBITDA increased by 62.9% to HK$2,048,801,000 (2017: HK$1,257,947,000).

For the Year, the Group recorded a turnover of HK$7,627,088,000, representing a yoy increase of 51.1% (2017: HK$5,048,100,000).The growth was mainly driven by the increase of gas consumption of industrial and commercial clients, and the growing number of connected piped gas customers. Profit attributable to owners of the Company surged by 11.2% yoy to HK$620,684,000 (2017: HK$557,959,000). Basic earnings per share rose to HK24.52 cents (2017: HK22.10 cents); net assets per share amounted to HK$1.55 (2017: HK$1.26).

BUSINESS REVIEW

The development of natural gas in the PRC continued its momentum in 2018. According to the National Development and Reform Commission of the People's Republic of China ("NDRC"), the natural gas consumption in 2018 reached 280 billion m^3, raised by 18.1% yoy. To cope with the demand, the domestic gas production increased by 7.5% yoy to 161 billion m^3. According to the "2018 Domestic and International Oil and Gas Industry Development Report" (2018年國內外油氣行業發展報告) issued by CNPC Economics & Technology Research Institute, the PRC's natural gas import also increased by 31.7% to 125.4 billion m^3 in 2018, making the PRC the world's largest LNG importer. The flourish industry was motivated by a number of favorable government policies, particularly the newly added ones in 2018 including the "Three-Year Action Plan for Winning the Blue Sky War" (打贏藍天保衛戰三年行動計劃) and the "Several Opinions of the State Council on Promoting the Coordinated and Stable Development of Natural Gas"(國務院關於促進天然氣協調穩定發展的若干意見) by the State Council of the PRC. The Group reacted promptly to capture the opportunities for expansion for its four major businesses, including the sales of gas, gas pipeline construction and connection, operation of CNG/LNG vehicles filling stations, and the gas related value added services (sales of stoves and related equipment), which contributed 63.9%, 29.5%, 4.5% and 2.0% of the Group's turnover in 2018, respectively.

The sales of gas business continued to be the largest contributor of the Group in 2018, achieving HK$4,871,134,000 in sales with 43.3% yoy growth. The business was mainly fueled by the increased number of industrial and commercial customers, as well as the increased gas consumption by customers. Despite the fluctuating global economy in 2018, China's GDP growth of 6.6% sustained the increasing gas demand of industrial and commercial customers. The Group's strategy of client diversification also maintained its business growth and stability. The industrial and commercial customers, especially those market leaders that are with high industrial output, will continue to be the Group's expansion focus in the foreseeable future.

The gas pipeline construction and connection business also achieved good results for the Year, thanks to the implementation of the "coal-to-gas" conversion by the local governments. The Group outreached potential customers for both residential and non-residential, in urban and rural areas. Of which, the "coal-to-gas" projects for residential households in rural areas made great accomplishment that the connection revenue surged by 325.0% to HK$1,447,721,000 (2017: HK$340,616,000). The new customers acquired is expected to make bigger contributions in the future in terms of piped gas consumption.

In view of the shortage of gas supply in certain areas in the PRC over the past few years, the Group has established a LNG trading arm to secure additional LNG supply from different sources to maintain stable supply to its existing customers, complement the possible piped gas shortage, and most importantly, to expand its coverage to rural areas that were with limited access to piped gas and solve the bottlenecks in "coal-to-gas" conversion.

As a result of the expeditious "coal-to-gas" development in 2018, the number of residential customers surged by 33.3% yoy to 2,878,103 households (2017: 2,159,526) as of 31st December, 2018. With such a huge potential market for value-added services such as sales of safe and reliable kitchenware and gas-related equipment and services, the Group's consumer brand "中裕鳳凰" (Zhongyu Phoenix) gained a wide exposure and coverage in its service areas and it is expected to hasten the development in the coming years.

PROSPECTS

The PRC government has demonstrated its determination to tackle air pollution and improve air quality of the country by 2020 and natural gas will continue to be a substitute for coal. Along with a more diversified natural gas supply system established in the PRC last year, the strong demand for natural gas from industrial, commercial and residential users is expected to persist in 2019. According to the 13th Five-Year Plan, the natural gas consumption is expected to reach 360 billion m^3 by 2020, representing a compound annual growth of 13.3% from 280 billion m^3 in 2018.

In 2019, stable and strong demand for gas from the Group's existing customers is expected under the context of progressive "coal-to-gas" conversion and the continuous economic growth in the PRC. The Group will continue its efforts and deepen its penetration in covered areas by acquiring new customers for piped gas or LNG supply, as well as for its gas related value added services and products under the Group's own consumer brand "中裕鳳凰" (Zhongyu Phoenix), in order to take advantage of its existing geographical coverage and large customer base. Yet, considering the uncertain external economic condition, the Group will take caution and be more selective when acquiring new customers, as it is important for the Group to stay financially strong with a healthy level of cash flow, account receivables and profitability at all times.

On top of its current business footprint, the Group has been seeking for expansion by mergers and acquisitions ("M&A") over the years. In January 2019, the Group acquired 100% of the equity interest of two peers, who operated gas related business similar to the Group in Jiaozuo City, Henan Province, for an aggregate consideration of approximately RMB462 million. The acquired companies had been granted exclusive rights by the local governmental authority of Mengzhou City and Wen County to invest in, build and operate piped gas business and provide the ancillary services in Mengzhou City and Wen County. Together with the Group's existing presence in Jiaozuo City, these acquisitions will further enhance the Group's foothold in Henan Province, and are expected to make positive financial contributions to the Group. In the future, the Group will focus on M&A projects that are relatively mature, profit-making and with strong cash flow, and have potential to create synergy with the Group's existing operations and generate extra values.

In the longer term, smart energy and decentralised energy business will be another growth driver of the Group. The Group will accelerate the development by increasing its pilot bases and optimising the system according to customers' specifications, striving to become one of the most competitive integrated smart energy providers.

APPRECIATION

Last but not least, I would like to extend my heartfelt gratitude to our management and staff for their dedication and commitment during the Year. I would also like to thank our shareholders and customers for their consistent support and confidence in the Group.

Lui Siu Keung, Daniel
Chief Executive Officer
Hong Kong

26th March, 2019

OPERATIONAL STATISTICS

As at 31 December 2018								
Province	Operational location	Connectable Population	Connectable Residential Households	Accumulated Connected Residential Households	Accumulated Connected Industrial Customers	Accumulated Connected Commercial Customers	Length of Existing Intermediate and Main Pipelines (km)	Number of CNG/LNG Vehicle Filling Stations
Henan	Jiaozuo City	1,416,000	404,571	316,898	119	1,100	1,554	8
	Qinyang City	316,000	90,286	60,554	61	180	634	1
	Wuzhi County	563,000	160,857	56,355	28	169	301	1
	Xiuwu County	166,000	47,429	27,155	63	158	577	4
	Luohe City	1,663,000	475,143	366,289	118	1,290	947	4
	Light Food Industrial Park in Luohe Economic Development District	–	–	–	10	–	–	–
	Luohe Shaoling District	–	–	–	18	–	–	–
	Luohe Songjiang Industrial Zone	–	–	–	15	–	–	–
	Luohe Houxie Village Industrial Zone	–	–	–	–	–	–	–
	Luohe West Industrial Zone	–	–	–	–	–	–	–
	Venture Centre in Luohe Economic Development District	–	–	–	15	–	–	–
	Xiping County	32,800	9,371	–	–	–	–	–
	Jiyuan City	860,000	245,714	174,378	226	1,240	1,179	4
	Sanmenxia City	499,000	142,571	111,597	54	581	478	4
	Shanxian County	53,000	15,143	–	–	–	–	–
	Sanmenxia Industrial Park	–	–	–	7	–	–	–
	Lingbao City	175,000	50,000	20,864	25	126	241	–
	Yanshi City	233,000	66,571	49,077	164	176	504	2
	Yongcheng City	686,000	196,000	152,737	27	321	531	4
	Yongcheng Industrial Zone	35,000	10,000	–	1	–	–	–
	Xinmi City	396,000	113,143	89,155	87	361	680	5
	Huiguo Town, Gongyi City	21,000	6,000	3,941	48	13	54	–
	Yuanyang County	230,000	65,714	7,662	1	–	60	–
	Hui County	35,000	10,000	466	1	-	41	-
Hebei	Yutian County	284,800	81,371	65,083	16	191	263	–
	Yutian Town and Caitingqiao Town, Yutian County	105,200	30,057	–	–	–	–	–
	Changli County	239,070	68,306	54,617	47	134	275	–
	Weixian County	146,100	41,743	33,394	5	58	177	–
	Xiahuayuan District	92,862	26,532	21,229	–	33	116	–
	Chengan County	388,864	111,104	39,467	9	39	205	–
	Gaocheng	12,000	3,429	592	–	–	6	–
	Wuqiao County	263,516	75,290	26,360	33	69	226	–
	Ningjin County	380,000	108,571	49,177	53	164	339	–
	Linzhang County	248,800	71,086	56,870	21	67	279	–

As at 31 December 2018								
Province	**Operational location**	**Connectable Population**	**Connectable Residential Households**	**Accumulated Connected Residential Households**	**Accumulated Connected Industrial Customers**	**Accumulated Connected Commercial Customers**	**Length of Existing Intermediate and Main Pipelines (km)**	**Number of CNG/LNG Vehicle Filling Stations**
	Zaoqiang County	200,000	57,143	23,786	5	64	194	–
	Longyao County	23,907	6,831	5,392	–	68	38	–
	Xingtang County	86,551	24,729	14,461	1	30	125	–
	City district of Gucheng	314,350	89,814	33,392	18	224	285	–
	Administrative jurisdiction of Gucheng County	250,000	71,429	46,213	12	12	177	–
	Nangong City	352,381	100,680	55,263	2	142	144	–
	Jize County	122,400	34,971	12,241	13	51	152	–
	Xinhe County	152,600	43,600	15,256	25	97	170	–
	Xingtai	70,000	20,000	10,604	5	1	-	-
Jiangsu	Jingqiao Town, Nanjing City	48,000	13,714	264	8	4	14	–
	Donghai County	53,000	15,143	839	14	4	40	–
	Tongshan	260,000	74,286	56,384	–	69	55	–
	City district of Sihong County	486,000	138,857	111,111	20	318	596	–
	Sihong County	28,000	8,000	2,302	22	1	52	–
	Guannan County	198,000	56,571	44,815	–	175	281	–
Shandong	Linyi City (Note)	1,640,000	468,571	380,469	397	1,535	1,092	14
	Linyi Economic Development District	330,000	94,286	75,066	172	264	660	4
	Linshu County	9,000	2,571	1,753	77	6	187	2
	Tianqu Industrial Park in Dezhou City	–	–	–	21	12	70	1
Jilin	Baishan City	369,639	105,611	78,681	8	344	316	2
	Changbaishan International Tourist Resort Zone in Fusong County	166,419	47,548	5,138	8	64	131	-
Fujian	Shaowu City	165,000	47,143	19,103	5	122	90	2
Heilongjiang	Chengguan Town, Tieli City	198,000	56,571	10,517	7	59	61	–
Zhejiang	Daishan Economic Development District	–	–	–	10	–	30	–
	Yueqing City	35,000	10,000	1,512	–	–	4	–
Anhui	Wuhe County	241,500	69,000	55,970	8	167	163	–
	Sixian County	186,037	53,153	33,654	5	83	134	–
		15,526,796	**4,436,224**	**2,878,103**	**2,135**	**10,386**	**14,928**	**62**

Note: The operational location covers the administrative jurisdiction of Linyi City, which is from Binhe Road on the west bank of Yihe River in the east to Beijing–Shanghai Expressway in the west, bordering Binhe Road on the south bank of Fanghe River in the north and reaching Yihe Road, Luozhuang District in the south (excluding western part beyond Mengshan Avenue and southern part beyond Huawu Road).

MANAGEMENT DISCUSSION & ANALYSIS
BUSINESS REVIEW

BUSINESS REVIEW

During the year ended 31st December, 2018, the Group was principally engaged in (i) the investment, operation and management of city gas pipeline infrastructure, and the distribution of piped gas to residential, industrial and commercial users; and (ii) the operation of CNG/LNG vehicle filling stations in the PRC.

New Downstream Piped Gas Distribution Projects

As at 31st December, 2018, the Group had 61 gas projects with exclusive rights in the PRC. During the year, the Group obtained concession right to operate 2 additional natural gas projects in Hebei Province and Jiangsu Province.

In January 2019, the Group acquired 100% equity interest of two companies, which have concession right to operate 2 natural gas projects in Henan Province.

New CNG/LNG Vehicle Filling Stations Expansion

In 2018, the Group slowed down the expansion of CNG/LNG vehicle filling stations as the price of crude oil remained at a low level. During the financial year ended 31st December, 2018, two loss-making subsidiaries, which operated CNG vehicle filling stations, were disposed of.

Major Operational Data

The downstream natural gas distribution business of the Group primarily comprises sales of gas, gas pipeline construction and sales of natural gas from CNG/LNG vehicle filling stations.

The major operational data of the Group for the year ended 31st December, 2018 together with the comparative figures for the corresponding period last year are as follows:

	2018	2017	Increase/ (Decrease)
Number of operational locations *(Note a)*	**61**	59	2
– Henan Province	**24**	24	–
– Hebei Province	**19**	18	1
– Jiangsu Province	**6**	5	1
– Shandong Province	**4**	4	–
– Jilin Province	**2**	2	–
– Fujian Province	**1**	1	–
– Heilongjiang Province	**1**	1	–
– Zhejiang Province	**2**	2	–
– Anhui Province	**2**	2	–
Connectable population ('000) *(Note b)*	**15,527**	11,885	30.6%
Connectable residential households ('000)	**4,436**	3,396	30.6%
New piped gas connections by the Group made during the year			
– Residential households	**668,577**	365,178	83.1%
(i) "Coal-to-gas" projects	**445,324**	111,126	300.7%
(ii) Non "Coal-to-gas" projects	**223,253**	254,052	(12.1)%
– Industrial customers	**489**	475	2.9%
– Commercial customers	**2,130**	2,200	(3.2)%
Accumulated number of connected piped gas customers			
– Residential households	**2,878,103**	2,159,526	33.3%
– Industrial customers	**2,135**	1,646	29.7%
– Commercial customers	**10,386**	8,256	25.8%
Penetration rate of residential pipeline connection *(Note c)*	**64.9%**	63.6%	1.3%
Unit of piped natural gas sold ('000 m^3)	**1,461,377**	1,203,007	21.5%
– Residential households	**319,646**	250,086	27.8%
– Industrial customers	**967,372**	825,725	17.2%
– Commercial customers	**138,271**	115,418	19.8%
– Wholesale customers	**36,088**	11,778	206.4%

	2018	2017	Increase/ (Decrease)
Unit of LNG sold ('000 m^3)			
– Wholesale customers	**67,943**	28,251	140.5%
Number of CNG/LNG vehicle filling stations			
– Accumulated	**62**	63	(1)
– Under construction	**9**	11	(2)
Unit of natural gas sold to vehicles ('000 m^3)	**86,326**	96,222	(10.3)%
Total length of existing intermediate and main pipelines (km)	**14,928**	12,342	21.0%
Average selling price of natural gas (pre-tax) (RMB per m^3)			
– Residential households	**2.20**	2.13	3.3%
– Industrial customers	**2.77**	2.38	16.4%
– Commercial customers	**3.05**	2.81	8.5%
– Wholesale customers	**2.25**	1.89	19.0%
– Wholesale customers (LNG)	**2.76**	2.29	20.5%
– CNG/LNG vehicle filling stations	**3.35**	2.97	12.8%
Average cost of natural gas (RMB per m^3) *(Note d)*	**2.46**	2.11	16.6%
Average connection fee for residential households (RMB)			
– "Coal-to-gas" projects	**2,745**	2,656	3.4%
– Non "Coal-to-gas" projects	**2,510**	2,558	(1.9)%

Note a: *The number of operational locations represents the gas projects with exclusive rights which are operated by the Group in different cities and regions in the PRC.*

Note b: *The information is quoted from the website of PRC government.*

Note c: *The penetration rates of residential pipeline connection represented by the percentage of the accumulated number of the Group's connected residential households to the estimated aggregate number of connectable residential households in its operation regions.*

Note d: *The amounts included the average purchase cost of natural gas of RMB2.27 per m^3 (2017: RMB1.93 per m^3) and average distribution costs of RMB0.19 per m^3 (2017: RMB0.18 per m^3).*

MANAGEMENT DISCUSSION & ANALYSIS

FINANCIAL REVIEW

Overall

The Group's turnover for the year ended 31st December, 2018 increased by 51.1% to HK$7,627,088,000 (2017: HK$5,048,100,000), and gross profit for the year ended 31st December, 2018 increased by 72.4% to HK$2,221,873,000 (2017: HK$1,289,102,000). The Group's profit attributable to owners of the Company increased by 11.2% to HK$620,684,000 (2017: HK$557,959,000). Excluding the net foreign exchange loss of HK$321,905,000 (2017: gain of HK$114,747,000) and share option expenses of HK$58,847,000 (2017: nil), adjusted profit attributable to owners of the Company would amount to HK$1,001,436,000 (2017: HK$443,212,000). The basic and diluted earnings per share attributable to the owners of the Company were HK24.52 cents and HK24.30 cents respectively for the year ended 31st December, 2018, as compared with that of HK22.10 cents and HK22.08 cents respectively for the corresponding period last year.

Turnover

An analysis of the Group's turnover by products and services for the year, together with the comparative figures for the corresponding period last year are as follows:

	Year ended 31st December,				
	2018	**% of total**	2017	% of total	Increase/ (Decrease)
	HK$'000		*HK$'000*		
Sales of Gas	**4,871,134**	**63.9%**	3,399,172	67.4%	43.3%
Revenue from Gas Pipeline Construction	**2,251,268**	**29.5%**	1,235,142	24.5%	82.3%
Operation of CNG/LNG Vehicle Filling Stations	**342,365**	**4.5%**	329,429	6.5%	3.9%
Sales of Stoves and Other Services	**154,854**	**2.0%**	77,556	1.5%	99.7%
Sub-total	**7,619,621**	**99.9%**	5,041,299	99.9%	51.1%
Sales of Liquefied Petroleum Gas	**7,467**	**0.1%**	6,801	0.1%	9.8%
Total	**7,627,088**	**100%**	5,048,100	100%	51.1%

The turnover for the year ended 31st December, 2018 amounted to HK$7,627,088,000 (2017: HK$5,048,100,000). The growth in turnover was mainly attributable to a significant increase in sales of gas to industrial customers and revenue from gas pipeline construction under the implementation of the "coal-to-gas" conversion policy.

Sales of Gas

Sales of gas for the year ended 31st December, 2018 amounted to HK$4,871,134,000 (2017: HK$3,399,172,000), representing an increase of 43.3% over the corresponding period last year.

Sales of gas for the year ended 31st December, 2018 contributed 63.9% of the total turnover of the Group, as compared with the percentage of 67.4% during the corresponding period last year. Sales of gas continued to be the major source of turnover for the Group. The following table set forth the breakdown of sales of gas by customers.

Sales of gas by customers:

	Year ended 31st December,				
	2018	**% of total**	2017	% of total	Increase/ (Decrease)
	HK$'000		*HK$'000*		
Industrial customers	**3,216,181**	**66.0%**	2,299,934	67.7%	39.8%
Residential households	**837,033**	**17.2%**	623,478	18.3%	34.3%
Commercial customers	**500,141**	**10.3%**	375,191	11.0%	33.3%
Wholesale customers	**95,962**	**2.0%**	25,747	0.8%	272.7%
Wholesale customers (LNG)	**221,817**	**4.5%**	74,822	2.2%	196.5%
Total	**4,871,134**	**100%**	3,399,172	100%	43.3%

Industrial customers

The sales of gas to the Group's industrial customers for the year ended 31st December, 2018 increased by 39.8% to HK$3,216,181,000 from HK$2,299,934,000 for the corresponding period last year. During the year ended 31st December, 2018, the Group connected 489 new industrial customers. The average selling price of natural gas for industrial customers for the year ended 31st December, 2018 increased by 16.4% to RMB2.77 per m^3 (2017: RMB2.38 per m^3) when compared to the corresponding period last year. There is a continuous growth in the demand of natural gas among industrial customers under the implementation of the "coal-to-gas" conversion policy. During the year ended 31st December, 2018, the piped natural gas usage provided by the Group to its industrial customers increased by 17.2% to 967,372,000 m^3 (2017: 825,725,000 m^3).

The sales of gas to our industrial customers for the year ended 31st December, 2018 contributed 66.0% of the total sales of gas of the Group (2017: 67.7%) and continues to be the major source of sales of gas of the Group.

Residential households

The sales of gas to our residential households for the year ended 31st December, 2018 increased by 34.3% to HK$837,033,000 from HK$623,478,000 for the corresponding period last year. The growth in sales of gas to residential households was supported by the implementation of the "coal-to-gas" conversion policy in the Group's existing project cities in the PRC. During the year ended 31st December, 2018, the Group provided new natural gas connections for 668,577 residential households and the piped natural gas usage provided by the Group to residential households was 319,646,000 m^3 (2017: 250,086,000 m^3).

The sales of gas to our residential households for the year contributed 17.2% of the total sales of gas of the Group (2017: 18.3%).

Commercial customers

The sales of gas to our commercial customers for the year ended 31st December, 2018 increased by 33.3% to HK$500,141,000 from HK$375,191,000 for the corresponding period last year. The sales of gas to commercial customers for the year contributed 10.3% of the total sales of gas of the Group (2017: 11.0%). During the year ended 31st December, 2018, the Group connected 2,130 new commercial customers. As at 31st December, 2018, the number of commercial customers of the Group reached 10,386, representing an increase of 25.8% as compared with 8,256 commercial customers as at 31st December, 2017.

The average selling price of natural gas for commercial customers increased by 8.5% to RMB3.05 per m^3 (2017: RMB2.81 per m^3) when compared to the corresponding period last year. The increase in gas consumption of commercial customers by 19.8% to 138,271,000 m^3 (2017: 115,418,000 m^3) for the year ended 31st December, 2018 was attributable to the "coal-to-gas" conversion policy and the raising awareness for environmental protection.

Gas Pipeline Construction

Revenue from gas pipeline construction for the year ended 31st December, 2018 amounted to HK$2,251,268,000, representing an increase of 82.3% over the corresponding period last year. The following table set forth the breakdown of revenue from gas pipeline construction by customers.

Revenue from gas pipeline construction by customers

	Year ended 31st December,				
	2018	**% of total**	2017	% of total	Increase/ (Decrease)
	HK$'000		*HK$'000*		
Residential households					
– "Coal-to-gas" projects	**1,447,721**	**64.3%**	340,616	27.6%	325.0%
– Non "Coal-to-gas" projects	**663,678**	**29.5%**	750,194	60.7%	(11.5)%
Non-residential households	**139,869**	**6.2%**	144,332	11.7%	(3.1)%
Total	**2,251,268**	**100%**	1,235,142	100%	82.3%

Started from 2017, the PRC government has determined to launch the "coal-to-gas" policy as one of its major priorities to fight with air pollution. The Group has followed the "coal-to-gas" conversion policy and carried out a number of conversion projects in different regions of the PRC. Revenue from gas pipeline construction for residential households for "coal-to-gas" projects for the year ended 31st December, 2018 increased by 325.0% to HK$1,447,721,000 from HK$340,616,000 for the corresponding period last year. During the year ended 31st December, 2018, the Group provided new natural gas connections for 445,324 residential households (2017: 111,126) under "coal-to-gas" projects and the average connection fee was RMB2,745 (2017: RMB2,656).

During the year ended 31st December, 2018, revenue from gas pipeline construction for residential households for non "coal-to-gas" projects decreased by 11.5% to HK$663,678,000 from HK$750,194,000 for the corresponding period last year. The decrease was mainly attributable to the drop in construction work for gas pipeline connection completed by the Group for residential households for non "coal-to-gas" projects to 223,253 from 254,052 for the corresponding period last year.

The connection fee charged to industrial/commercial customers by the Group was significantly higher than that charged to residential households and was determined on a case-by-case basis. During the year ended 31st December, 2018, revenue from gas pipeline construction for non-residential customers decreased by 3.1% to HK$139,869,000 from HK$144,332,000 for the corresponding period last year.

As at 31st December, 2018, the Group's penetration rates of residential pipeline connection amounted to 64.9% (2017: 63.6%) (represented by the percentage of the accumulated number of the Group's connected residential households to the estimated aggregate number of connectable residential households in its operation regions). In view of the favourable energy policies in the PRC, the Group is aiming to continue to increase its market coverage by acquisitions when suitable opportunities arise.

Operation of CNG/LNG Vehicle Filling Stations

The operation of CNG/LNG vehicle filling stations is facing keen competition. Revenue from operating CNG/LNG vehicle filling stations for the year ended 31st December, 2018 amounted to HK$342,365,000, representing a mild increase of 3.9% over the corresponding period last year. In view of the increased cost of natural gas, the average selling price of natural gas for CNG/LNG vehicle filling stations for the year ended 31st December, 2018 was adjusted upward by 12.8% to RMB3.35 per m^3 (2017: RMB2.97 per m^3) when compared to the corresponding period last year. The unit of natural gas sold to vehicles reduced by 10.3% to 86,326,000 m^3 for the year ended 31st December, 2018 from 96,222,000 m^3 for the corresponding period last year.

During the year ended 31st December, 2018, the turnover derived from operating CNG/LNG vehicle filling stations accounted for 4.5% (2017: 6.5%) of the total turnover of the Group. As at 31st December, 2018, the Group had 62 CNG/LNG vehicle filling stations and commenced building an additional 9 CNG/LNG vehicle filling stations in the PRC.

Gross profit margin

The overall gross profit margin for the year ended 31st December, 2018 was 29.1% (2017: 25.5%). The improvement in overall gross profit margin in current year was mainly due to increase in the proportion of connection revenue to total turnover.

The gross profit margin for the sales of piped natural gas reduced to 8.1% (2017: 12.0%) as a result of increased average cost of natural gas from suppliers. The gross profit margin for the operation of CNG/LNG vehicle filling stations increased to 9.3% (2017: 4.1%) because sales increment has been recorded in gas stations in Jilin Province, which have higher gross profit margin due to premium locations. The gross profit margin for the gas pipeline construction increased to 77.3% for the year under review (2017: 69.7%), which was mainly due to cost reduction after integration and improvement of design, material procurement and construction processes.

Other gains and losses

The Group recognised other net loss of HK$332,787,000 in 2018 (2017: net gain of HK$136,586,000). The amount mainly represented (i) net foreign exchange loss of HK$321,905,000 (2017: gain of HK$114,747,000) mainly arising from the Group's bank borrowings denominated in United States dollars and Hong Kong dollars as a result of the depreciation of RMB since the second quarter of 2018; and (ii) net loss on disposal of property, plant and equipment of HK$37,805,000 (2017: HK$34,757,000); net off by (iii) recovery of bad debts previously written off of HK$29,109,000 (2017: HK$25,806,000). In 2017, there was net gain on disposal of prepaid lease payments of HK$33,008,000.

Other income

Other income reduced to HK$60,930,000 in 2018 from HK$69,422,000 in 2017. The balance in 2018 represented the bank interest income of HK$9,412,000 (2017: HK$3,973,000), interest income on amount due from an associate of HK$3,072,000 (2017: HK$2,775,000), government subsidies of HK$6,264,000 (2017: HK$15,879,000), income from investments in life insurance contracts of HK$2,702,000 (2017: HK$2,587,000) and sundry income of HK$39,480,000 (2017: HK$44,208,000).

Selling and distribution costs and administrative expenses

Selling and distribution costs increased by 31.2% to HK$146,145,000 in 2018 from HK$111,355,000 in 2017. Administrative expenses increased by 20.5% to HK$375,792,000 in 2018 from HK$311,860,000 in 2017. The increase was mainly attributable to (i) ascending staff costs and related expenses as a result of increased salary and number of headcount and (ii) additional depreciation expenses arisen from the revaluation of pipelines in prior year. In 2018, the Group also recognised equity-settled share option expenses of HK$58,847,000 (2017: nil) arising from share options granted on 5th January, 2018.

Finance costs

Finance costs increased by 13.0% to HK$272,747,000 in 2018 from HK$241,292,000 in 2017. The increase was mainly attributable to the increase in average bank and other borrowings balance.

Income tax expenses

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the year ended 31st December, 2018, withholding tax amounting to HK$9,402,000 (2017: HK$6,638,000) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities in the previous and current years.

Accordingly, the income tax expenses in 2018 amounted to HK$406,686,000 (2017: HK$257,818,000).

Earnings from continuing operations before finance costs, taxation, depreciation, amortisation and foreign exchange gain/loss ("EBITDA")

The Group's EBITDA was approximately HK$2,048,801,000 in 2018, representing an increase of 62.9% as compared with that of approximately HK$1,257,947,000 in 2017.

Profit attributable to owners of the Company

As a result of the above, profit attributable to owners of the Company was HK$620,684,000 in 2018, representing an increase of 11.2% as compared with that of HK$557,959,000 in 2017.

Excluding the net foreign exchange loss of HK$321,905,000 (2017: gain of HK$114,747,000) and share option expenses of HK$58,847,000 (2017: nil), adjusted profit attributable to owners of the Company would amount to HK$1,001,436,000 (2017: HK$443,212,000).

Net profit margin

For the year ended 31st December, 2018, the net profit margin, representing a ratio of profit attributable to owners of the Company to turnover, was 8.1% (2017: 11.1%).

Earnings per share

The basic and diluted earnings per share attributable to the owners of the Company were HK24.52 cents and HK24.30 cents respectively in 2018, as compared with that of HK22.10 cents and HK22.08 cents respectively in 2017.

Net assets value per share

The net assets value per share attributable to the owners of the Company was HK$1.55 as at 31st December, 2018, representing an increase of 23.0% as compared with that of HK$1.26 as at 31st December, 2017.

The net assets value represents total assets minus total liabilities.

LIQUIDITY, FINANCIAL RESOURCES AND WORKING CAPITAL

Liquidity

As at 31st December, 2018, the total assets of the Group increased by HK$4,480,623,000 or 38.0% to HK$16,281,354,000 (2017: HK$11,800,731,000).

As at 31st December, 2018, the Group has net current liabilities of HK$2,790,038,000 (2017: HK$1,665,593,000). It was mainly due to increase in bank and other borrowings which are repayable within one year.

As at 31st December, 2018, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 0.6 (2017: 0.5).

As at 31st December, 2018, the total borrowings and obligations under finance lease increased by HK$2,771,732,000 or 48.6% to HK$8,477,473,000 (2017: HK$5,705,741,000).

As at 31st December, 2018, the Group had total net debts of HK$6,876,596,000 (2017: HK$5,241,394,000), measured as total borrowings and obligations under finance lease minus the bank balances and cash and pledged bank deposits. As at 31st December, 2018, the Group had net gearing ratio of approximately 1.52 (2017: 1.41), measured as total net debts to total equity of HK$4,520,169,000 (2017: HK$3,723,217,000).

Financial resources

During the year ended 31st December, 2018, the Group entered into several loan agreements with several banks in Hong Kong and overseas, pursuant to which loan facilities of up to US$391,500,000 and HK$2,333,300,000 in total were made available to the Group.

During the year ended 31st December, 2018, the Group generally financed its operations with internally generated resources and bank and other borrowings. As at 31st December, 2018, all of the bank and other borrowings were secured or unsecured and on normal commercial basis.

Capital structure

Please refer to notes 31, 34, 35, 36 and 47 of the consolidated financial statements for details of the capital structure of the Group.

Working capital

In view of the Group's current financial and liquidity positions and in the absence of unforeseen circumstances, the Directors are of the opinion that the Group has sufficient working capital for its requirements.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

During the year, the Group's monetary assets and liabilities are principally denominated in either Renminbi ("RMB"), Hong Kong dollars or the United States dollars and the Group conducted its business transactions principally in RMB. As a result of the depreciation of RMB since the second quarter of 2018, exchange loss arising from the Group's bank borrowings denominated in United States dollars and Hong Kong dollars was recognised during the year. The Group is seeking suitable financial instruments to hedge against potential depreciation of RMB. As at 31st December, 2018, the Group did not employ any financial instruments for hedging purposes.

EMPLOYEE INFORMATION

As at 31st December, 2018, the Group had a total of 3,816 employees (2017: 3,587) in Hong Kong and the PRC, and the total employee benefit expenses (other than directors) for the year was approximately HK$439,362,000 (2017: HK$347,367,000). The increase was mainly due to the increase in the number of headcount of the Group, salary increment and recognition of share option expenses. Around 99.7% of the Group's employees are located in the PRC.

The Group's remuneration and bonus policies are determined based on the performance of individual employees.

The emoluments of the Directors are recommended by the Remuneration Committee of the Company, having regard to the Group's operating results, the Directors' duties and responsibilities within the Group and comparable market statistics.

Share option scheme

On 24th October, 2003, the Company adopted a share option scheme ("Old Share Option Scheme") pursuant to which the Directors were authorised to grant share option to its employees (including executive directors and employees of any of its subsidiaries) or any person who has contributed or will contribute to the Group. The Old Share Option Scheme was terminated and replaced by a new share option scheme ("New Share Option Scheme") on 3rd May, 2013 by an ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 3rd May, 2013.

On 1st August, 2018, the Company adjusted the exercise price and the number of outstanding options granted under the Old Share Option Scheme and the New Share Option Scheme in accordance with the scheme rules and the Supplementary Guidance issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 2005 as a result of the issue and allotment of scrip shares by the Company in relation to the final dividend for the year ended 31st December, 2017 ("Adjustment"). Please refer to the announcement of the Company dated 1st August, 2018 for more details.

Pursuant to the Adjustment, the outstanding share options granted under the Old Share Option Scheme and their exercise price were adjusted from 2,000,000 to 2,011,600 share options and from HK$0.49 per share to HK$0.4872 per share, and the outstanding share options granted under the New Share Option Scheme and their exercise price were adjusted from 126,000,000 to 126,730,800 share options and from HK$5.5 per share to HK$5.468 per share.

As at the date of this report, there were a total of 2,011,600 share options (as at the date of the annual report of the Company for the year ended 31st December, 2017: 2,000,000) outstanding which were granted to the Directors under the Old Share Option Scheme, the full conversion of which will result in the issue of 2,011,600 ordinary shares in the Company, representing approximately 0.08% of the number of issued shares of the Company as at the date of this report (number of share options outstanding as at the date of the annual report of the Company for the year ended 31st December, 2017 over the number of issued shares of the Company as at that date: 0.08%).

On 11th April, 2011, share options to subscribe for an aggregate of 159,000,000 ordinary shares at par value HK$0.01 each of the Company were granted to the eligible participants by the Company pursuant to the Old Share Option Scheme. The exercise price of such share options granted under the Old Share Option Scheme was HK$0.49 per share. The share options granted shall be valid for a period of ten years from the date of grant. No share options granted under the Old Share Option Scheme were exercised during the year. The movements of the Company's share options granted under the Old Share Option Scheme and movements in such holdings during the year ended 31st December, 2018 are disclosed in the title of share options in Directors' Report.

The New Share Option Scheme shall be valid and effective for a period of ten years commencing on 3rd May, 2013 and will expire on 2nd May, 2023. Under the New Share Option Scheme, the Directors may offer to any employees or any eligible person, who has made or will make contributions to the Group, share options to subscribe for shares in the Company in accordance with the terms of the New Share Option Scheme. The exercise price is determined by the Directors, and shall not be less than the higher of (i) the closing price of the Company's shares on the date of grant which must be a business day; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

On 5th January, 2018, 126,000,000 share options to subscribe for an aggregate of 126,000,000 ordinary shares of the Company at par value of HK$0.01 each were granted to the eligible participants (including Directors) by the Company pursuant to the New Share Option Scheme. The exercise price of such share options granted under the New Share Option Scheme was HK$5.5 per share.

The share options granted shall be valid for a period of ten years from the date of grant. No share options granted under the New Share Option Scheme were exercised from 1st January, 2018 to the date of this report. The closing price of the Company's shares on 4th January, 2018, being the date immediately before the date on which the share options under the New Share Option Scheme were granted, was HK$4.98. As announced by the Company on 1st August, 2018, the exercise price and the number of options outstanding as at that date were adjusted to HK$5.468 per share and 126,730,800 options in accordance with the terms of the New Share Option Scheme, as a result of the issue of scrip shares by the Company to its shareholders on 1st August, 2018.

As at the date of this report, the number of outstanding share options granted under the New Share Option Scheme was 123,713,400 and the maximum number of share options which may be granted under the New Share Option Scheme is 128,687,368. The outstanding share options, if converted in full into shares of the Company, and the number of options available for future grant, if granted and converted in full, represent approximately 4.8760% and 5.0720% of the number of issued shares of the Company as at the date of this report, respectively.

CHARGE ON THE GROUP'S ASSETS

As at 31st December, 2017, the Group has pledged certain buildings in the PRC having carrying value of HK$2,927,000 to secure a bank borrowing granted to the Group.

As at 31st December, 2017, the Group has pledged certain prepaid lease payments in the PRC having carrying value of HK$40,291,000 to secure certain bank borrowings granted to the Group.

As at 31st December, 2018, pledged bank deposits of RMB5,000,000 (equivalent to HK$5,720,000) (2017: nil) are used to secure the short-term general banking facilities granted to the Group.

As at 31st December, 2018, the Group's obligations under finance lease are secured by the Group's pipelines with an aggregate carrying amount of RMB555,848,000 (equivalent to HK$635,836,000) (2017: RMB591,210,000 (equivalent to HK$707,273,000)) and 50% of the equity interests of a subsidiary of the Group.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the year ended 31st December, 2018, save for the events described in notes 39, 40 and 41 to the consolidated financial statements, the Group did not conduct any significant investments, or material acquisitions or disposals of subsidiaries.

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 31st December, 2018, the Board did not have any specific plans for material investment or capital assets.

CAPITAL AND OTHER COMMITMENTS

As at 31st December, 2018, the capital expenditure in respect of the acquisition of property, plant and equipment and prepaid lease payments contracted for but not provided in the consolidated financial statements is HK$167,297,000 (2017: HK$120,529,000).

CONTINGENT LIABILITIES

As at 31st December, 2018, the Group did not have any contingent liabilities (2017: nil).

Executive Directors

Mr. Wang Wenliang, aged 48, is the Chairman of the Company. He was appointed as an executive Director on 10 July 2003 and is responsible for the overall strategic development of the Company and its subsidiaries (collectively the "Group"). Mr. Wang also serves as a director of certain other subsidiaries within the Group. Mr. Wang has held investments in various industries in the PRC including aluminium, property, and information technology. Mr. Wang was a deputy general manager of a company in Zhengzhou, People's Republic of China (the "PRC") (whose principal business is the manufacture and sale of aluminium products) between 1996 and 1999 and was a deputy general manager of a company in Henan Province, the PRC (whose principal business is property management and rental) between 1997 and 2000. Mr. Wang was also a president of a company in Henan Province, the PRC between 2000 and 2005, the principal business of which is the provision of software development, networking engineering services, sale of computer and peripheral products, and provision of internet services. Mr. Wang was an executive director of China Gas Holdings Limited between 17 January 2003 and 10 June 2003. Mr. Wang completed his postgraduate course in Finance in the Graduate School of Chinese Academy of Social Sciences in the PRC in June 2001. Mr. Wang is the sole shareholder, a chairman and director of Hezhong Investment Holding Company Limited ("Hezhong"), which is a substantial shareholder (as defined in the Listing Rules) of the Company.

Mr. Lui Siu Keung, aged 47, is the Chief Executive Officer and Company Secretary of the Company. He was appointed as an executive Director of the Company on 22 October 2007. Mr. Lui joined the Company in 2003 and is responsible for the general business operations and management. Mr. Lui also serves as a director of certain other subsidiaries within the Group. Mr. Lui has approximately twenty years of experience in corporate finance, accounting and auditing fields. He graduated from The Hong Kong Polytechnic University with a bachelor of arts degree in accountancy in November 1996. Mr. Lui is an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Lui was an independent non-executive director of Asia Television Holdings Limited (formerly known as Co-Prosperity Holdings Limited) (Stock Code: 707) up to 10th March, 2015.

Mr. Lu Zhaoheng, aged 54, is an executive Director of the Company and is mainly responsible for the management of the Group's business in PRC. He was appointed as an executive Director on 24 June 2004. Mr. Lu also serves as a director of certain other subsidiaries within the Group. Mr. Lu is the National Registered Public Facilities Engineer and Senior Engineer. Mr. Lu graduated from 重慶建築工程學院 (The Architecture and Engineering Institute of Chongqing) specializing in Town Gas Thermal Engineering in 1984, and obtained a master degree in senior management of business administration from China Europe International Business School in 2017. Mr. Lu has accumulated more than thirty years of experience in the development and commercialisation of natural gas in the PRC. Mr. Lu held various positions in 河南省城鄉規劃設計研究總院 (Henan Urban Planning Institute Corporation) and has comprehensive qualification and experience in planning research, engineering and business management in the natural gas industry.

Mr. Li Yan, aged 55, is an executive Director of the Company. He was appointed as an executive Director on 25 February 2019. Mr Li also serves as a director of certain other subsidiaries within the Group. Mr. Li holds a bachelor's degree from Henan University of Economics and Law (河南財經政法大學) (formerly known as Henan University of Economics (河南財經學院)) and an EMBA degree from The Guanghua School of Management of Peking University (北京大學光華管理學院). Mr. Li taught accounting, finance and economics at Henan Province Supply and Marketing School (河南省供銷學校) from July 1988 to February 1992 and served as assistant to the general manager of China Commercial Resources Zhengzhou Company (中國商業物資鄭州公司) from March 1992 to 2002. Mr. Li joined the Group in 2003 and is currently the executive vice president (執行副總裁) of the Company. In December 2005, Mr. Li obtained the title of senior economist.

Mr. Jia Kun, aged 48, is an executive Director of the Company. He was appointed as an executive Director on 25 February 2019. Mr. Jia graduated from Zhongnan University of Economics and Law (中南財經政法大學) (formerly known as Zhongnan University of Law (中南政法學院)) and Cheung Kong Graduate School of Business (長江商學院). Mr. Jia holds a bachelor of laws degree and an EMBA degree. Mr. Jia has 8 years of judicial experience and 19 years of legal, risk management and administrative management experience. Mr. Jia previously served as head of office and chief executive officer of Henan Hezhong Group Company (河南和眾集團公司). Mr. Jia joined the Group in 2003 and currently serves as its vice president (副總裁). Mr. Jia also serves as a director of certain other subsidiaries within the Group.

Non-executive Director

Mr. Xu Yongxuan, aged 73, is the Vice Chairman of the Company. Mr. Xu was appointed as a non-executive Director and Vice Chairman of the Company on 12 March 2004. Mr. Xu had been an executive director of Greater China Holdings Limited, the issued shares of which are listed on the main board of the Stock Exchange for the period from October 2001 to January 2004.

Independent Non-executive Directors

Mr. Li Chunyan, aged 55, is an independent non-executive Director, Chairman of Audit Committee, Remuneration Committee and Nomination Committee of the Company. He was appointed as an independent non-executive Director on 5 October 2010. He has been a practicing lawyer at Henan Shi Ji Tong Law Office (河南世紀通律師事務所) since April 1999. He has also been a teacher at Xiangcheng Normal School in Henan Province, a lawyer at Pingdingshan Economic Law Office (平頂山經濟律師事務所), a lawyer at Asia Pacific (Group) CPAs, a certified public accountant, as well as a registered assets valuer. In July 2007, he attended the independent director training of Shenzhen Stock Exchange and obtained the qualification certificate of independent directors. He was the independent non-executive director of Zhengzhou Yutong Bus Co. Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600066) from April 2014 to the present. He is a non-executive director of Rosan Resources Holdings Limited (stock code: 578).

Dr. Luo Yongtai, aged 72, is an independent non-executive Director, a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. He was appointed as an independent non-executive Director on 31 July 2003. He is a professor and a doctoral tutor in management of Tianjin University of Finance and Economics, the committee member of Tianjin Historical Building Protection Expert Consultation Committee, a Director of Coordinated Innovation Development Research Institute of the Beijing, Tianjin and Hebei region, the committee member of Coordinated Development Research Center Expert Consultation Committee of the Northeastern region and the Beijing, Tianjin and Hebei region, and an expert of Thinking Tank in Tianjin Science and Technology Commission, as well as a beneficiary of the Expert Special Subsidy granted by the State Council of the PRC. Dr. Luo had been an independent director of Tianjin Tianbao Infrastructure Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000965) for the period from December 2014 to June 2017. He was an independent director of Tianjin Guifaxiang 18th Street Mahua Food Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002820) during the period between December 2012 and September 2018. He was also an external director of Tianjin Ringpu Bio-Technology Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300119) during the period between January 2015 and December 2018.

Ms. Liu Yu Jie, aged 54, is an independent non-executive Director, a member of Audit Committee, Remuneration Committee and Nomination Committee of the Company. She was appointed as an independent non-executive Director on 30 June 2017. Ms. Liu graduated from University of International Business and Economics in Beijing and obtained a master's degree in business management. She has been working in Hong Kong, Singapore and the PRC for over 20 years and is familiar with the business environment and regulatory systems of such jurisdictions. She has comprehensive experience in capital markets, business promotion and corporate management through participating in initial public offerings, underwriting over 30 companies in their respective initial public offerings on The Stock Exchange of Hong Kong Limited, and having led and completed mergers and acquisitions of a number of companies in Hong Kong and Singapore. Ms. Liu also assisted in capital raising and management of large-scale industrial funds which make investments in China, and acted as executive directors of listed companies in Hong Kong and Singapore which engaged in utilities and infrastructure investments. Ms. Liu is an executive director of China Water Affairs Group Limited (stock code: 855) and New Universe Environmental Group Limited (stock code: 436). She was also an executive director of SIIC Environment Holdings Ltd. (a company listed on the Singapore Exchange) from 19 November 2009 to 8 August 2014.

The board of directors (the "Directors") and the management of Zhongyu Gas Holdings Limited (the "Company") are committed to high standards of corporate governance. Corporate governance system is set up to achieve a balance of the interests of different participants in the corporation, to direct and manage corporate affairs and to monitor corporate performance. The Company is dedicated to continue improving its corporate governance practices to ensure accountable, transparent and efficient management.

Save as disclosed herein, the Company has fully complied with all code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") (the "CG Code") for the year ended 31st December, 2018. The following summarises the corporate governance practices of the Company and the reasons for deviations, if any, from the CG Code.

A. Board of Directors

The board of Directors (the "Board"), holds responsibility for leadership and control of the corporation. By directing and supervising corporate affairs, the Board plays an important role in protecting and enhancing long-term shareholder value.

A.1 Board composition

As at 31st December, 2018, the Board included seven Directors, of which three were executive Directors, one was non-executive Director and the remaining three were independent non-executive Directors. The composition of the Board and its changes during the year ended 31st December, 2018 and up to the date of this report are as follows:

Executive Directors:

Mr. Wang Wenliang ("Mr. Wang") *(Chairman)*
Mr. Lui Siu Keung *(Chief Executive Officer)*
Mr. Lu Zhaoheng
Mr. Li Yan (appointed with effect from 25th February, 2019)
Mr. Jia Kun (appointed with effect from 25th February, 2019)

Non-executive Director:

Mr. Xu Yongxuan *(Vice-Chairman)*

Independent Non-executive Directors:

Mr. Li Chunyan
Dr. Luo Yongtai
Ms. Liu Yu Jie

The Company received a written annual confirmation of independence from each of the independent non-executive Directors pursuant to the Rule 3.13 of the Listing Rules. The Company considered each independent non-executive Director to be independent.

Given the business nature, the Board members have distinct skills and experience in a variety of business range, which includes city gas network design and operation, organisational management, financial and securities trading market, etc. The relevant biographies and the respective roles of all Directors on the Board are set out on pages 29 to 31 in this report.

The primary roles of the Board are to set the corporate strategy by determining business objectives, development plan and strategic policies; to delegate day-to-day operations to the management and to monitor their operating and financial performance; to avoid risks and oversee corporate affairs.

A.2 Board meetings and information supply

The Board meets regularly and board meetings were held quarterly and additional meetings would be arranged, if and when required. All Directors can attend meetings in person or through other electronic means of communication.

The Company Secretary assists the Chairman in establishing the meeting agenda and each Director may request inclusion of matters in the agenda.

Notice of at least 14 days in advance is given of a regular board meeting to give all Directors an opportunity to attend.

The management of the Company has provided the Board with adequate information in a timely manner to enable it to make informed decisions. In addition, the management may be invited, if and when requested, to attend board meetings to make presentation and answer the queries raised by the Board.

All Directors have access to the advice and services of the Company Secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed.

Minutes of board meetings are kept by the Company Secretary and such minutes are open for inspection at any reasonable time on reasonable notice by any Director.

Minutes of board meetings are recorded in sufficient detail and draft and final versions of minutes of board meetings are sent to all Directors for their comment and records respectively, in both cases within a reasonable time after the board meeting is held.

If and when a substantial shareholder of the Company or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter would not be dealt with by way of circulation but a board meeting would be held. Independent non-executive Directors who and whose associates, have no material interest in the transaction would be present at such board meeting.

For the year ended 31st December, 2018, the Board held 31 board meetings and the Company held one general meeting. The attendance records of all board meetings and the general meeting are set out below:

	General meeting		Board meetings	
Executive Directors				
Mr. Wang Wenliang *(Chairman)*	1	100%	31	100%
Mr. Lui Siu Keung *(Chief Executive Officer)*	1	100%	30	97%
Mr. Lu Zhaoheng	1	100%	28	90%
Non-executive Director				
Mr. Xu Yongxuan *(Vice Chairman)*	1	100%	29	94%
Independent Non-executive Directors				
Mr. Li Chunyan	1	100%	29	94%
Dr. Luo Yongtai	1	100%	29	94%
Ms. Liu Yu Jie	1	100%	29	94%

A.3 Chairman and chief executive

The Chairman is responsible for offering leadership and effectiveness for the Board, arranging all key and appropriate issues to be discussed by the Board in a timely manner, and ensuring the Board acts in the best interests of the Company and its subsidiaries (collectively the "Group") by establishing constructive relations between executive and non-executive Directors and providing effective communication with shareholders; whereas the chief executive is responsible for running the Group's business, supervising the implementation of the Group's strategy in achieving the overall commercial objectives and managing the day-to-day operation of the Group.

The CG Code Provision A.2.1 provides that the roles of Chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and chief executive should be clearly established and set out in writing.

A.4 Appointments and re-election

According to the Company's articles of association ("Articles of Association"), the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board and the Directors shall have the power from time to time and at any time to appoint any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next following annual general meeting of the company and shall then be eligible for re-election.

The Company renewed the service contracts with each non-executive Director, except for Ms. Liu Yu Jie, on 11 July 2018. The Company entered into service contract with Ms. Liu Yu Jie on 30th June, 2017. The term of appointment for the non-executive Directors is three years and they are subject to retirement by rotation and re-election in accordance with the Articles of Association. The details of procedure for retirement of Directors are as follows:

According to the Articles of Association and the CG Code Provisions A4.1-A4.3, one-third of the Directors shall retire from office by rotation at the annual general meeting. The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election. Any further Director so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall be determined by lot. Any Director appointed pursuant to the Company's articles of association as stated in the paragraph one under the heading "A.4 Appointment and re-election" shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

Accordingly, Mr Lui Siu Keung, Mr. Xu Yongxuan, Mr. Li Yan and Mr. Jia Kun will retire from office as Directors by rotation at the AGM and being eligible, offer themselves for re-election.

A.5 Responsibilities of directors

Directors are provided sufficient and appropriate information by management periodically to ensure they have a proper understanding of the operations and business of the Group, and to enable them to be fully aware of their responsibilities. When a new Director is appointed, he will receive a formal induction and other materials to familiarize with the Group promptly. Besides every Director is required to disclose his interests, potential conflict of interests, and changes in a timely manner according to the written responsibilities guideline, the independent non-executive Directors participate in board meetings and serve on relevant committees, to make an independent judgment on corporate affairs and to develop a balanced understanding of the view of shareholders. Individual Directors may also seek external independent professional advice, at the Company's expense, on any specific matter. The Company also encourages all Directors to participate in programs of continuous professional development to develop and refresh their knowledge and skills, in order to discharge their responsibilities positively and constructively.

A.6 Directors' securities transaction

The Company has adopted and complied with the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, they have all confirmed their compliance with the required standard of dealings and the Model Code regarding securities transactions by Directors adopted by the Company.

A.7 Directors and Officers' Liabilities Insurance

The Company maintains appropriate insurance cover in respect of legal action against the Company's directors and officers when they discharge their duties. The insurance coverage is reviewed on an annual basis.

A.8 Corporate Governance Functions

The Board also assumes the corporate governance functions and is responsible for: developing and reviewing the Company's policies on corporate governance; reviewing and monitoring training and continuous professional development of Directors and senior management; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the Company's code of conduct; and reviewing the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

A.9 Continuous Professional Development

Any newly appointed Director would receive an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company. All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged in-house trainings for Directors and provision of training materials. A summary of training received by Directors during the year ended 31st December, 2018 according to the records provided by the Directors is as follows:

Name of Directors	Training on corporate governance, Directors' responsibilities and other relevant topics
Executive Directors	
Mr. Wang Wenliang	✓
Mr. Lui Siu Keung	✓
Mr. Lu Zhaoheng	✓
Non-executive Director	
Mr. Xu Yongxuan	✓
Independent non-executive Directors	
Mr. Li Chunyan	✓
Dr. Luo Yongtai	✓
Ms. Liu Yu Jie	✓

B. Remuneration Matters

The Board has established a Remuneration Committee comprising three independent non-executive Directors including Mr. Li Chunyan, Dr. Luo Yongtai and Ms. Liu Yu Jie. Mr. Li Chunyan is the chairman of the Remuneration Committee. The Remuneration Committee meets at least once a year. It will consult the Chairman about their remuneration proposals for other executive directors and the primary responsibilities of the Remuneration Committee are: to make recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; to determine specific remuneration packages of individual executive directors and senior management including benefits in kind, pension rights and compensation policy (i.e. the model as described in Code Provision B.1.2(c)(i) was adopted); to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; and to ensure that no Director or any of this associates is involved in deciding his own remuneration.

One remuneration meeting was held on 21st March, 2018 to review the remuneration packages of Directors with reference to their duties and responsibilities within the Group, the Company's remuneration policy and the prevailing market condition. The attendance record of the Remuneration Committee meeting is set out below:

Independent Non-executive Directors		
Mr. Li Chunyan *(Chairman)*	1	100%
Dr. Luo Yongtai	1	100%
Ms. Liu Yu Jie	1	100%

C. Accountability and Audit

C.1 Financial reporting

The Directors acknowledge their responsibilities for preparing the accounts of the Group and ensuring that the preparation of the accounts of the Group is in accordance with statutory requirements and applicable accounting standards. The Directors shall ensure the publication of the Group's accounts in a timely manner.

The statement of the Auditor of the Company about their reporting responsibilities on the accounts of the Group is set out in the Independent Auditor's Report of this Annual Report.

C.2 Risk Management and Internal controls

The risk management and internal control systems have a key role in the management of risks that are significant to the fulfillment of corporation business objectives. Internal control is designed to facilitate the effectiveness and efficiency of operations, to help ensure the reliability of internal and external reporting, to assist compliance with laws and regulations.

Risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board is responsible for the Group's risk management and internal control systems and reviewing their effectiveness. The effectiveness of the risk management and internal control systems is reviewed annually by the Board through the Audit Committee. Management is accountable to the Board for ongoing monitoring of the systems of risk management and internal control. By covering financial, operational, compliance controls and risk management, the Board takes the following procedures to achieve business objectives: A distinct organizational structure exists with defined lines of authority and control responsibilities.

- As the Board sets up corporate strategy and delegates daily operation power to senior management, both senior managers in administration headquarter and heads in divisions or projects are involved in the strategic plan and resource allocation to achieve their annual operational and financial targets.

- A comprehensive performance assessment system is implemented to provide financial and operational performance evaluation for both the management and employees once a year. When there are variances against targets or quality requirements, to find the reasons and take appropriate actions to eliminate gaps.

According to business nature and management structure, the Company has established different departments in two levels. The administration headquarter has major responsibilities to prepare and accomplish the Group's business development plan, to conduct day-to-day operation and report to senior management directly, to appoint and direct administrative officers in gas project divisions then to assess their business performances, to implement internal control and avoid operational and financial risks. Compared with headquarter offices, the gas project divisions hold very similar duties except that all their daily jobs are done in a lower level and they have to report to the accordance administration departments respectively on different operational matters.

In order to realize effective financial controls, through maintenance of proper accounting records, the upper and lower financial departments both ensure the Group is not unnecessarily exposed to avoidable financial risks and the financial information can be used only within the business and for reliable publication. They also contribute to pre-setting annual financial budgets, saving expenses and safeguarding of assets, including the prevention and detection of fraud.

The operational control is the other important part of the whole risk management and internal control system. To achieve effective result and avoid operational risks, human resource department employs motivation plan to attract employees with necessary knowledge, skills and information, while administrative and engineering departments in two levels pay more attention to ensure efficient operational management and construct high quality gas projects. In addition, all employees have some responsibility for internal control as part of their accountability for achieving Group's objectives. With delegated authority, they are allowed to establish, operate and monitor the system of internal control, and are required to have an understanding of the Group, its objectives, the energy industries and gas markets, and the risks it faces.

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company:

- is aware of its obligations under the Securities and Futures Ordinance and the Listing Rules and the overriding principle that inside information should be announced immediately after such information comes to our attention and/or it is the subject of a decision unless it falls within the "Safe Harbours" as defined under the Securities and Futures Ordinance;

- conducts its affairs in strict compliance with the "Guidelines on Disclosure of Inside Information" and "Recent Economic Developments and the Disclosure Obligations of Listed Issuers" issued by the Securities and Futures Commission in June 2012 and the Stock Exchange in 2008, respectively;

- has implemented procedures for responding to external enquiries about the Group's affairs; and

- has implemented policy regarding prohibition on the unauthorised use of confidential or inside information.

The Group's internal auditor department checks for compliance with statutory requirement, internal policies and procedures. It assesses the operating effectiveness and efficiency of the risk management and internal control systems in the course of its audit. The audit scope and frequency are determined by the level of assessed risks and have to be reviewed and approved by the Audit Committee.

During the year ended 31st December, 2018, the Board, through the Audit Committee, conducted an annual review of the effectiveness of the risk management and internal control systems of the Group. The annual review covered all material controls, including financial, operational and compliance controls. The annual review also covered the resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions, which the Board considered to be adequate.

As part of the key processes that have been established in reviewing the adequacy and integrity of the systems of risk management and internal control, the Audit Committee of the Company reviewed risk management and internal control issues (if any) identified by internal auditor, external auditor, regulatory authorities and management, and evaluates the adequacy and effectiveness of the Group's risk management and internal control systems.

The Board is of the view that the risk management and internal control systems of the Group are effective and adequate. The Board is also satisfied that the Group has fully complied with the code provisions on risk management and internal controls as set forth in the CG Code.

C.3 Audit committee

The Company has established the Audit Committee in compliance with Rules 3.21 and 3.23 of the Listing Rules. The primary duties of the Audit Committee are: to independently review and supervise the financial reporting process and risk management and internal control systems, to ensure good communication among Directors and the Company's auditors, to recommend the appointment of external auditors on an annual basis and approval of the audit fees, to assist the Board in oversight of the independence, qualifications, performance and compensation of the independent accountant, to review interim and annual results announcements as well as the financial statements prior to their approval by the Board, to provide audit report, advice, accounting policies and comments to all Directors.

The Audit Committee comprises three independent non-executive Directors who have extensive experience in financial matters, including Mr. Li Chunyan, Dr. Luo Yongtai and Ms. Liu Yu Jie. Mr. Li Chunyan is the chairman of the Audit Committee. In 2018, the Audit Committee held two meetings to check the effectiveness of the risk management and internal control systems; to review the report of internal control prepared by the internal audit department; to consider major investigation findings on risk management and internal control matters (if any); to review the effectiveness of the Company's internal audit function; to review all draft interim and annual financial reports, circulars and announcements; and understand the external auditors' statutory audit plan and the Letters of Representation, and to consider and approve the audit fees. The attendance records of the Audit Committee meetings are set out below:

Independent Non-executive Directors		
Mr. Li Chunyan *(Chairman)*	2	100%
Dr. Luo Yongtai	2	100%
Ms. Liu Yu Jie	2	100%

C.4 Auditor's remuneration

The remuneration in respect of audit service and non-audit services provided by Deloitte Touche Tohmatsu, being the Company's auditor during the year 2018 amounted to HK$3,500,000 and HK$181,200, respectively. The non-audit services include professional services such as tax advisory and services rendered in relation to adjustments of exercise prices and number of outstanding options under the Old Share Option Scheme and the New Share Option Scheme.

D. Nomination Committee

The Board has established a Nomination Committee with written terms of reference in compliance with the CG Code. The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board, making recommendation to the Board on selection of candidates for directorships, the appointment and reappointment of Directors, Board succession planning and assessing the independence of independent non-executive Directors.

On selection of candidates for directorship of the Company, the Nomination Committee makes reference to criteria such as the skills, experience, professional qualifications, personal integrity and time commitments of such individuals.

The Nomination Committee comprises three independent non-executive Directors including Mr. Li Chunyan, Dr. Luo Yongtai and Ms. Liu Yu Jie. Mr. Li Chunyan is the chairman of the Nomination Committee.

The Nomination Committee held one meeting during the year ended 31st December, 2018 to determine the policy for the nomination of directors, review the nomination, re-appointment and re-election of Directors, and to determine the nomination procedures and consider the process and criteria to be adopted by the Nomination Committee for selecting and proposing a person for election as a Director including the benefits of board diversity in terms of skill, experience, knowledge and gender. The Company believes diversity is important to enhance board effectiveness by encouraging a diversity of perspectives and to maintain high standards of corporate governance. According to the Board diversity policy adopted by the Company, the range of diversity perspectives may include a consideration of various factors, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and industry and regional experience, and other factors based on the specific needs of the Company. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained and will discuss and where necessary, agree on the measurable objectives for achieving diversity on the Board and make recommendation to the Board. The Nomination Committee considered the current size and composition of the Board to be sufficient to meet the Company's business needs. The attendance record of the Nomination Committee meeting is set out below:

Independent Non-executive Directors		
Mr. Li Chunyan *(Chairman)*	1	100%
Dr. Luo Yongtai	1	100%
Ms. Liu Yu Jie	1	100%

E. Shareholders' Rights

Dividend Policy

The Company adopted a dividend policy (the "Dividend Policy") which aimed to set out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profits as dividends to the shareholders of the Company.

In recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and needs for future growth as well as its shareholder value in the long-run.

The Board shall also take into account the following factors of the Group when considering the declaration and payment of dividends:

- financial results;
- cash flow situation;
- availability of distributable profits;
- business conditions and strategies;
- future operations and earnings;
- development plans;
- cash requirements;
- capital requirements and expenditure plans;
- interests of shareholders;
- any restrictions on payment of dividends; and
- any other factors that the Board may consider relevant.

The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate.

Notwithstanding anything in the Dividend Policy, the declaration and payment of dividends (if any) by the Company is subject to the discretion of the Board, any restrictions under the Companies Law of the Cayman Islands, the Listing Rules, the laws of Hong Kong and the Company's Memorandum and Articles of Association and any other applicable laws and regulations.

Procedures for Shareholders to convene an extraordinary general meeting and putting forward proposals at Shareholders' meetings

Pursuant to the Article 58 of the articles of association of the Company, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company by mail at Unit 04-06, 28th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the secretary of the Company by mail at Unit 04-06, 28th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong. The company secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the Directors of the Company.

F. Constitutional Documents

There was no change in the Company's constitutional documents during the year ended 31st December, 2018.

The directors of the Company present their annual report and the audited consolidated financial statements of the Group for the year ended 31st December, 2018.

Further discussion and analysis of the activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the business, an analysis using key performance indicators and an indication of likely future development in the Group's business can be found in the "Chairman's Statement", "CEO Message" and the "Management Discussion and Analysis" sections of this annual report (which form part of this report of the Directors).

Principal Activities

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The activities of the Company's principal subsidiaries are set out in note 49 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31st December, 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 63 and 64.

The Board recommended the payment of a final dividend of HK5 cents per ordinary share (in the form of scrip shares while shareholders were given an option to receive cash in lieu of scrip shares) for the year ended 31st December, 2017 to shareholders whose names appear on the register of members of the Company on 15th June, 2018 and the final dividend was paid (by way of cash and issue of scrip shares) on 1st August, 2018. The payment of dividends was approved by the shareholders at the annual general meeting of the Company held on 29th May, 2018.

The Board has recommended the payment of a final dividend of HK7 cents per ordinary share (payable in cash) for the year ended 31st December, 2018 to shareholders whose names appear on the register of members of the Company on 15th July, 2019 and the proposed final dividend is expected to be paid on 1st August, 2019. The payment of dividends shall be subject to the approval of the shareholders at the forthcoming annual general meeting of the Company.

Investment Properties and Property, Plant and Equipment

The Group revalued all of its investment properties and pipelines included in property, plant and equipment at the year end date. The increase in fair value of investment properties, which has been credited to profit or loss, amounted to HK$387,000. The investment properties are primarily used as offices and shop in the PRC.

Details of the movements during the year in investment properties and property, plant and equipment of the Group are set out in notes 15 and 16 to the consolidated financial statements respectively.

Share Capital

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

Distributable Reserves

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for distributions as dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the directors, as at 31st December, 2018, the Company's reserves available for distribution amounted to HK$342,154,000 which consisted of share premium of HK$975,723,000 and accumulated loss of HK$633,569,000.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended 31st December, 2018, the Company repurchased on the Stock Exchange a total of 2,442,000 shares of the Company at a total consideration of HK$12,991,880.80. The repurchase of the Company's shares was made for the benefit of the shareholders with a view to enhancing the net asset value per share and earnings per share of the Company. Such repurchased shares were cancelled on 26th November, 2018, 11th January, 2019 and 18th January, 2019 respectively. Details of the share repurchases are summarized as follows:

Date of repurchase	Total number of shares repurchased	Repurchased price per share Lowest *(HK$)*	Highest *(HK$)*	Aggregate consideration *(HK$)*
29th October, 2018	400,000	5.28	5.35	2,130,400.00
30th October, 2018	270,000	5.19	5.24	1,408,580.00
31st October, 2018	230,000	5.21	5.26	1,206,820.00
1st November, 2018	200,000	5.38	5.40	1,079,720.00
6th December, 2018	260,000	5.23	5.25	1,363,420.00
7th December, 2018	200,000	5.18	5.25	1,046,700.00
10th December, 2018	124,000	5.14	5.19	641,898.40
11th December, 2018	246,000	5.28	5.35	1,310,343.60
12th December, 2018	250,000	5.43	5.46	1,360,900.00
13th December, 2018	200,000	5.49	5.53	1,101,020.00
14th December, 2018	62,000	5.46	5.55	342,078.80

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31st December, 2018.

Directors

The directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Wang Wenliang *(Chairman)*
Mr. Lui Siu Keung *(Chief Executive Officer)*
Mr. Lu Zhaoheng
Mr. Li Yan *(appointed with effect from 25th February, 2019)*
Mr. Jia Kun *(appointed with effect from 25th February, 2019)*

Non-executive Director

Mr. Xu Yongxuan *(Vice-Chairman)*

Independent non-executive Directors

Mr. Li Chunyan
Dr. Luo Yongtai
Ms. Liu Yu Jie

Pursuant to the provisions of the Company's Articles of Association, Mr. Li Yan and Mr. Jia Kun, being appointed by the Board with effect from 25th February, 2019, shall hold their office until the forthcoming AGM and, being eligible, offer themselves for re-election as Director at the AGM.

In accordance with the provisions of the Company's Articles of Association, Mr. Lui Siu Keung and Mr. Xu Yongxuan will retire by rotation at the upcoming AGM and, being eligible, offer themselves for re-election.

Directors Service Contracts

The Company renewed the service contracts with each of the Directors of the Company, except for Ms. Liu Yu Jie (whose service contract was entered into on 30th June, 2017), on 11th July, 2018. The Company entered into service contracts with Mr. Li Yan and Mr. Jia Kun on 25th February, 2019. The term of appointment for the Directors is three years and the Directors are subject to retirement by rotation and re-election in accordance with the Articles of Association and the CG Code. There are no existing or proposed directors' service contracts which are not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Transactions, Arrangements or Contracts of Significance

No transactions, arrangements or contracts of significance in which a director or an entity connected with the director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Disclosure of Interests

(a) Interests of Directors

As at 31st December, 2018, the interests and short positions of the Directors of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules were as follows:

Long positions in the shares/underlying shares of the Company

Name of Directors	Notes	Number of shares and/or underlying shares	Type of interests	Approximate percentage of issued share capital *(Note 8)*
Mr. Wang Wenliang	1	759,714,206	Beneficial/Interest in controlled corporation/ Interest of spouse	29.91%
Mr. Xu Yongxuan	2	1,508,700	Beneficial	0.06%
Mr. Lui Siu Keung	3	21,707,179	Beneficial	0.85%
Mr. Lu Zhaoheng	4	6,040,984	Beneficial	0.24%
Mr. Li Chunyan	5	1,510,761	Beneficial	0.06%
Dr. Luo Yongtai	6	1,508,700	Beneficial	0.06%
Ms. Liu Yu Jie	7	502,900	Beneficial	0.02%

Notes:

1. *Among these shares and/or underlying shares, 730,451,289 shares are held by Hezhong Investment Holding Company Limited ("Hezhong"). Mr. Wang Wenliang is beneficially interested in 100% of the issued share capital of Hezhong. The remaining 18,824,616 shares and 10,438,301 shares are directly held by Mr. Wang Wenliang and his spouse respectively.*

2. *These underlying shares are to be allotted and issued upon exercise of the rights attaching to the 1,005,800 share options at an exercise price of HK$0.4872 per share granted under the Old Share Option Scheme and the 502,900 share options at an exercise price of HK$5.468 per share granted under the New Share Option Scheme.*

3. *These comprise 14,163,679 shares directly held by Mr. Lui Siu Keung and 7,543,500 underlying shares to be issued and allotted upon exercise of the rights attaching to the 7,543,500 share options at an exercise price of HK$5.468 per share granted under the New Share Option Scheme.*

4. *These comprise 3,023,584 shares directly held by Mr. Lu Zhaoheng and 3,017,400 underlying shares to be issued and allotted upon exercise of the rights attaching to the 3,017,400 share options at an exercise price of HK$5.468 per share granted under the New Share Option Scheme.*

5. *These comprise 1,007,861 shares directly held by Mr. Li Chunyan and 502,900 underlying shares to be issued and allotted upon exercise of the rights attaching to the 502,900 share options at an exercise price of HK$5.468 per share granted under the New Share Option Scheme.*

6. *These underlying shares are to be allotted and issued upon exercise of the rights attaching to the 1,005,800 share options at an exercise price of HK$0.4872 per share granted under the Old Share Option Scheme and the 502,900 share options at an exercise price of HK$5.468 per share granted under the New Share Option Scheme.*

7. *These underlying shares are to be allotted and issued upon exercise of the rights attaching to the 502,900 share options at an exercise price of HK$5.468 per share granted under the New Share Option Scheme.*

8. *As at 31st December, 2018, the total number of issued shares of the Company was 2,538,553,557, having taken into account the 1,100,000 shares cancelled during 2018 as a result of share repurchases conducted by the Company. Had this number been used as the denominator for calculation of directors' interests, as at 31st December, 2018, Mr. Wang Wenliang was interested in approximately 29.93% shares/underlying shares of the Company and Mr. Lui Siu Keung was interested in approximately 0.86% shares/underlying shares of the Company. The percentage interests of the other Directors set out above remain unchanged.*

Save as disclosed above, as at 31st December, 2018, none of the Directors and chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(b) Interests of substantial shareholders of the Company

So far as is known to the Directors, as at 31st December, 2018, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in the shares of the Company

Name of shareholder	Notes	Type of interests	Number of Shares	Approximate percentage of interests *(Note 4)*
China Gas Holdings Limited	1	Interest of controlled corporation	1,091,516,129	42.98%
Hezhong	2	Beneficial	730,451,289	28.76%
Ms. Feng Haiyan	3	Beneficial/Interest of spouse	759,714,206	29.91%

Notes:

1. *According to the disclosure of interests pages as shown in the website of the Stock Exchange as at 31st December, 2018, China Gas Holdings Limited held these shares through Rich Legend International Limited ("Rich Legend"), its wholly-owned subsidiary, and is therefore deemed to be interested in the 1,091,516,129 shares held by Rich Legend.*

2. *Hezhong is beneficially interested in 730,451,289 shares. Mr. Wang Wenliang is beneficially interested in 100% of the issued share capital of Hezhong.*

3. *Ms. Feng Haiyan directly holds 10,438,301 shares and is deemed to be interested in 749,275,905 shares under the SFO as she is the spouse of Mr. Wang Wenliang.*

4. *As at 31st December, 2018, the total number of issued shares of the Company was 2,538,553,557, having taken into account the 1,100,000 shares cancelled during 2018 as a result of share repurchases conducted by the Company. Had this number been used as the denominator for calculation of substantial shareholder's interests, as at 31st December, 2018, China Gas Holdings Limited was interested in approximately 43.00% shares of the Company, Hezhong was interested in approximately 28.77% shares of the Company and Ms. Feng Haiyan was interested in approximately 29.93% shares of the Company.*

Save as disclosed above, as at 31st December, 2018, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Share option scheme

On 24th October, 2003, the Company adopted a share option scheme ("Old Share Option Scheme") pursuant to which the Directors were authorised to grant share option to its employees (including executive directors and employees of any of its subsidiaries) or any person who has contributed or will contribute to the Group. The Old Share Option Scheme was terminated and replaced by a new share option scheme ("New Share Option Scheme") on 3rd May, 2013 by an ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 3rd May, 2013.

On 1st August, 2018, the Company adjusted the exercise price and the number of outstanding options granted under the Old Share Option Scheme and the New Share Option Scheme in accordance with the scheme rules and the Supplementary Guidance issued by the Stock Exchange in 2005 as a result of the issue and allotment of scrip shares by the Company in relation to the final dividend for the year ended 31st December, 2017 ("Adjustment"). Please refer to the announcement of the Company dated 1st August, 2018 for more details.

Pursuant to the Adjustment, the outstanding share options granted under the Old Share Option Scheme and their exercise price were adjusted from 2,000,000 to 2,011,600 share options and from HK$0.49 per share to HK$0.4872 per share, and the outstanding share options granted under the New Share Option Scheme and their exercise price were adjusted from 126,000,000 to 126,730,800 share options and from HK$5.5 per share to HK$5.468 per share.

As at the date of this report, there were a total of 2,011,600 share options (as at the date of the annual report of the Company for the year ended 31st December, 2017: 2,000,000) outstanding which were granted to the Directors under the Old Share Option Scheme, the full conversion of which will result in the issue of 2,011,600 ordinary shares in the Company, representing approximately 0.08% of the number of issued shares of the Company as at the date of this report (number of share options outstanding as at the date of the annual report of the Company for the year ended 31st December, 2017 over the number of issued shares of the Company as at that date: 0.08%).

The following table discloses movements of the Company's share options granted to the Directors under the Old Share Option Scheme and movements in such holdings during the year ended 31st December, 2018:

				Number of share options granted under the Old Share Option Scheme					
Name of Directors	Date of grant	Exercise/vesting period	Exercise price HK$ (Note)	Outstanding at 1st January, 2018	Granted during the year under review	Adjustment during the year under review (Note)	Exercised during the year under review	Lapsed/ Cancelled during the year under review	Outstanding at 31st December, 2018 (Note)
Xu Yongxuan	11th April, 2011	11th April, 2011 to 10th April, 2021	0.4872	1,000,000	–	5,800	–	–	1,005,800
Luo Yongtai	11th April, 2011	11th April, 2011 to 10th April, 2021	0.4872	1,000,000	–	5,800	–	–	1,005,800
				2,000,000	–	11,600	–	–	2,011,600
Exercisable at the end of the period									2,011,600
Weighted average exercise price				HK$0.49	–	HK$0.4872	–	–	HK$0.4872

Note: *As announced by the Company on 1st August, 2018, the exercise price and the number of options outstanding as at that date were adjusted in accordance with the terms of the Old Share Option Scheme and the New Share Option Scheme, respectively, as a result of the issue of scrip shares by the Company to its shareholders on 1st August, 2018.*

The closing price of the Company's shares on 8th April, 2011 was HK$0.48, which was the business day immediately before the date on which the share options under the Old Share Option Scheme were granted on 11th April, 2011.

The purpose of the New Share Option Scheme is to reward participants who have contributed or will contribute to the Group and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Under the New Share Option Scheme, the Directors may offer share options to any directors and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group who the board of directors of the Company considers, in its sole discretion, have contributed or will contribute to the Group, to subscribe for shares in the Company in accordance with the terms of the New Share Option Scheme.

The New Share Option Scheme shall be valid and effective for a period of ten years commencing on 3rd May, 2013 and will expire on 2nd May, 2023. Options granted under the New Share Option Scheme may be exercised during the period to be determined and notified by the Board to the grantee at the time of making an offer which shall not expire later than 10 years from the date of grant. An amount of HK$1.00 is payable upon acceptance of the grant of options. The exercise price shall be determined by the Board in its absolute discretion but in any event shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant which must be a business day; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

The maximum number of shares which may be issued upon exercise of all share options to be granted under the New Share Option Scheme shall not, in the absence of shareholders' approval, in aggregate exceed 10% in nominal amount of the aggregate of shares in issue on the adoption date (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the New Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.

The Company may renew the Scheme Mandate Limit at any time subject to prior shareholders' approval but in any event, the total number of shares which may be issued upon exercise of all share options to be granted under the New Share Option Scheme under the limit as refreshed must not exceed 10% of the Shares in issue as at the date of the Shareholders' approval of the renewed limit. Options previously granted under the New Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the terms or exercised options) will not be counted for the purpose of calculating the limit as renewed.

Further, no options will be granted which would result in the maximum aggregate number of shares which may be issued upon exercise of all outstanding options granted but yet to be exercised under the New Share Option Scheme, the existing options granted under the Old Share Option Scheme, in aggregate, 30% of the issued share capital of the Company from time to time.

The maximum number of shares issued and to be issued upon exercise of the options granted to each grantee under the New Share Option Scheme (including both exercised and outstanding options) in any 12-month period shall not (when aggregated with any shares subject to options granted during such period under any other share option scheme(s) of the Company other than those options granted pursuant to specific approval by the shareholders in a general meeting) exceed 1% of the shares of the Company in issue for the time being.

On 5th January, 2018, 126,000,000 share options to subscribe for an aggregate of 126,000,000 ordinary shares of the Company at par value of HK$0.01 each were granted to the eligible participants (including Directors) by the Company pursuant to the New Share Option Scheme. The exercise price of such share options granted under the New Share Option Scheme was HK$5.5 per share. The share options granted shall be valid for a period of ten years from the date of grant. No share options granted under the New Share Option Scheme were exercised from 1st January, 2018 to the date of this report. The closing price of the Company's shares on 4th January, 2018, being the date immediately before the date on which the share options under the New Share Option Scheme were granted, was HK$4.98. As announced by the Company on 1st August, 2018, the exercise price and the number of options outstanding as at that date were adjusted to HK$5.468 per share and 126,730,800 options in accordance with the terms of the New Share Option Scheme, as a result of the issue of scrip shares by the Company to its shareholders on 1st August, 2018.

As at the date of this report, the Scheme Mandate Limit is 252,400,768, the number of outstanding share options granted under the New Share Option Scheme was 123,713,400 and the maximum number of share options which may be granted under the New Share Option Scheme is 128,687,368. The outstanding share options, if converted in full into shares of the Company, and the number of options available for future grant, if granted and converted in full, represent approximately 4.8760% and 5.0720% of the number of issued shares of the Company as at the date of this report, respectively.

The following table discloses movements of the Company's share options granted to the eligible participants (including Directors) under the New Share Option Scheme and movements in their holdings during the year:

Name of participants who are Directors and category of other participants	Date of grant	Exercise/ vesting period	Exercise price HK$ (Note)	Number of share options granted under the New Share Option Scheme: Outstanding as at 1st January, 2018	Granted during the year under review	Adjustment during the year under review (Note)	Exercised during the year under review	Lapsed during the year under review	Outstanding as at 31st December, 2018 (Note)
Lui Siu Keung	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	–	7,500,000	43,500	–	–	7,543,500
Lu Zhaoheng	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	–	3,000,000	17,400	–	–	3,017,400
Xu Yongxuan	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	–	500,000	2,900	–	–	502,900
Li Chunyan	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	–	500,000	2,900	–	–	502,900
Luo Yongtai	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	–	500,000	2,900	–	–	502,900
Liu Yu Jie	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	–	500,000	2,900	–	–	502,900
				–	12,500,000	72,500	–	–	12,572,500
Employees	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	–	3,000,000	17,400	–	–	3,017,400
Employees	5th January, 2018	5th January, 2020 to 4th January, 2028	5.468	–	110,500,000	640,900	–	(3,017,400)	108,123,500
				–	126,000,000	730,800	–	(3,017,400)	123,713,400
Exercisable at the end of the period									15,589,900
Weighted average exercise price				–	HK$5.5	HK$5.468	–	HK$5.468	HK$5.468

Note: *As announced by the Company on 1st August, 2018, the exercise price and the number of options outstanding as at that date were adjusted in accordance with the terms of the Old Share Option Scheme and the New Share Option Scheme, respectively, as a result of the issue of scrip shares by the Company to its shareholders on 1st August, 2018.*

The fair value of share options granted is recognised as an employee cost and measured at the fair value of the equity instruments at the grant date. The fair value of share options granted during the year ended 31st December, 2018 was determined by an independent qualified professional valuer, using Trinomial option pricing model. The fair value of share options granted during 2018 at the grant date ranged from HK$0.7943 to HK$0.9862 (rounded to four decimal places) for each option.

The key inputs into the model were share price of HK$5.00 per share on the day of grant, the initial exercise price of the options of HK$5.50 per share, an estimated volatility of approximately 33%-36%, an estimated dividend yield of 0%, an expected option life of 2-2.5 years, an annual risk-free interest rate of 1.36%-1.44% and applicable vesting period.

Since Trinomial option pricing model requires input of highly subjective assumptions, any change in the subjective input assumptions as stated above may materially affect the estimation of the fair value of the options.

During the year ended 31st December, 2018, 3,017,400 options were forfeited and aggregate fair value of HK$2,445,000 in share option reserve had been transferred to accumulated profits.

Save as disclosed above, (i) at no time during the year under review was the Company, its subsidiaries, its ultimate holding company or any subsidiaries of its ultimate holding company a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company; and (ii) no other equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

Continuing Connected Transaction

The Group has been purchasing household appliances, including gas boilers, gas water heaters, gas stoves, range hood, household disinfection cabinet and other kitchen appliances from Gasbo Electrical and Gas Appliances Co., Ltd. (中燃寶電氣(深圳)有限公司) ("Gasbo") pursuant to certain sale and purchase agreements entered into from time to time between members of the Group as purchasers and Gasbo as supplier since 1st December, 2016 ("the "Gas Appliance Purchase Agreements"). Such gas and kitchen appliances will then be sold to the Group's customers. In connection with the transactions under the Gas Appliance Purchase Agreements, the Group also entered into service agreements with Gasbo pursuant to which the Group agreed to provide after-sale services, including delivery, installation and repair and maintenance services, to its customers who are users of the gas and kitchen appliances. Such service agreements and transactions contemplated thereunder are fully exempt from reporting, announcement, annual review and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

China Gas Holdings Limited, the controlling shareholder of the Company, has an effective interest of approximately 63.3% in Gasbo and therefore, Gasbo is an associate of China Gas Holdings Limited and a connected person of the Company.

The term of the Gas Appliance Purchase Agreements are all for three years each commencing from the date of the relevant agreement. The transactions under the Gas Appliance Purchase Agreements are on normal commercial terms subject to annual caps of RMB75,000,000 (approximately HK$87,945,000), RMB130,000,000 (approximately HK$152,438,000) and RMB150,000,000 (approximately HK$175,890,000) for the three years ended/ending 31st December, 2017, 2018 and 2019.

The Directors are of the view that the Group can benefit from the cooperation with Gasbo with a view to strengthening its existing business segment in the sale of gas stoves and other related household appliances. Please refer to the announcement of the Company dated 25th August, 2017 for more details.

Pursuant to rule 14A.55 of the Listing Rules, the independent non-executive Directors have confirmed that the above transactions had been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) according to the above agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

For the purpose of rule 14A.56 of the Listing Rules, Deloitte Touche Tohmatsu, the Company's auditor, has provided a letter to the Board, confirming that nothing has come to their attention that causes them to believe that the Gas Appliance Purchase Agreements and transactions contemplated thereunder:

(i) have not been approved by the Board;

(ii) were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and

(iii) have exceeded the cap.

The continuing connected transactions disclosed above also constitute related party transaction under the Hong Kong Financial Reporting Standards. Besides, the Group also purchased gas and kitchen appliances from 蕪湖中燃滕燃商貿有限公司, which is a subsidiary of China Gas Holdings Limited, during the year and such transactions also constituted continuing connected transactions and related party transactions of the Company. Nonetheless, the Company is not required to announce these transactions under Chapter 14A of the Listing Rules. A summary of significant related party transactions made during the year was disclosed in note 44 to the consolidated financial statements.

The Board confirms that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Compliance with Laws and Regulations

The Group has complied with the relevant laws and regulations that have a significant impact on the Group. The Group has established policies to reduce wastewater and solid wastes and monitor the waste emissions to comply with relevant environmental laws and regulations in different region in the PRC.

The Group has formulated relevant policies to protect employees' rights and strictly complied with relevant laws and regulations. We have clear requirements for working hours and holidays, which complies with Labour Contract Law and relevant national laws and regulations and prohibits employment of child labour or forced labour.

The Group has formulated various rules in relation to occupational health and work safety in accordance with the Law of the People's Republic of China on Work Safety to specify work safety responsibilities of staff at all levels, and ensure that these rules and measures are strictly followed.

Environmental policies

The major product of the Group is natural gas, and only a negligible amount of natural gas is discharged to atmosphere during replacement and connection of pipelines. We have adopted relevant measures to strictly monitor the concentration of natural gas passed through the pipelines. We conduct continuous testing to ensure compliance with national regulatory standards, and ensure that the emission volume during replacement and connection is in line with the industry specifications and does not cause any air pollution.

The Group has formulated annual standards of energy consumption and included those standards in appraisal indicators for every department. Regular appraisals are conducted and appropriate incentives are given to employees to improve their motivation for energy and water conservation. Guidelines on using lighting facilities and air conditioning have been set up to reduce electricity consumption.

Key Relationship with Employees

The Group has put in place a comprehensive employment system covering compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, anti-discrimination, and other benefits and welfare. In order to meet the needs of business expansion, the Group makes active efforts to recruit talent through open and campus recruitment activities based on the principles of fair competition, two-way selection and merit selection. We have formulated Performance Management System, pursuant to which we provide fair and reasonable promotion opportunities to our employees. The ranks and remuneration of employees are determined according to their skills, contributions and scope of influence. The Group also provides thorough and comprehensive training for staff at all levels through diversified means including lectures, practical training, sharing and learning, onsite observation and outreach training.

Major Customers and Suppliers

The aggregate sales attributable to the Group's five largest customers were less than 8.5% of total turnover for the year. The Group's largest customer accounted for 2.9% of the total sales for the year. The Group allows an average credit period of 30 days to its trade customers. Customers are mainly local reputable real estate developers and corporate entities in the PRC and no significant counterparty default was noted in the past. The concentration of credit risk is limited due to the customer base being large and unrelated.

For the year ended 31st December, 2018, our five largest suppliers comprised 51.7% of our total purchase for the year. The Group's largest supplier accounted for 33.8% of the total purchase for the year. Long-term relationship has been established with major suppliers to ensure stable supply of gas.

At no time during the year did a director, a close associate of a director, or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Confirmation from Independent Non-executive Directors

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Board is not aware of any circumstances which may influence the independent non-executive Directors in exercising their independent judgement.

Emolument Policy

The Group's remuneration and bonus policies are determined based on the performance of individual employees.

The emoluments of the Directors are recommended by the Remuneration Committee, having regard to the Group's operating results, the Directors' duties and responsibilities within the Group and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 38 to the consolidated financial statements.

Indemnity Provision

Pursuant to article 165 of the Articles of Association of the Company, every director of the Company shall be entitled to be indemnified and assured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of the duties of his/her office or trusts in relation thereto provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the said directors. Such provision was in force during the year ended 31st December, 2018 and remained in force as of the date of this report.

Principal Risks and Uncertainties Facing by the Group

Work safety is the most important operational risk facing by the Group. The Group has formulated various rules in relation to occupational health and work safety in accordance with the Law of the People's Republic of China on Work Safety to specify work safety responsibilities of staff at all levels, and ensure that these rules and measures are strictly followed. We organize annual training for all staff in respect of management, environment to safety systems, and departments organize their own relevant training as well, with the aim of raising employees' awareness of prevention. We have also equipped our employees with appropriate safety gear to ensure their work safety. For frontline positions, all employees are strictly required to obtain certificates of labour skills from the government, ensuring that the related personnel are equipped with the professional qualifications and safety knowledge about dangerous working conditions.

We proactively prevent gas leakage. Apart from thorough and rigorous control systems including the Rules on Gas Pipeline Network Safety Inspection, we have also equipped the pipeline network management department with adequate manpower and equipment, ensuring that any leakage can be noticed timely. We also greatly publicize the Group's hotline to encourage the public to report any gas leakage.

Please refer to note 47 to the consolidated financial statements for a summary of financial risks of the Group.

Competing Business

As far as the Directors are aware, during the year, none of the Directors had any interest in a business which competed with or might compete with the business of the Group.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31st December, 2018.

Donations

During the year under review, the Group made charitable and other donations amounted to approximately RMB1,055,000.

Auditor

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Wang Wenliang
Chairman

Hong Kong
26th March, 2019

Deloitte. 德勤

TO THE MEMBERS OF ZHONGYU GAS HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Zhongyu Gas Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 63 to 203, which comprise the consolidated statement of financial position as at 31st December, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 31st December, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill, other intangible assets, property, plant and equipment and prepaid lease payments	
We identified the impairment of goodwill, other intangible assets, property, plant and equipment and prepaid lease payments of the Group's operating and reportable segments as a key audit matter due to their significance to the consolidated financial statements and significant judgment and estimation involved in the impairment assessment. As at 31st December, 2018, the carrying amounts of goodwill, other intangible assets, property, plant and equipment and prepaid lease payments, which were subjected to impairment assessment, were HK$255,776,000, HK$1,045,000,000, HK$4,597,419,000 and HK$187,000,000 respectively. As disclosed in note 4 to the consolidated financial statements, the relevant assets have been allocated to individual cash-generating units ("CGUs") relating to (i) sales of piped gas, (ii) pipeline construction, (iii) different subsidiaries of Harmony Gas Holdings Limited engaging in sales of gas and (iv) design and consulting of energy projects. The recoverable amounts of the respective CGUs have been determined with reference to the value in use of the relevant CGUs, which require adoption of key assumptions such as suitable discount rates and growth rates, in order to calculate the present value of the estimated future cash flows.	Our procedures in relation to the impairment of goodwill, other intangible assets, property, plant and equipment and prepaid lease payments included: • obtaining the value in use calculations ("Cashflow Forecasts") of the CGUs to which the Group's goodwill, other intangible assets, property, plant and equipment and prepaid lease payments are allocated and understanding the key management assumptions adopted in these Cashflow Forecasts through enquiries with the management; • challenging of the models used including the macroeconomic assumptions used; • comparing key assumptions (including discount rates and growth rates) used in the model to external data; • assessing the reasonableness of forecasted future cash flows by comparing to historical performance; and • performing sensitivity analysis on key assumptions, including discount rates adopted.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of pipelines included in property, plant and equipment	
We identified valuation of pipelines included in property, plant and equipment as a key audit matter due to the significance of this balance to the consolidated financial statements and the complex and subjective judgments and estimates involved in: • the determination of valuation techniques, which is depreciated replacement cost method considering the new replacement cost of the pipelines and deduction for obsolescence and • the selection of different inputs in the model. The directors of the Company adopt revaluation model to measure pipelines included in property, plant and equipment. The surplus resulted from the revaluation is dealt with in other comprehensive income and accumulated in equity, under the heading property revaluation reserve. As disclosed in note 16 to the consolidated financial statements, the fair value of the pipelines amounted to HK$5,795,225,000 as at 31st December, 2018 with the revaluation increase of the pipelines for the year of HK$384,750,000 recorded in other comprehensive income. The fair value was determined by the Group with reference to the valuations performed by an independent professional valuer (the "Valuer") engaged by the Group.	Our procedures in relation to the valuation of pipelines included in property, plant and equipment included: • assessing the competence, capabilities and objectivity of the Valuer; • evaluating management's process in respect of reviewing the valuation performed by the Valuer; • holding discussion with management and the Valuer to understand the valuation basis, methodology used and underlying assumptions applied; • obtaining the valuation reports for pipelines, and challenging the relevance and reasonableness of valuation techniques used by the Valuer; and • assessing the reasonableness of key inputs which were used to determine the fair value under depreciated replacement cost method, including historical labour cost and historical raw chemical materials purchasing price indices for industrial producers, by comparing with the historical purchase prices of the pipelines by the Group in the relevant valuation period.

OTHER INFORMATION

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the 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.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Yu Kin Man.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26th March, 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December, 2018

	NOTES	2018 HK$'000	2017 HK$'000
Turnover	5	**7,627,088**	5,048,100
Cost of sales		**(5,405,215)**	(3,758,998)
Gross profit		**2,221,873**	1,289,102
Impairment losses, net of reversal		**(16,295)**	(5,939)
Other gains and losses	7	**(332,787)**	136,586
Other income	8	**60,930**	69,422
Selling and distribution costs		**(146,145)**	(111,355)
Administrative expenses		**(375,792)**	(311,860)
Share-based payments		**(58,847)**	–
Finance costs	9	**(272,747)**	(241,292)
Share of results of associates		**41,387**	24,750
Share of results of a joint venture		**(536)**	–
Profit before tax		**1,121,041**	849,414
Income tax expenses	10	**(406,686)**	(257,818)
Profit for the year	11	**714,355**	591,596
Other comprehensive income (expense)			
Items that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		**(135,229)**	192,613
Fair value gain on revaluation of pipelines included in property, plant and equipment	16	**384,750**	386,738
Deferred tax arising from revaluation of pipelines included in property, plant and equipment		**(96,188)**	(96,685)
Other comprehensive income for the year		**153,333**	482,666
Total comprehensive income for the year		**867,688**	1,074,262
Profit for the year attributable to:			
Owners of the Company		**620,684**	557,959
Non-controlling interests		**93,671**	33,637
		714,355	591,596

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December, 2018

	NOTES	2018 HK$'000	2017 HK$'000
Total comprehensive income attributable to:			
Owners of the Company		**751,861**	996,210
Non-controlling interests		**115,827**	78,052
		867,688	1,074,262
Earnings per share	14		
Basic		**HK24.52 cents**	HK22.10 cents
Diluted		**HK24.30 cents**	HK22.08 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2018

	NOTES	2018 HK$'000	2017 HK$'000
Non-current assets			
Investment properties	15	**42,940**	44,516
Property, plant and equipment	16	**8,880,175**	7,124,176
Goodwill	17	**255,776**	225,878
Other intangible assets	18	**1,103,468**	1,072,322
Long-term deposits, prepayments and other receivables	19	**477,506**	418,568
Prepaid lease payments	20	**538,195**	522,635
Interests in associates	21	**390,780**	364,484
Interest in a joint venture	22	**9,777**	10,767
Amount due from an associate	28	**57,195**	–
Financial assets at fair value through other comprehensive income	23	**23,310**	–
Available-for-sale investments	24	**–**	6,309
		11,779,122	9,789,655
Current assets			
Inventories	25	**326,121**	209,554
Trade receivables	26	**1,669,455**	672,022
Deposits, prepayments and other receivables	26	**676,438**	484,944
Entrusted loan receivable	27	**–**	23,926
Amount due from an associate	28	**–**	59,816
Amount due from a related party	28	**8,579**	8,972
Prepaid lease payments	20	**15,614**	15,157
Contract assets	29	**185,698**	–
Amounts due from customers for contract work	30	**–**	56,821
Tax recoverable		**19,450**	15,517
Pledged bank deposits	31	**5,720**	–
Bank balances and cash	31	**1,595,157**	464,347
		4,502,232	2,011,076
Current liabilities			
Deferred income and advance received	32	**–**	670,050
Trade payables	32	**1,206,316**	727,274
Other payables and accrued charges	32	**337,723**	331,269
Amount due to an associate	33	**1,023**	1,236
Amounts due to related parties	33	**81,102**	–
Contract liabilities	29	**884,573**	–
Amounts due to customers for contract work	30	**–**	35,484
Borrowings	34	**4,499,852**	1,581,936
Obligations under finance leases due within one year	35	**185,717**	188,373
Tax payables		**95,964**	141,047
		7,292,270	3,676,669
Net current liabilities		**(2,790,038)**	(1,665,593)
Total assets less current liabilities		**8,989,084**	8,124,062

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2018

	NOTES	2018 HK$'000	2017 HK$'000
Capital and reserves			
Share capital	36	**25,372**	25,250
Reserves		**3,913,147**	3,148,702
Equity attributable to owners of the Company		**3,938,519**	3,173,952
Non-controlling interests		**581,650**	549,265
Total equity		**4,520,169**	3,723,217
Non-current liabilities			
Deferred income and advance received	32	**15,616**	6,048
Borrowings	34	**3,730,367**	3,676,849
Obligations under finance leases due after one year	35	**61,537**	258,583
Deferred taxation	37	**661,395**	459,365
		4,468,915	4,400,845
		8,989,084	8,124,062

The consolidated financial statements on pages 63 to 203 were approved and authorised for issue by the Board of Directors on 26th March, 2019 and are signed on its behalf by:

MR. WANG WENLIANG
DIRECTOR

MR. LUI SIU KEUNG
DIRECTOR

	Attributable to owners of the Company									Non-controlling interests			
	Share capital	Share premium	Share option reserve	Property revaluation reserve	Other reserve	Statutory surplus reserve	Translation reserve	Accumulated profits	Sub-total	Capital contribution and share of results	Others	Sub-total	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (Note)	HK$'000	HK$'000	HK$'000	HK$'000 (note 50)	HK$'000 (note 39)	HK$'000	HK$'000
At 1st January, 2017	25,250	895,736	319	481,368	(37,539)	86,658	57,203	1,044,211	2,553,206	760,542	(507,817)	252,725	2,805,931
Profit for the year	–	–	–	–	–	–	–	557,959	557,959	33,637	–	33,637	591,596
Other comprehensive income for the year	–	–	–	254,078	–	–	184,173	–	438,251	44,415	–	44,415	482,666
Total comprehensive income for the year	–	–	–	254,078	–	–	184,173	557,959	996,210	78,052	–	78,052	1,074,262
Transfer to statutory surplus reserve	–	–	–	–	–	23,785	–	(23,785)	–	–	–	–	–
Dividend paid by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	(13,315)	–	(13,315)	(13,315)
Acquisition of additional interests in subsidiaries (note 39)	–	–	–	94,626	(561,335)	–	(6,282)	102,345	(370,646)	(280,832)	507,817	226,985	(143,661)
Deemed disposal of interest in a subsidiary	–	–	–	–	(4,818)	–	–	–	(4,818)	4,818	–	4,818	–
At 31st December, 2017	25,250	895,736	319	830,072	(603,692)	110,443	235,094	1,680,730	3,173,952	549,265	–	549,265	3,723,217

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2018

	Attributable to owners of the Company									Non-controlling interests			
	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Property revaluation reserve HK$'000	Other reserve HK$'000	Statutory surplus reserve HK$'000 (Note)	Translation reserve HK$'000	Accumulated profits HK$'000	Sub-total HK$'000	Capital contribution and share of results HK$'000 (note 50)	Others HK$'000 (note 39)	Sub-total HK$'000	Total HK$'000
At 1st January, 2018	25,250	895,736	319	830,072	(603,692)	110,443	235,094	1,680,730	3,173,952	549,265	–	549,265	3,723,217
Profit for the year	–	–	–	–	–	–	–	620,684	620,684	93,671	–	93,671	714,355
Other comprehensive income (expense) for the year	–	–	–	261,548	–	–	(130,371)	–	131,177	22,156	–	22,156	153,333
Total comprehensive income (expense) for the year	–	–	–	261,548	–	–	(130,371)	620,684	751,861	115,827	–	115,827	867,688
Issue of shares as scrip dividend (note 13)	146	93,001	–	–	–	–	–	(93,147)	–	–	–	–	–
Repurchase of shares (note 36)	(24)	(13,014)	–	–	–	–	–	–	(13,038)	–	–	–	(13,038)
Dividends paid in cash (note 13)	–	–	–	–	–	–	–	(33,103)	(33,103)	–	–	–	(33,103)
Transfer to statutory surplus reserve	–	–	–	–	–	11,702	–	(11,702)	–	–	–	–	–
Dividends paid by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	(81,102)	–	(81,102)	(81,102)
Acquisition of a subsidiary (note 40)	–	–	–	–	–	–	–	–	–	(4,970)	–	(4,970)	(4,970)
Acquisition of assets and liabilities through acquisitions of subsidiaries (note 41)	–	–	–	–	–	–	–	–	–	431	–	431	431
Capital contribution from non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	5,849	–	5,849	5,849
Acquisition of additional interests in a subsidiary (note 39)	–	–	–	–	–	–	–	–	–	(1,075)	–	(1,075)	(1,075)
Disposals of subsidiaries	–	–	–	–	–	–	–	–	–	(2,575)	–	(2,575)	(2,575)
Recognition of share-based payments (note 38)	–	–	58,847	–	–	–	–	–	58,847	–	–	–	58,847
Transfer to accumulated profits upon forfeiture of share options (note 38)	–	–	(2,445)	–	–	–	–	2,445	–	–	–	–	–
At 31st December, 2018	25,372	975,723	56,721	1,091,620	(603,692)	122,145	104,723	2,165,907	3,938,519	581,650	–	581,650	4,520,169

Note: *The articles of association of the Company's subsidiaries established in the People's Republic of China (the "PRC") state that they may make an appropriation of 10% of their profit for each year (prepared under generally accepted accounting principles in the PRC) to the statutory surplus reserve until the balance reaches 50% of the paid-in capital. The statutory surplus reserve shall only be used for making up losses, capitalisation into paid-in capital and expansion of their production and operation.*

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2018

	2018 HK$'000	2017 HK$'000
Operating activities		
Profit before tax	1,121,041	849,414
Adjustments for:		
Depreciation of property, plant and equipment	278,601	225,775
Amortisation of other intangible assets	42,668	47,392
Release of prepaid lease payments	11,839	8,821
Net loss on disposal of property, plant and equipment	37,805	34,757
Net gain on disposal of prepaid lease payments	–	(33,008)
Impairment losses, net of reversal		
– trade receivables (goods and services)	(95)	8,812
– contract assets	16,390	(2,873)
Recovery of bad debts previously written off	(29,109)	(25,806)
Share of results of associates	(41,387)	(24,750)
Share of result of a joint venture	536	–
Equity-settled share-based payments	58,847	–
Interest income	(15,186)	(9,335)
Finance costs	272,747	241,292
(Increase) decrease in fair value of investment properties	(387)	2,218
Foreign exchange loss (gain)	265,510	(113,430)
Operating cash flows before movements in working capital	2,019,820	1,209,279
Increase in long-term deposits, prepayments and other receivables	–	(13,850)
Increase in inventories	(123,185)	(92,410)
Increase in trade receivables	(1,041,391)	(231,733)
Increase in deposits, prepayments and other receivables	(175,384)	(200,578)
Increase in contract assets	(150,580)	–
Increase in amounts due from customers for contract work	–	(50,120)
Increase in deferred income and advance received	10,043	106,968
Increase in trade payables	508,683	104,999
(Decrease) increase in other payables and accrued charges	(57,735)	55,291
Increase in contract liabilities	194,900	–
Decrease in amounts due to customers for contract work	–	(8,671)
Cash generated from operations	1,185,171	879,175
Interest received	15,186	9,335
Income taxes paid	(335,094)	(238,339)
Withholding tax paid	(9,402)	(6,638)
Net cash from operating activities	855,861	643,533

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2018

	NOTES	2018 HK$'000	2017 HK$'000
Investing activities			
Purchases of property, plant and equipment		(1,961,779)	(655,275)
Proceeds from disposal of property, plant and equipment		84,917	112,376
Proceeds from disposal of prepaid lease payments		–	38,921
Placement of pledged bank deposits		(5,921)	–
Withdrawal of pledged bank deposits		–	11,949
Repayment of an entrusted loan		23,685	2,236
Advance of an entrusted loan		–	(2,236)
Acquisitions of subsidiaries	40	(24,826)	(23,973)
Acquisitions of assets and liabilities through acquisitions of subsidiaries	41	(2,290)	–
Payments of unsettled consideration of acquisitions of subsidiaries		(39,183)	(17,697)
Additional investment to an associate		–	(157,548)
Additional investment to a joint venture		–	(4,617)
Additional investment in financial assets at fair value through other comprehensive income		(17,764)	–
Addition of prepaid lease payments		(49,852)	(2,195)
Addition of other intangible assets		(686)	–
Deposits paid for acquisition of property, plant and equipment and prepaid lease payments		(159,346)	(62,538)
Repayment from an associate		–	196
Repayments from related parties		–	17,052
Net cash used in investing activities		(2,153,045)	(743,349)
Financing activities			
Interest paid		(290,011)	(240,405)
Loan facilities fees paid		(53,772)	(4,377)
New borrowings raised		5,821,119	1,606,840
Repayments of borrowings		(2,720,494)	(692,674)
Repayments of obligations under finance leases		(186,477)	(124,664)
Refundable deposit paid for obtaining a finance leases		–	(6,925)
Repayment to an associate		(165)	–
Dividend paid by subsidiaries to non-controlling interests		–	(13,315)
Capital contribution from non-controlling interests of a subsidiary		5,849	–
Acquisition of additional interests in subsidiaries	39	–	(143,661)
Settlements of obligation arising from forward contract with non-controlling interests	39	–	(610,162)
Payment on repurchase of ordinary shares		(13,038)	–
Dividend paid		(33,103)	–
Net cash from (used in) financing activities		2,529,908	(229,343)

	2018 HK$'000	2017 HK$'000
Net increase (decrease) in cash and cash equivalents	**1,232,724**	(329,159)
Cash and cash equivalents at 1st January	**464,347**	767,941
Effect of foreign exchange rate changes	**(101,914)**	25,565
Cash and cash equivalents at 31st December, represented by bank balances and cash	**1,595,157**	464,347

1. GENERAL INFORMATION AND BASIS OF PREPARATION

General information

Zhongyu Gas Holdings Limited (the "Company") is a public limited company incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The Company's subsidiaries are principally engaged in the development, construction and operation of natural gas projects in the PRC.

The functional currency of the Company is Renminbi ("RMB") and the presentation currency of the consolidated financial statements is Hong Kong dollars ("HK$"). The directors of the Company (the "Directors") consider this presentation is more appropriate as the Company is listed on the Stock Exchange.

Basis of preparation

As at 31st December, 2018, the Company and its subsidiaries (collectively referred to as "the Group") has net current liabilities of HK$2,790,038,000.

The Directors have therefore given careful consideration to the future liquidity of the Group when preparing the consolidated financial statements. The Directors believe that the consolidated financial statements are prepared on a going concern basis, taking into account that the new bank borrowings facilities amounting to HK$4,427,000,000 and US$15,000,000 (equivalent to HK$117,506,000), respectively, have been obtained subsequent to 31st December, 2018, in which the borrowings are due after one year from the date of draw down.

As a result of the measure described above, the Directors are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1st January, 2018. Any difference at the date of initial application is recognised in the opening accumulated profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1st January, 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Sales of gas
- Revenue from gas pipeline construction

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.1 HKFRS 15 "Revenue from Contracts with Customers" *(Continued)*

- Sales of compressed natural gas ("CNG")/liquefied natural gas ("LNG") in vehicle filling stations
- Sales of stoves and other services
- Sales of liquefied petroleum gas

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

Summary of effects arising from initial application of HKFRS 15

Based on the assessment by the Directors, there is no material impact of transition to HKFRS 15 on accumulated profits at 1st January, 2018.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1st January, 2018. Line items that were not affected by the changes have not been included.

	NOTES	**Carrying amounts previously reported at 31st December, 2017**	**Adjustments**	**Carrying amounts under HKFRS 15 at 1st January, 2018***
		HK$'000	HK$'000	HK$'000
Current assets				
Contract assets	a	–	56,821	56,821
Amounts due from customers for contract work	a	56,821	(56,821)	–
Current liabilities				
Contract liabilities	a, b	–	705,534	705,534
Deferred income and advance received	b	670,050	(670,050)	–
Amounts due to customers for contract work	a	35,484	(35,484)	–

* *The amounts in this column are before the adjustments from the application of HKFRS 9.*

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.1 HKFRS 15 "Revenue from Contracts with Customers" *(Continued)*

Summary of effects arising from initial application of HKFRS 15 *(Continued)*

Notes:

(a) In relation to construction contracts previously accounted for under HKAS 11, the Group has applied input method in estimating the performance obligations satisfied up to date of initial application of HKFRS 15. HK$56,821,000 and HK$35,484,000 of amounts due from/to customers for contract work were reclassified to contract assets and contract liabilities respectively.

(b) As at 1st January, 2018, included in the deferred income and advance received, HK$670,050,000 related to advance billings to customers for construction contracts and purchase of natural gas. All the relevant contracts are not yet commenced as at 1st January, 2018. These balances were reclassified to contract liabilities upon the initial application of HKFRS 15.

The following table summaries the impacts of apply HKFRS 15 on the consolidated statement of financial position at 31st December, 2018 and its consolidated statement of cash flows for the year then ended for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	NOTES	**As reported** HK$'000	**Adjustments** HK$'000	**Amounts without application of HKFRS 15** HK$'000
Current assets				
Contract assets	a	185,698	(185,698)	–
Amounts due from customers for contract work	a	–	185,698	185,698
Current liabilities				
Contract liabilities	a, b	884,573	(884,573)	–
Deferred income and advance received	b	–	862,372	862,372
Amounts due to customers for contract work	a	–	22,201	22,201

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.1 HKFRS 15 "Revenue from Contracts with Customers" *(Continued)*

Impact on the consolidated statement of cash flows

	NOTES	**As reported** HK$'000	**Adjustments** HK$'000	**Amounts without application of HKFRS 15** HK$'000
Increase in contract assets	a	(150,580)	150,580	–
Increase in amounts due from customers for contract work	a	–	(150,580)	(150,580)
Increase in deferred income and advance received	b	10,043	206,919	216,962
Increase in contract liabilities	a, b	194,900	(194,900)	–
Decrease in amounts due to customers for contract work	a	–	(12,019)	(12,019)

Notes:

(a) These adjustments mainly relate to balances presented as contract assets and contract liabilities under HKFRS 15 but would have been stated as amounts due from/to customers for contract work.

(b) As at 31st December, 2018, advance billings to customers for construction contracts and purchase of natural gas of HK$862,372,000 recorded as contract liabilities under HKFRS 15 would have been stated as "deferred income and advances received".

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.2 HKFRS 9 "Financial Instruments"

In the current year, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and other items and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1st January, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1st January, 2018. The difference between carrying amounts as at 31st December, 2017 and the carrying amounts as at 1st January, 2018 are recognised in the opening accumulated profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.2 HKFRS 9 "Financial Instruments" *(Continued)*

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1st January, 2018.

	Investment components of life insurance contracts-loans and receivables* HK$000	**Investment components of life insurance contracts-financial assets at FVTPL*** HK$000	**Available-for-sale investments** HK$000	**Financial assets at FVTOCI** HK$'000
Closing balance at 31st December, 2017 – HKAS 39	73,827	N/A	6,309	N/A
Effect arising from initial application of HKFRS 9:				
Reclassification from loans and receivables	(73,827)	73,827	–	–
Reclassification from available-for-sale investments	–	–	(6,309)	6,309
At 1st January, 2018	–	73,827	–	6,309

* *included in long-term deposits, prepayments and other receivables*

Notes:

(a) *Investment components of life insurance contracts of HK$73,827,000 previously classified as loans and receivables were reclassified to financial assets at FVTPL upon the application of HKFRS 9 because its cash flows do not represent solely payments of principal and interest on the principal amount outstanding. The fair value of investment components of life insurance contracts are approximate to its carrying amounts at the date of initial application of HKFRS 9.*

(b) *Available-for-sale investments*

The Group elected to present in other comprehensive income for the fair value changes of all its investments previously classified as available-for-sale investments. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$6,309,000 were reclassified from available-for-sale investments to financial assets at fair value through other comprehensive income ("FVTOCI"), of which HK$3,589,000 related to unlisted equity investments previously measured at cost less impairment under HKAS 39, the fair value of those investments are approximate to its carrying amounts at the date of initial application of HKFRS 9.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.2 HKFRS 9 "Financial Instruments" *(Continued)*

Summary of effects arising from initial application of HKFRS 9 *(Continued)*

Notes: (Continued)

(c) Impairment under ECL model

The Group applies HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all contract assets and trade receivables. To measure the ECL, except for those trade receivables which are credit-impaired, the remaining trade receivables and contract assets have been grouped based on shared credit risk characteristics. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for the trade receivables are a reasonable approximation of the loss rates for the contract assets.

Loss allowances for other financial assets at amortised cost mainly comprise of refundable deposits, other receivables, entrusted loan receivable, amount due from an associate, amount due from a related party and bank balances and cash are measured on 12-month ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1st January, 2018, no additional credit loss allowance has been recognised against accumulated profits.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Company's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

	31st December, 2017 HK$'000 (Audited)	HKFRS 15 HK$'000	HKFRS 9 HK$'000	**1st January, 2018 HK$'000 (Restated)**
Non-current assets				
Financial assets at FVTOCI	–	–	6,309	**6,309**
Available-for-sale investments	6,309	–	(6,309)	**–**
Current assets				
Contract assets	–	56,821	–	**56,821**
Amounts due from customers for contract work	56,821	(56,821)	–	**–**
Current liabilities				
Deferred income and advance received	670,050	(670,050)	–	**–**
Contract liabilities	–	705,534	–	**705,534**
Amounts due to customers for contract work	35,484	(35,484)	–	**–**

Note: *For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31st December, 2018, movements in working capital have been computed based on opening statement of financial position as at 1st January, 2018 as disclosed above.*

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]

1 *Effective for annual periods beginning on or after 1st January, 2019.*
2 *Effective for annual periods beginning on or after 1st January, 2021.*
3 *Effective for annual periods beginning on or after a date to be determined.*
4 *Effective for business combinations and asset acquisitions for which the acquisition date is on or after beginning of the first annual period beginning on or after 1st January, 2020.*
5 *Effective for annual periods beginning on or after 1st January, 2020.*

Except for the new and amendments to HKFRSs mentioned below, the Directors anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKFRS 3 "Definition of a Business"

The amendments clarify the definition of a business and provide additional guidance with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. Furthermore, an optional concentration test is introduced to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments will be mandatorily effective to the Group prospectively for acquisition transactions completed on or after 1st January, 2020.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1st January, 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group. Upfront prepaid lease payments will continue to be presented as investing/operating cash flows in accordance with the nature, as appropriate.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 16 "Leases" *(Continued)*

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31st December, 2018, the Group has non-cancellable operating lease commitments of HK$25,438,000 as disclosed in note 42. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases.

In addition, the Group currently considers refundable rental deposits paid of HK$1,153,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) – Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening accumulated profits without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain property, plant and equipment, financial instruments and investment properties that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated as that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of the relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are 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 assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and 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 carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

A cash-generating unit (or a group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or a group of cash-generating units) to which goodwill has been allocated is tested for impairment at the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or a group of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

Investments in associates and a joint venture

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of the associates and joint venture are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of the associates and joint venture used for equity accounting purpose are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate and a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate and joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and a joint venture *(Continued)*

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the investments in associates and a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate and joint venture that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance 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.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) *(Continued)*

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

Revenue recognition (prior to 1st January, 2018)

Goods and services

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Service income is recognised when services are provided.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (prior to 1st January, 2018) *(Continued)*

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade receivables.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than assets under construction as described below) are stated in the consolidated statement of financial position at cost or fair value less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Pipelines are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period.

Any revaluation increase arising from revaluation of property, plant and equipment is recognised in other comprehensive income and accumulated in property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in net carrying amount arising on revaluation of property, plant and equipment is recognised in profit or loss to the extent that it exceeds the balance, if any, in the property revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Assets in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost or revalued amount of assets other than assets under construction less their residual values 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.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to accumulated profits.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, or fair value at the date of transfer including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

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

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. Other than investment properties measured under fair value model, such costs are recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

Leasehold land and building for own use

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis (see accounting policy in respect of impairment losses on tangible and intangible assets below).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated 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. 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 deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, associates and joint venture, 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1st January, 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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 and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial assets or financial liabilities, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

***Financial assets** (Continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to accumulated profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, refundable deposits, other receivables, entrusted loan receivable, amount due from an associate, amount due from a related party, pledged bank deposits and bank balances and cash) and contracts assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed individually for the credit impaired balances and based on provision matrix for the remaining balances.

For all other instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(i) Significant increase in credit risk *(Continued)*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(v) Measurement and recognition of ECL *(Continued)*
Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status; and
- Nature and industry of debtors;

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and contract assets where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1st January, 2018)
The Group's financial assets are mainly loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy in respect of impairment loss on financial assets below).

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, refundable deposits, other receivables, entrusted loan receivable, amounts due from an associate and a related party, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1st January, 2018)

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the FVTOCI reserve is not reclassified to profit or loss, but is transferred to accumulated profits.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities including trade payables, other payables, accrued charges, amount due to an associate, amounts due to related parties and borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in the share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

Inventories

Inventories, including construction materials, gas appliances, consumables and spare parts, are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising from the translation of the Company's functional currency, RMB, to the presentation currency of the consolidated financial statements, HK$, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate) and will not be reclassified subsequently to profit or loss.

Impairment on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) 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 (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Estimated impairment of goodwill, other intangible assets, property, plant and equipment and prepaid lease payments

Determining whether an impairment loss is required requires an estimate of the recoverable amount of relevant assets or the cash-generating unit to which the assets belongs. The recoverable amount is determined based on the value in use calculation which requires the Group to estimate the future cash flows expected to arise from relevant assets or the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the future cash flows are less than expected or due to changes in estimates, a material impairment loss may arise. Details of the recoverable amount calculation for the cash-generating units in respect of (i) sales of piped gas, (ii) pipeline construction, (iii) different subsidiaries of Harmony Gas Holdings Limited ("Harmony Gas") engaging in sales of gas and (iv) design and consulting of energy projects are set out in note 17.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Valuation of pipelines included in property, plant and equipment

As described in note 16, pipelines included in property, plant and equipment were revalued as at 31st December, 2018 based on depreciated replacement cost method ("DRC") determined by an independent professional valuer. Such valuations were based on certain assumptions, which are subject to uncertainty and may materially differ from the actual results. In making the estimation for depreciated replacement cost for pipelines, the independent professional valuer considers information from the aggregate amount of the new replacement cost of the pipelines and deductions may be made to allow for the age, condition, economic or functional obsolescence and environmental factor existing at the end of the reporting period. As at 31st December, 2018, the carrying amount of pipelines was HK$5,795,225,000 (2017: HK$4,664,851,000).

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the relevant assets, after taking into account their estimated residual value, if any. The Group reviews the estimated useful lives of the assets annually in order to determine the amount of depreciation expenses to be recorded during the years. The useful lives are based on the Group's historical experience with similar assets taking into account anticipated technological changes. The depreciation expenses for future periods are adjusted if there are significant changes from previous estimates. As at 31st December, 2018, the carrying value of property, plant and equipment was HK$8,880,175,000 (2017: HK$7,124,176,000).

5. TURNOVER

A. For the year ended 31st December, 2018

(i) Disaggregation of revenue from contracts with customers

	2018 HK$'000
Types of goods or service	
Sales of gas	4,871,134
Revenue from gas pipeline construction	2,251,268
Sales of CNG/LNG in vehicle filling stations	342,365
Sales of stoves and other services	154,854
Sales of liquefied petroleum gas	7,467
Total	7,627,088
Timing of revenue recognition	
A point in time	5,375,820
Overtime	2,251,268
Total	7,627,088

All the revenue from contracts with customers are derived from the PRC.

(ii) Performance obligations for contracts with customers

The Group recognises revenue from the following major sources:

(a) Sales of goods

For the sales of CNG/LNG, stoves and liquefied petroleum gas, a receivable is recognised by the Group when the goods are delivered to the customers as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. The Group allows an average credit period of 30 days to its customers for the invoices issued.

For the sales of gas, the Group would require advance payment before the usage of the natural gas for certain customers, any shortage against the periodically actual charge for the actual usage of natural gas will be billed by the Group accordingly. The Group allows an average credit period of 30 days to its customers for the invoices issued. These customers are required to top up the advance payment for future usage of natural gas to be supplied by the Group.

The Group requires advance payment before the usage of the natural gas through prepaid card for certain household users. The charge of the actual usage of natural gas will be deducted directly to the balance of the prepaid card. These customers can only consume the natural gas up to the balance of the prepaid card.

5. TURNOVER *(Continued)*

A. For the year ended 31st December, 2018 *(Continued)*

(ii) Performance obligations for contracts with customers (Continued)

(b) Construction

The Group provides gas pipeline construction services under construction contracts with its customers. Such contracts are entered into before construction of the gas pipeline begins. The Group's performance creates and enhances an asset that the customer controls as the Group performs. Revenue from construction of gas pipeline is recognised over time on an input method, i.e. based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. The Directors consider that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under HKFRS 15.

The Group requires certain customers to provide upfront deposits before the commencement of the construction which will give rise to contract liabilities until the revenue recognised on the relevant contracts exceed the amount of the deposits. The Group is entitled to invoice customers for gas pipeline construction upon completion of construction works. The Group recognises contract asset for any work performed in excess of payment from customer for the same contract. Any amount previously recognised as a contract asset is reclassified to trade receivables upon completion of construction works. The Group allows an average credit period of 30 days to its customers.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

All the contracts for sales of gas and other goods, and gas pipeline construction are for original expected duration of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

B. For the year ended 31st December, 2017

An analysis of the Group's turnover for the year is as follows:

	2017 HK$'000
Sales of gas	3,399,172
Revenue from gas pipeline construction	1,235,142
Operation of CNG/LNG vehicle filling stations	329,429
Sales of stoves and other services	77,556
Sales of liquefied petroleum gas	6,801
	5,048,100

6. SEGMENT INFORMATION

The Group's executive directors are the chief operating decision makers ("CODM") as they collectively make strategic decisions on resources allocation and performance assessment. The Group is principally engaged in (i) the investment, operation and management of city gas pipeline infrastructure, distribution of piped gas to residential, industrial and commercial users; and (ii) the operation of CNG/LNG vehicle filling stations in the PRC. Nearly all identifiable assets of the Group are located in the PRC. During the year, the Group commenced the business of design and consulting of energy projects upon the acquisition of 北京恩耐特分布能源技術有限公司 (as detailed in note 40) and its result is included in the segment of sales of stoves and other services. During the year, result of Harmony Gas and its subsidiaries is incorporated into respective operating segments for the purpose of resources allocation and assessment of performance by CODM, since then no separate segment of Harmony Gas and its subsidiaries is presented. Segment information for the year ended 31st December, 2017 was re-presented.

Information that is reported to the CODM for the purpose of resources allocation and assessment of performance focuses on the type of products delivered or services rendered which is also consistent with the basis of organisation of the Group.

Each type of product or service represents a unique business unit within the Group whose performance is assessed independently. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group. The Group's operating and reportable segments are therefore as follows:

(a) sales of gas;

(b) revenue from gas pipeline construction;

(c) operation of CNG/LNG vehicle filling stations;

(d) sales of stoves and other services; and

(e) sales of liquefied petroleum gas

6. SEGMENT INFORMATION *(Continued)*

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segment.

For the year ended 31st December, 2018

	Sales of gas HK$'000	Revenue from gas pipeline construction HK$'000	Operation of CNG/LNG vehicle filling stations HK$'000	Sales of stoves and other services HK$'000	Sales of liquefied petroleum gas HK$'000	Consolidated HK$'000
Segment revenue	4,871,134	2,251,268	342,365	154,854	7,467	7,627,088
Segment profit	296,082	1,459,432	24,165	43,348	148	1,823,175
Unallocated other income						17,787
Unallocated other gains and losses						(309,024)
Unallocated central corporate expenses						(121,855)
Impairment losses, net of reversal						(16,295)
Finance costs						(272,747)
Profit before tax						1,121,041

6. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

For the year ended 31st December, 2017

	Sales of gas HK$'000	Revenue from gas pipeline construction HK$'000	Operation of CNG/LNG vehicle filling stations HK$'000	Sales of stoves and other services HK$'000	Sales of liquefied petroleum gas HK$'000	Consolidated HK$'000
Segment revenue	3,399,172	1,235,142	329,429	77,556	6,801	5,048,100
Segment profit (loss)	300,251	681,152	11,421	22,708	(33)	1,015,499
Unallocated other income						4,297
Unallocated other gains and losses						139,194
Unallocated central corporate expenses						(62,345)
Impairment losses, net of reversal						(5,939)
Finance costs						(241,292)
Profit before tax						849,414

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Reportable segments represents the financial result of each segment without allocation of central administration costs, directors' salaries, interest income, share-based payments, change in fair value of investment properties, net foreign exchange gain or loss, certain sundry income, finance costs and income tax expenses. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

Segment assets and liabilities

Amounts of segment assets and liabilities of the Group are not reviewed by the CODM or otherwise regularly provided to the CODM, accordingly, segment assets and liabilities are not presented.

6. SEGMENT INFORMATION *(Continued)*

Other segment information

2018

	Sales of gas HK$'000	Revenue from gas pipeline construction HK$'000	Operations of CNG/LNG vehicle filling stations HK$'000	Sales of stoves and other services HK$'000	Sales of liquefied petroleum gas HK$'000	Segment total HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss:								
Net (gain) loss on disposal of property, plant and equipment	37,285	–	2,298	(1,241)	–	38,342	(537)	37,805
Release of prepaid lease payments	6,236	–	4,842	–	–	11,078	761	11,839
Depreciation of property, plant and equipment	260,301	–	9,977	200	–	270,478	8,123	278,601
Amortisation of other intangible assets	40,647	–	2,021	–	–	42,668	–	42,668

6. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

2017

	Sales of gas HK$'000	Revenue from gas pipeline construction HK$'000	Operations of CNG/LNG vehicle filling stations HK$'000	Sales of stoves and other services HK$'000	Sales of liquefied petroleum gas HK$'000	Segment total HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss:								
Net loss on disposal of property, plant and equipment	34,757	–	–	–	–	34,757	–	34,757
Net gain on disposal of prepaid lease payments	(33,008)	–	–	–	–	(33,008)	–	(33,008)
Release of prepaid lease payments	4,245	–	3,834	–	–	8,079	742	8,821
Depreciation of property, plant and equipment	208,019	–	9,498	–	–	217,517	8,258	225,775
Amortisation of other intangible assets	39,121	–	8,271	–	–	47,392	–	47,392

Geographical information

All the turnover of the Group for both years are derived from the PRC. None of the customers contributes over 10% of the total revenue of the Group.

As at 31st December 2018, all the non-current assets of the Group (excluding financial assets) amounting to HK$11,609,214,000 (2017: HK$9,695,163,000) are located in the PRC.

7. OTHER GAINS AND LOSSES

	2018 HK$'000	2017 HK$'000
Recovery of bad debts previously written off	**29,109**	25,806
Net foreign exchange (loss) gain	**(321,905)**	114,747
Increase (decrease) in fair value of investment properties	**387**	(2,218)
Net loss on disposal of property, plant and equipment	**(37,805)**	(34,757)
Net gain on disposal of prepaid lease payments	**–**	33,008
Others	**(2,573)**	–
	(332,787)	136,586

8. OTHER INCOME

	2018 HK$'000	2017 HK$'000
Interest income from financial assets at amortised cost		
– Bank interest income	**9,412**	3,973
– Interest income on amount due from an associate	**3,072**	2,775
	12,484	6,748
Government subsidies (note)	**6,264**	15,879
Income from investments in life insurance contracts	**2,702**	2,587
Sundry income	**39,480**	44,208
	60,930	69,422

Note: During the year ended 31st December, 2018, the Group has received subsidies of HK$6,264,000 (2017: HK$15,879,000) from relevant PRC governments for promoting the use of natural gas. There are no conditions attached to the subsidies granted to the Group.

9. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on borrowings	**281,233**	227,521
Interest on obligations under finance leases	**20,338**	13,247
	301,571	240,768
Imputed interest on obligation arising from forward contract with non-controlling interests	**–**	34,371
Amortisation on loan facilities fees relating to bank borrowings	**38,100**	21,330
Total borrowing costs	**339,671**	296,469
Less: Amounts capitalised in construction in progress included in property, plant and equipment	**(66,924)**	(55,177)
	272,747	241,292

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.55% (2017: 5.53%) per annum to expenditure on qualifying assets.

10. INCOME TAX EXPENSES

	2018 HK$'000	2017 HK$'000
PRC Enterprise Income Tax:		
Current tax	**301,670**	258,020
(Overprovision) underprovision in prior years	**(6,467)**	7,603
Withholding tax levied on dividends paid previously not recognised	**9,402**	6,638
	304,605	272,261
Deferred tax (note 37)	**102,081**	(14,443)
	406,686	257,818

10. INCOME TAX EXPENSES *(Continued)*

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

On 21st March, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28th March, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The Directors considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Company and its subsidiaries had no assessable profits arising in Hong Kong for both years.

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the year ended 31st December, 2018, withholding tax amounting to HK$9,402,000 (2017: HK$6,638,000) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities in previous and current years.

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018 **HK$'000**	2017 HK$'000
Profit before tax	**1,121,041**	849,414
Tax at the domestic income tax rate of 25% (2017: 25%) (note)	**280,260**	212,354
Tax effect of expenses not deductible for tax purpose	**141,960**	14,948
Tax effect of income not taxable for tax purpose	**(1,561)**	(29,329)
(Overprovision) underprovision in respect of prior years	**(6,467)**	7,603
Tax effect of share of results of associates	**(10,347)**	(6,188)
Tax effect of share of results of a joint venture	**134**	–
Tax effect of estimated tax losses not recognised	**23,317**	84,810
Utilisation of estimated tax losses previously not recognised	**(30,012)**	(26,707)
Withholding tax levied on dividends paid previously not recognised	**9,402**	6,638
Effect of different tax rates of group entities operating in other jurisdictions	**–**	(6,311)
Tax charge for the year	**406,686**	257,818

Note: The domestic tax rate in the jurisdiction where the operation of the Group is substantially based is used.

11. PROFIT FOR THE YEAR

	2018 **HK$'000**	2017 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**3,500**	3,500
Amortisation of other intangible assets (included in cost of sales)	**42,668**	47,392
Release of prepaid lease payments	**11,839**	8,821
Depreciation of property, plant and equipment	**278,601**	225,775
Employee benefits expenses, other than directors		
– Salaries and other benefits	**325,804**	297,004
– Equity-settled share-based payment	**48,631**	–
– Contributions to retirement benefits schemes	**64,927**	50,363
	439,362	347,367
Operating lease rentals in respect of rented premises	**16,614**	12,176
Cost of inventories recognised as expenses in respect of contract cost for gas pipeline construction	**405,900**	253,281
Cost of inventories recognised as expenses in respect of sales of gas, CNG/LNG, liquefied petroleum gas and stoves	**4,235,995**	2,902,116
	4,641,895	3,155,397
Impairment losses, net of reversal		
– Trade receivables (good and services)	**(95)**	8,812
– Contract assets	**16,390**	(2,873)
	16,295	5,939
Gross rental income from investment properties with minimal outgoings	**(874)**	(425)
Gross rental income from equipment with minimal outgoings	**(1,968)**	(2,454)

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors' and chief executive's emoluments

The emoluments paid or payable to the Directors and the chief executive are as follows:

	2018 HK$'000	2017 HK$'000
Fees	**1,000**	938
Other emoluments:		
– Salaries and other benefits	**9,785**	9,767
– Contributions to retirement benefits schemes	**105**	106
– Equity-settled share-based payment	**10,216**	–
Total emoluments	**21,106**	10,811

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

Directors' and chief executive's emoluments *(Continued)*

The emoluments of directors and the chief executive of the Company are analysed as follows:

	2018					2017			
	Fees HK$'000	Salaries and other benefits HK$'000	Equity-settled share-based payments HK$'000	Contributions to retirement benefits schemes HK$'000	Total HK$'000	Fees HK$'000	Salaries and other benefits HK$'000	Contributions to retirement benefits schemes HK$'000	Total HK$'000
Executive directors									
Mr. Wang Wenliang	-	4,920	-	-	4,920	–	4,920	–	4,920
Mr. Lui Siu Keung (note i)	-	3,600	5,957	18	9,575	–	3,600	18	3,618
Mr. Lu Zhaoheng	-	1,265	2,383	87	3,735	–	1,247	88	1,335
Non-executive director									
Mr. Xu Yongxuan	250	-	397	-	647	250	–	–	250
Independent non-executive directors									
Mr. Li Chunyan	250	-	493	-	743	250	–	–	250
Dr. Luo Yongtai	250	-	493	-	743	250	–	–	250
Ms. Liu Yu Jie (note ii)	250	-	493	-	743	125	–	–	125
Mr. Hung, Randy King Kuen (note iii)	-	-	-	-	-	63	–	–	63
	1,000	9,785	10,216	105	21,106	938	9,767	106	10,811

Notes:

(i) Mr. Lui Siu Keung is also the chief executive officer of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive officer.

(ii) Ms. Liu Yu Jie was appointed as an independent non-executive director of the Company with effect from 30th June, 2017.

(iii) Mr. Hung, Randy King Kuen resigned as an independent non-executive director of the Company with effect from 30th March, 2017.

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

Directors' and chief executive's emoluments *(Continued)*

No emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as a compensation for loss of office for both years.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive director's emoluments shown above was for his services as director of the Company and its subsidiaries.

The independent non-executive directors' emoluments shown above were for their services as Directors.

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one (2017: three) was Director whose emoluments are disclosed above. The emoluments of the remaining four (2017: two) individuals are as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	1,274	1,472
Contributions to retirement benefits schemes	233	58
Equity-settled share-based payment	24,448	–
	25,955	1,530

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

Employees' emoluments *(Continued)*

The emoluments are within the following bands:

	2018 Number of employees	2017 Number of employees
Nil to HK$1,000,000	**–**	2
HK$6,000,001 to HK$6,500,000	**3**	–
HK$6,500,001 to HK$7,000,000	**1**	–

13. DIVIDENDS

	2018 HK$'000	2017 HK$'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2017 final dividend of HK5 cents (2017: nil) per ordinary share	**126,250**	–
Final dividend, proposed, of HK7 cents (2017: HK5 cents) per ordinary share	**177,605**	126,250

Subsequent to the end of reporting period, a final dividend in respect of the year ended 31st December, 2018 of HK7 cents per ordinary share, in an aggregate amount of HK$177,605,000 (2017: HK$126,250,000), has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming general meeting.

14. EARNINGS PER SHARE

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

	2018 HK$'000	2017 HK$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to owners of the Company	620,684	557,959

	2018 '000	2017 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,530,877	2,525,008
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	23,098	1,648
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,553,975	2,526,656

15. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1st January, 2017	43,748
Exchange adjustments	2,986
Decrease in fair value recognised in profit or loss (notes i & ii)	(2,218)
At 31st December, 2017	44,516
Exchange adjustments	(1,963)
Increase in fair value recognised in profit or loss (notes i & ii)	387
At 31st December, 2018	42,940

Notes:

(i) *The fair value of the Group's investment properties at 31st December, 2018 and 2017 (other than the investment property as disclosed in note (ii)) has been arrived at on the basis of a valuation carried out on the respective dates by* 河南九鼎資產評估有限公司*, independent qualified professional valuer not connected to the Group.*

The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The discount rate is determined by reference to the yields derived from analysing the sales transactions of similar commercial properties in the PRC and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's investment properties. There has been no change from the valuation technique used in the prior year.

(ii) *The fair values of this investment property at 31st December, 2018 and 2017 have been arrived at on the basis of a valuation carried out on these dates by GW Financial Advisory Services Limited, independent qualified professional valuer not related to the Group. The fair values were determined based on direct comparison approach making reference to comparable market observable transactions of similar locations and conditions as available in the relevant market.*

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

In estimating the fair value of the properties, the highest and best use of the properties is their current use. At the end of each reporting periods, the chief executive officer ("CEO") of the Group works closely with the independent qualified professional valuers to establish and determine the appropriate valuation techniques and inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the management of the Group.

15. INVESTMENT PROPERTIES *(Continued)*

Information about fair value measurements using significant unobservable inputs

The following table gives information about how the fair values of these investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Description	Fair value 2018 HK$'000	Fair value 2017 HK$'000	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of inputs to fair value
Commercial property units located in the PRC (note i)	**9,348**	9,754	Level 3	Income approach	Discount rate (2018: 6.43%; 2017: 6.78%)	The higher the discount rate, the lower the fair value
Commercial property units located in the PRC (note ii)	**33,592**	34,762	Level 3	Direct comparison approach	Market price, taking into account the recent transaction prices for similar properties adjusted for nature, location and conditions of the property, which range from RMB12,000 to RMB20,000 per square metre (2017: RMB15,000 to RMB17,000 per square metre)	The higher the market price, the higher the fair value
	42,940	44,516				

There were no transfers into or out of Level 3 during the year.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Construction in progress	Leasehold improvements	Pipelines	Machinery and equipment	Furniture and fixtures	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST OR VALUATION								
At 1st January, 2017	674,857	993,636	19,423	3,537,327	526,282	21,638	128,865	5,902,028
Exchange adjustments	50,023	66,804	1,438	296,866	41,755	533	10,347	467,766
Acquisition of a subsidiary (note 40)	–	49,797	–	–	208	–	18	50,023
Additions	10,023	888,662	4,281	43,471	45,822	3,697	23,217	1,019,173
Disposals	(10,342)	–	–	(142,975)	(26,179)	(189)	(17,728)	(197,413)
Transfer	57,557	(814,707)	–	687,701	69,446	3	–	–
Revaluation	–	–	–	242,461	–	–	–	242,461
At 31st December, 2017	782,118	1,184,192	25,142	4,664,851	657,334	25,682	144,719	7,484,038
Exchange adjustments	(41,199)	(65,641)	(1,226)	(266,021)	(33,690)	(192)	(5,898)	(413,867)
Acquisition of assets and liabilities through acquisition of a subsidiary (note 41)	–	8,961	–	–	–	–	–	8,961
Acquisitions of business (note 40)	1,055	2,299	–	17,337	4,715	166	485	26,057
Additions	24,060	1,918,806	5,116	85,589	43,957	4,157	22,938	2,104,623
Disposals	(3,594)	(550)	–	(120,117)	(21,008)	(532)	(23,720)	(169,521)
Transfer	118,986	(1,378,037)	–	1,167,901	90,943	207	–	–
Revaluation	–	–	–	245,685	–	–	–	245,685
At 31st December, 2018	881,426	1,670,030	29,032	5,795,225	742,251	29,488	138,524	9,285,976
COMPRISING								
At cost	881,426	1,670,030	29,032	–	742,251	29,488	138,524	3,490,751
At valuation	–	–	–	5,795,225	–	–	–	5,795,225
	881,426	1,670,030	29,032	5,795,225	742,251	29,488	138,524	9,285,976

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Buildings	Construction in progress	Leasehold improvements	Pipelines	Machinery and equipment	Furniture and fixtures	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
DEPRECIATION								
At 1st January, 2017	74,576	–	2,670	–	138,286	10,838	49,806	276,176
Exchange adjustments	6,304	–	227	28,459	12,823	918	3,737	52,468
Provided for the year	14,790	–	3,254	140,495	50,371	2,438	14,427	225,775
Eliminated on disposals	(2,524)	–	–	(24,677)	(8,537)	(100)	(14,442)	(50,280)
Eliminated on revaluation	–	–	–	(144,277)	–	–	–	(144,277)
At 31st December, 2017	93,146	–	6,151	–	192,943	14,094	53,528	359,862
Exchange adjustments	(5,034)	–	(351)	(27,125)	(11,183)	(753)	(2,352)	(46,798)
Provided for the year	16,741	–	3,836	183,454	58,581	3,010	12,979	278,601
Eliminated on disposals	(944)	–	–	(17,264)	(9,154)	(467)	(18,970)	(46,799)
Eliminated on revaluation	–	–	–	(139,065)	–	–	–	(139,065)
At 31st December, 2018	103,909	–	9,636	–	231,187	15,884	45,185	405,801
CARRYING VALUES								
At 31st December, 2018	777,517	1,670,030	19,396	5,795,225	511,064	13,604	93,339	8,880,175
At 31st December, 2017	688,972	1,184,192	18,991	4,664,851	464,391	11,588	91,191	7,124,176

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the remaining terms of leases
Leasehold improvements	Over the remaining term of leases
Pipelines	Over the shorter of 30 years or operation period of the relevant company
Machinery and equipment	6% – 30%
Furniture and fixtures	20%
Motor vehicles	10% – 18%

As at 31st December, 2018, the Group is in the process of obtaining title deeds from relevant government authority for its buildings in the PRC amounting to HK$141,839,000 (2017: HK$101,854,000). In the opinion of the Directors, the Group is not required to incur additional cost in obtaining the title deeds for its buildings in the PRC.

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

As at 31st December, 2017, the Group had pledged certain buildings in the PRC having carrying value of HK$2,927,000 (2018: nil) to secure a bank borrowing granted to the Group.

Fair value measurement of the Group's pipelines

At 31st December, 2018 and 2017, the fair value of the Group's pipelines was valued by the independent qualified professional valuer, GW Financial Advisory Services Limited, using DRC approach.

In determining the fair value of the pipelines, at the end of each reporting period, the CEO works closely with the independent qualified professional valuer to establish and determine the appropriate valuation techniques and inputs to be used in determining the fair value of the assets. Discussion of valuation processes and results is held between CEO and the Directors at least once a year.

The fair value of the pipelines has been determined using the DRC approach that reflects the cost to a market participant to construct assets of comparable utility and the age of the pipelines, adjusted for obsolescence. The Group has determined that the highest and best use of the pipelines at the measurement date would be their existing use.

The Group's pipelines at revalued amount are categorised into level 3 of the fair value hierarchy.

The following table shows the valuation techniques used in the determination of fair values and unobservable inputs used in the valuation models.

Description	Fair value		Valuation techniques	Significant unobservable inputs	Significant inputs
	2018	2017			
	HK$'000	HK$'000			
Pipelines	**5,795,225**	4,664,851	DRC approach	(a) historical labour cost (RMB/year)	(a) RMB57,919 (2017: RMB52,082)
				(b) historical raw chemical materials purchasing price indices for industrial producers	(b) 107.1 (2017: 108.4)

A significant positive adjustment to any of the above significant unobservable inputs would result in a significant increase in fair value of the pipelines, and vice versa.

Had the pipelines at 31st December, 2018 been carried at cost less accumulated depreciation and accumulated impairment losses, its carrying value would have been approximately HK$4,186,202,000 (2017: HK$3,440,578,000).

17. GOODWILL

	2018 HK$'000	2017 HK$'000
Cost and carrying amount		
At 1st January	**225,878**	208,886
Exchange adjustments	**(10,250)**	14,553
Arising on acquisitions of subsidiaries (note 40)	**40,148**	2,439
At 31st December	**255,776**	225,878

For the purposes of impairment testing, the carrying amount of goodwill is attributable to the cash-generating units ("CGUs") relating to sales of piped gas ("Unit A") amounting to HK$100,753,000 in aggregate (2017: HK$105,251,000), pipeline construction ("Unit B") amounting to HK$51,332,000 in aggregate (2017: HK$53,803,000), different subsidiaries of Harmony Gas engaging in sales of gas ("Unit C") amounting to HK$89,486,000 in aggregate (2017: HK$66,824,000) and design and consulting of energy projects ("Unit D") amounting to HK$14,205,000 in aggregate (2017: nil).

Impairment testing on Unit A

Unit A consists of several CGUs which represent the operations of different subsidiaries engaging in sales of piped gas. For impairment test purpose, management reviews each CGU's recoverable amount and compares with the carrying amount of the respective CGU. The aggregate carrying amounts of the CGUs of Unit A comprise other intangible assets of HK$650,779,000 (2017: HK$701,690,000), goodwill of HK$100,753,000 (2017: HK$105,251,000), property, plant and equipment of HK$3,238,876,000 (2017: HK$2,683,781,000) and prepaid lease payments of HK$152,448,000 (2017: HK$163,472,000). The recoverable amount of each CGU has been determined based on the value in use calculation of each CGU using the following assumptions for 2018 and 2017:

Period of cash flow projections	5 years (2017: 5 years)
Growth rates beyond 5-year period extrapolated in the financial budgets approved by the management	0.90% to 5.52% (2017:1.75% – 5.82%)
Discount rates	11.82% (2017: 12.66%)

This growth rate is based on the relevant industry growth forecast and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the respective CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the individual carrying amount of each CGU within Unit A to exceed the individual recoverable amount of each CGU within Unit A.

At the end of each reporting period, the recoverable amount of each CGU of Unit A exceeds its carrying amount and no impairment loss is considered necessary for the years ended 31st December, 2018 and 2017.

17. GOODWILL *(Continued)*

Impairment testing on Unit B

Unit B consists of the CGUs which represent operation of certain subsidiaries engaging in the pipeline constructions. For impairment test purpose, management reviews each CGU's recoverable amount and compares with the carrying amount of respective CGU. The aggregate carrying amounts of the CGUs of Unit B comprise goodwill of HK$51,332,000 (2017: HK$53,803,000). The recoverable amount of each CGU engaged in Unit B has been determined based on value in use calculation of each CGU using the following assumptions for 2018 and 2017:

Period of cash flow projections	5 years (2017: 5 years)
Growth rates beyond 5-year period extrapolated in the financial budgets approved by the management	2% (2017:2%)
Discount rates	11.82% (2017: 12.66%)

This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the past performance of the respective CGU engaged in Unit B and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the individual carrying amount of each CGU within Unit B to exceed the individual recoverable amount of each CGU within Unit B. At the end of each reporting period, the recoverable amounts of each CGU engaged in Unit B exceeds its carrying amount, therefore, no impairment loss is considered necessary for the years ended 31st December, 2018 and 2017.

Impairment testing on Unit C

Unit C consists of several CGUs which represent the operations of different subsidiaries of Harmony Gas engaging in sales of gas. For impairment test purpose, management reviews each CGU's recoverable amount for comparison with the carrying amount of the respective CGU. The aggregate carrying amounts of the CGUs of Unit C comprise other intangible assets of HK$372,381,000 (2017: HK$308,448,000), goodwill of HK$89,486,000 (2017: HK$66,824,000), property, plant and equipment of HK$1,353,403,000 (2017: HK$1,015,813,000) and prepaid lease payments of HK$34,552,000 (2017: HK$23,632,000). The recoverable amount of each CGU has been determined based on the value in use calculation of each CGU using the following assumptions for 2018:

Period of cash flow projections	5 years (2017: 5 years)
Growth rate beyond 5-year period extrapolated in the financial budgets approved by the management	2% (2017: 2%)
Discount rate	11.82% (2017: 12.66%)

17. GOODWILL *(Continued)*

Impairment testing on Unit C *(Continued)*

The growth rate is based on the relevant industry growth forecast and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the respective CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the individual carrying amount of each CGU within Unit C to exceed the individual recoverable amount of each CGU within Unit C. At the end of each reporting period, the recoverable amount of each CGU of Unit C exceeds its carrying amount and no impairment loss is considered necessary for the years ended 31st December, 2018 and 2017.

Impairment testing on Unit D

Unit D consists of several CGUs which represent the operations of different subsidiaries engaging in design and consulting of energy projects. For impairment test purpose, management reviews each CGU's recoverable amount for comparison with the carrying amount of the respective CGU. The aggregate carrying amounts of the CGUs of Unit D comprise other intangible assets of HK$21,840,000 (2017: nil), goodwill of HK$14,205,000 (2017: nil) and property, plant and equipment of HK$5,140,000 (2017: nil). The recoverable amount of each CGU has been determined based on the value in use calculation of each CGU using the following assumptions for 2018:

Period of cash flow projections	5 years
Growth rate beyond 5-year period extrapolated in the financial budgets approved by the management	3%
Discount rate	18.11%

The growth rate is based on the relevant industry growth forecast and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the respective CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the individual carrying amount of each CGU within Unit D to exceed the individual recoverable amount of each CGU within Unit D. At the end of each reporting period, the recoverable amount of each CGU of Unit D exceeds its carrying amount and no impairment loss is considered necessary for the year ended 31st December, 2018.

18. OTHER INTANGIBLE ASSETS

	Exclusive rights of operation HK$'000	Other operating rights HK$'000	Technology know-how HK$'000	Total HK$'000
COST				
At 1st January, 2017	1,089,919	163,694	–	1,253,613
Exchange adjustments	76,501	11,415	–	87,916
Acquisitions of subsidiaries (note 40)	8,742	–	–	8,742
At 31st December, 2017	1,175,162	175,109	–	1,350,271
Exchange adjustments	(47,651)	(7,857)	(130)	(55,638)
Addition	686	–	–	686
Acquisitions of subsidiaries (note 40)	94,871	–	21,970	116,841
Disposal	–	(67,828)	–	(67,828)
At 31st December, 2018	1,223,068	99,424	21,840	1,344,332
AMORTISATION AND IMPAIRMENT				
At 1st January, 2017	117,004	97,799	–	214,803
Exchange adjustments	8,899	6,855	–	15,754
Charged for the year	39,121	8,271	–	47,392
At 31st December, 2017	165,024	112,925	–	277,949
Exchange adjustments	(5,763)	(7,907)	–	(13,670)
Eliminated on disposal	–	(66,083)	–	(66,083)
Charged for the year	40,647	2,021	–	42,668
At 31st December, 2018	199,908	40,956	–	240,864
CARRYING VALUES				
At 31st December, 2018	1,023,160	58,468	21,840	1,103,468
At 31st December, 2017	1,010,138	62,184	–	1,072,322

18. OTHER INTANGIBLE ASSETS *(Continued)*

The exclusive rights of operation represent sales and distribution of piped gas in certain cities in Henan, Shandong, Fujian, Jiangsu, Heilongjiang, Hebei, Zhejiang, Jilin and Anhui provinces and are amortised on a straight-line method over the period of a range of 12 to 39 years, which is the remaining finite useful life period being granted for exclusive operations in the relevant cities.

Other operating rights represent the licences possessed by the Group's subsidiaries, 濟源中裕壓縮氣有限公司, 漯河中裕壓縮氣有限公司 and 三門峽中裕壓縮氣有限公司 to operate eight CNG vehicle filling stations in Jiyuan City, Luohe City and Sanmenxia City and are amortised on a straight-line method over a period of 30 years, which is the period of the licenses being granted for operating CNG vehicle filling stations.

Technology know-how represents the technology developed for design and consulting of energy projects which arose upon acquisition of 北京恩耐特分布能源技術有限公司 ("Beijing Energy-Net De.") and its subsidiaries during the year as defined and detailed in note 40. Technology know-how is amortised on a straight-line method over a period of 10 years.

The Group tests intangible assets annually or more frequently if there are indications that intangible assets might be impaired.

For the purpose of impairment testing, the carrying amounts of intangible assets have been allocated to the respective CGUs as follows:

	2018 **HK$'000**	2017 HK$'000
Unit A	**650,779**	701,690
Operation of CNG vehicle filling stations	**58,468**	62,184
Unit C	**372,381**	308,448
Unit D	**21,840**	–
	1,103,468	1,072,322

Impairment assessment of Units A, C and D are set out in note 17.

19. LONG-TERM DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Advance payments to a non-controlling shareholder	–	6,281
Deposits paid for acquisition of property, plant and equipment	273,309	219,784
Deposits paid for leasehold land	96,334	84,914
Investment components of life insurance contracts	75,676	73,827
Prepayments of insurance premium	3,017	3,256
Other long-term deposits	29,170	30,506
	477,506	418,568

Advance payments to a non-controlling shareholder

On 6th January, 2014, 中裕(河南)能源控股有限公司 ("Zhongyu Henan"), a wholly-owned subsidiary of the Group, entered into an equity transfer agreement with an independent third party to further acquire 20% equity interest in 温縣中裕壓縮氣有限公司 ("温縣中裕壓縮氣"). 温縣中裕壓縮氣 is principally engaged in operation of CNG/LNG vehicle filling stations in the PRC. The completion of the transaction is subject to the transfer of the interest in a land held by the non-controlling shareholder. RMB5,250,000 (equivalent to HK$6,655,000) was paid to the non-contolling shareholder during the year ended 31st December, 2014. The transaction was completed during the year ended 31st December, 2018.

Deposits paid for acquisition of property, plant and equipment

As at 31st December, 2018, deposit of RMB139,169,000 (equivalent to HK$159,196,000) (2017: RMB43,869,000, equivalent to HK$52,482,000) was paid to a supplier for acquisition of construction materials mainly for construction of the Group's pipelines.

Investment components of life insurance contracts

The Group had entered into two life insurance contracts with HSBC Life (International) Limited to insure two executive directors of the Company.

19. LONG-TERM DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

Investment components of life insurance contracts *(Continued)*

Under the policies, the beneficiary and policy holder is the Company, and the total insured sum is approximately US$32,000,000 (equivalent to HK$248,205,000). The Company paid a gross premium in aggregate of US$9,272,000 (equivalent to HK$71,866,000), including premium charge at inception of the policies amounting to US$556,347 (equivalent to HK$4,315,000). The Company may request a partial surrender or full surrender of the policies at any time and receive cash back based on the cash value of the policies at the date of withdrawal, which is determined based on the gross premium paid plus accumulated income earned (based on the discretion by HSBC Life (International) Limited) and minus insurance premium charged at inception. In addition, if withdrawal is made between the 1st to 18th policy year, there is a specified surrender charge.

During the year ended 31st December, 2018, income from investments in life insurance contracts of HK$2,702,000 (2017: HK$2,587,000) was recognised in profit or loss.

At 31st December, 2018, the expected life of the policy remained unchanged from the initial recognition and the Directors considered that the financial impact of the option to terminate the policy was insignificant.

20. PREPAID LEASE PAYMENTS

All the Group's prepaid lease payments comprise property interests in leasehold land in the PRC.

At 31st December, 2018, the Group is in process of obtaining land use right certificates from relevant government authorities for its land in the PRC amounting to HK$36,585,000 (2017: HK$74,079,000). In the opinion of the Directors, the Group is not required to incur additional cost in obtaining the land use right certificates for its land in the PRC.

At 31st December, 2017, the Group had pledged certain prepaid lease payments in the PRC having carrying value of HK$40,291,000 (2018: nil) to secure certain bank borrowings granted to the Group.

21. INTERESTS IN ASSOCIATES

	2018 **HK$'000**	2017 HK$'000
Cost of unlisted investments	**319,655**	317,354
Share of post-acquisition results	**83,414**	42,027
Exchange adjustments	**(12,289)**	5,103
	390,780	364,484

21. INTERESTS IN ASSOCIATES *(Continued)*

Details of the Group's associates as at 31st December, 2017 and 2018 are as follows:

Name of company	Place of establishment	Form of business structure	Proportion of nominal value of registered capital held by the Group		Principal activities
			2018	2017	
Beijing Zhongran Xiangke Oil and Gas Technology Co., Ltd. ("Zhongran Xiangke")	PRC	Sino-foreign joint venture	**40%**	40%	Sales of natural gas and gas pipeline construction
Qujing City Fuel Gas Co., Ltd. ("Qujing")	PRC	Limited liability company	**39%**	39% (note ii)	Sales of natural gas and gas pipeline construction
Energy-Net De. (Chongqing) New Energy Co., Ltd. ("Energy-Net De. (Chongqing)")	PRC	Limited liability company	**20% (note i)**	–	Design and consulting of energy projects

Notes:

(i) *During the year ended 31st December, 2018, the Group obtained significant influence of Energy-Net De. (Chongqing) through acquisition of 70% of the registered share capital of Beijing Energy-Net De. and its subsidiaries as detailed in note 40.*

(ii) *During the year ended 31st December, 2017, the Group further injected RMB136,500,000 (equivalent to HK$157,548,000) to Qujing, while other equity owners further injected RMB213,500,000 (equivalent to HK$246,422,000) to Qujing. The Group's interest in Qujing was remain unchanged.*

Summarised financial information of major associates

Summarised financial information in respect of the Group's associates is set out below. The summarised financial information below represents amounts shown in the associates' management accounts which are prepared in accordance with HKFRSs. All of these associates are accounted for using the equity method in the Group's consolidated financial statements.

21. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of major associates *(Continued)*

Zhongran Xiangke

Zhongran Xiangke and its subsidiaries (collectively "Zhongran Xiangke Group")

	2018 HK$'000	2017 HK$'000
Current assets	**795,260**	619,776
Non-current assets	**854,632**	677,255
Current liabilities	**(742,544)**	(538,620)
Net assets	**907,348**	758,411
Equity attributable to owners of Zhongran Xiangke Group	**679,958**	603,042
Non-controlling interests	**227,390**	155,369
	907,348	758,411
Revenue	**1,085,792**	925,204
Total comprehensive income for the year attributable to:		
Owners of Zhongran Xiangke Group	**76,916**	192,956
Non-controlling interests	**72,021**	99,467
	148,937	292,423

21. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of major associates *(Continued)*

Zhongran Xiangke *(Continued)*

Zhongran Xiangke and its subsidiaries (collectively "Zhongran Xiangke Group") (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in Zhangran Xiangke Group recognised in the consolidated financial statements:

	2018 HK$'000	2017 HK$'000
Equity attributable to owners of Zhangran Xiangke Group	**679,958**	603,042
Proportion of the Group's ownership interest in Zhangran Xiangke Group at 40%	**271,983**	241,216
Carrying amount of the Group's interest in Zhangran Xiangke Group	**271,983**	241,216

21. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of major associates *(Continued)*

Qujing

Qujing and its subsidiaries (collectively "Qujing Group")

	2018 HK$'000	2017 HK$'000
Current assets	**304,308**	409,890
Non-current assets	**868,249**	832,242
Current liabilities	**(261,986)**	(200,374)
Non-current liabilities	**(577,851)**	(706,757)
Net assets	**332,720**	335,001
Equity attributable to owners of Qujing Group	**298,743**	316,071
Non-controlling interests	**33,977**	18,930
	332,720	335,001
Revenue	**701,279**	430,468
Total comprehensive (expense) income for the year attributable to:		
Owners of Qujing Group	**(17,328)**	(67,450)
Non-controlling interests	**15,047**	39,448
	(2,281)	(28,002)

21. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of associates *(Continued)*

Qujing (Continued)

Qujing and its subsidiaries (collectively "Qujing Group") (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in Qujing Group recognised in the consolidated financial statements:

	2018 **HK$'000**	2017 HK$'000
Equity attributable to owners of Qujing Group	**298,743**	316,071
Proportion of the Group's ownership interest in Qujing Group at 39%	**116,510**	123,268
Carrying amount of the Group's interest in Qujing Group	**116,510**	123,268

22. INTEREST IN A JOINT VENTURE

	2018 HK$'000	2017 HK$'000
Cost of unlisted investment in a joint venture (note)	**10,272**	10,272
Share of post-acquisition results	**(536)**	–
Exchange adjustments	**41**	495
	9,777	10,767

Details of the Group's joint venture as at 31st December, 2018 are as follows:

Name of Company	Place of establishment	Form of business structure	Proportion of nominal value of registered capital held by the Group 2018	2017	Principal activities
故城華洋管道設備安裝有限公司 ("故城華洋")	PRC	Limited liability company	**50%**	50% (note)	Not yet commenced business

Note: During the year ended 31st December, 2017, the Group acquired 50% equity interest of 故城華洋 upon the acquisition of Gucheng Minghua (as defined in note 40) as detailed in note 40. After the acquisition, the Group further injected RMB4,000,000 (equivalent to HK$4,617,000) to 故城華洋, while other equity owner further injected the same amount to 故城華洋. The Group's interest in 故城華洋 was remain unchanged.

As all the relevant activities of the above entity require unanimous consent from all joint venture parties, it is accounted for as a joint venture by the Group.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 HK$'000
Unlisted equity investments (note)	20,590
Other investments	2,720
	23,310

Note: The above unlisted equity investments represent the Group's equity interests in certain private entities established in the PRC. The Directors have elected to designate these investments in equity instruments as at FVTOCI as they believe that these investments are not hold for trading and not expected to be sold in the foreseeable future.

24. AVAILABLE-FOR-SALE INVESTMENTS

	Other investments HK$'000	Unlisted equity investments at cost less impairment HK$'000	Total HK$'000
At 1st January, 2017	2,720	3,354	6,074
Exchange adjustments	–	235	235
At 31st December, 2017	2,720	3,589	6,309

The investments in unlisted equity investments are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair value cannot be measured reliably.

25. INVENTORIES

	2018 HK$'000	2017 HK$'000
Construction materials	**319,323**	203,562
Finished goods	**6,798**	5,992
	326,121	209,554

26. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days (2017: 30 days) to its trade customers. The following is an aged analysis of trade receivables from contracts with customers net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates for sales of gas and the respective construction contracts completion dates, as appropriate:

	2018 HK$'000	2017 HK$'000
0 – 30 days	**782,221**	508,797
31 – 90 days	**130,453**	50,987
91 – 180 days	**237,993**	63,110
181 – 360 days	**518,788**	49,128
Trade receivables	**1,669,455**	672,022

As at 31st December, 2018, total bills received amounting to HK$61,269,000 (2017: HK$21,639,000) are held by the Group for future settlement of trade receivables. All bills received by the Group are with a maturity period of less than one year.

The amounts due from certain PRC local governments for the "Coal-to-gas" projects under the "gas pipeline construction" segment is included in the carrying amount of trade receivables.

26. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

(Continued)

As at 31st December, 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$876,440,000 which are past due as at the reporting date. Out of the past due balances, HK$747,828,000 has been past due 90 days or more and is not considered as in default as these are contributed by the debtors without bad debt history or the PRC local governments with low credit risks. The Group does not hold any collateral over these balances.

As at 31st December, 2017, trade receivables of HK$513,792,000 were neither past due nor impaired. These customers are mainly local reputable real estate developers and corporate entities in the PRC and no significant counterparty default was noted in the past.

As at 31st December, 2017, trade receivables of HK$158,230,000 were past due but no impairment has been provided for as there has not been a significant change in credit quality and the amounts are still considered recoverable taking into account the debtors' settlement history. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	2017 HK$'000
31 – 90 days	47,355
91 – 180 days	61,747
181 – 360 days	49,128
	158,230

Movement in the allowance for doubtful debts

Trade receivables

	2017 HK$'000
At 1st January	7,615
Allowance recognised in profit or loss	8,812
At 31st December	16,427

26. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

Movement in the allowance for doubtful debts *(Continued)*

Other receivables

	2017 HK$'000
At 1st January	30,538
Reversal recognised in profit or loss	(25,806)
At 31st December	4,732

As at 31st December, 2017, included in the allowance for doubtful debts are individually impaired trade receivables, which were either in severe financial difficulties or overdue for a long period of time. The Group has made full allowance for these receivables and considered that they are generally not recoverable.

As at 31st December, 2017, in determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the end of the reporting period. Some of the trade receivables categorised as past due but not impaired as at the end of the reporting period were subsequently settled as at the date of the Group's consolidated financial statements were authorised for issuance. For those balances that have not been settled, the Directors are confident that there will be no recoverability issue taking into account that there was no historical default of payments by the respective customers. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors believe that no further credit provision is required in excess of the allowance for doubtful debts.

As at 31st December, 2018, included in deposits, prepayments and other receivables are advances to suppliers of natural gas and construction materials for customers' gas pipeline construction amounting to HK$344,953,000 (2017: HK$217,566,000).

27. ENTRUSTED LOAN RECEIVABLE

During the year ended 31st December, 2017, Zhongyu Henan entered into an entrusted loan agreement with a bank. Pursuant to this agreement, Zhongyu Henan entrusted a principal amount of RMB20,000,000 (equivalent to HK$23,926,000) to a specific corporate borrower with maturity date of 23rd October, 2018, carrying interest of 4.785% per annum.

As at 31st December, 2017, the entrusted loan receivable was not past due nor impaired.

During the year ended 31st December, 2018, this entire entrusted loan receivable was settled.

28. AMOUNTS DUE FROM AN ASSOCIATE AND A RELATED PARTY

As at 31st December, 2018, amount due from an associate of RMB50,000,000 (equivalent to HK$57,195,000) (2017: RMB50,000,000 (equivalent to HK$59,816,000)) is unsecured, interest bearing at 5.5% per annum (2017: interest bearing at 5.5% per annum) and repayable within two (2017: one) years. Such loan was extended during the year ended 31st December, 2018.

As at 31st December, 2018, amount due from a related party represented amount due from a non-controlling shareholder of a subsidiary of the Group of RMB7,500,000 (equivalent to HK$8,579,000) (2017: RMB7,500,000 (equivalent to HK$8,972,000)) which is secured by its equity interest of that subsidiary, interest bearing at 7.8% per annum and repayable within one year.

29. CONTRACT ASSETS/LIABILITIES

	31st December, 2018 HK$'000	1st January, 2018* HK$'000
Contract assets – current		
Construction contracts in gas pipeline construction	**185,698**	56,821
Contract liabilities – current		
Construction contracts in gas pipeline construction	**411,334**	368,413
Purchase of natural gas	**473,239**	337,121
	884,573	705,534

* *The amounts in this column are after adjustments from the application of HKFRS 9 and 15.*

The contract assets primarily relate to the Group's right to consideration for work completed because the rights are conditioned on the Group's future performance in achieving specified milestones at the reporting date on contract work. The contract assets are transferred to trade receivables when the rights become unconditional.

29. CONTRACT ASSETS/LIABILITIES *(Continued)*

Typical payment terms which impact on the amount of contract assets and contract liabilities recognised are as follows:

Construction contracts in respect of gas pipeline construction

The Group's revenue from construction contracts is measured by input method. The Group requires certain customers to provide upfront deposits before the commencement of the construction work as part of its credit risk management policies.

The Group classifies these contract assets as current because the Group expects to realise them in its normal operating cycle.

When the Group receives a deposit before the construction activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit.

Purchase of natural gas

The Group would require advance payment before the usage of the natural gas for certain customers, any shortage against the periodically actual charge for the actual usage of natural gas will be billed by the Group accordingly. These customers are required to top up the advance payment for future usage of natural gas to be supplied by the Group. The Group requires advance payment before the usage of the natural gas through the prepaid card for certain household users. The charge of the actual usage of natural gas will be deducted directly to the balance of the prepaid card. These customers can only consume the natural gas up to the balance of the prepaid card. This will give rise to contract liabilities until the revenue recognised on the relevant contract exceeds the amount of advance payment.

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in prior periods.

	Construction contracts	**Purchase of natural gas**
	HK$'000	HK$'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	368,413	337,121

Details of the impairment assessment of contract assets are set out in note 47.

30. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2017 HK$'000
Contracts in progress at the end of the reporting period:	
Contract costs incurred plus recognised profits	474,401
Less: Progress/interim billings	(412,719)
Less: Impairment losses recognised net of reversal (note)	(40,345)
	21,337
Analysed for reporting purposes as:	
Amounts due from customers for contract work	56,821
Amounts due to customers for contract work	(35,484)
	21,337

As at 31st December, 2017, advances received from customers before the contract work is performed amounted to HK$332,929,000 and were included in "deferred income and advance received" classified as current liabilities.

Note: The Directors reviewed the recoverable amounts of the amounts due from customers for contract work and identified that certain projects are under slow construction progress. In the opinion of the Directors, for amounts that are considered to be irrecoverable, impairment losses were recognised in full. For those amounts previously impaired but subsequently settled, impairment losses were reversed. Accordingly, based on this assessment, during the year ended 31st December, 2017, the Group made a reversal of impairment loss of HK$2,873,000.

31. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The bank balances carry interest at market rates which ranged from 0.01% to 0.35% (2017: 0.01% to 0.35%) per annum for the year ended 31st December, 2018. At 31st December, 2018, the bank balances and cash of HK$1,248,549,000 (2017: HK$329,174,000) are denominated in RMB.

As at 31st December, 2018, the bank balances and cash consisted of HK$223,146,000 and HK$123,462,000 (2017: HK$96,461,000 and HK$38,712,000) are denominated in United States Dollars ("US$") and HK$ respectively, which are foreign currencies of the respective group entities.

As at 31st December, 2018, pledged bank deposits of RMB5,000,000 (equivalent to HK$5,720,000) (2017: nil) were used to secure the short-term general banking facilities granted to the Group, accordingly, the deposits were classified as current asset.

32. DEFERRED INCOME AND ADVANCE RECEIVED, TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2018	2017
	HK$'000	HK$'000
0 – 30 days	**640,840**	438,374
31 – 90 days	**186,997**	82,844
91 – 180 days	**110,122**	53,471
Over 180 days	**268,357**	152,585
Trade payables	**1,206,316**	727,274

As at 31st December, 2018, the trade payables balance included trade debts due to related companies, subsidiaries of the controlling shareholder of the Company of HK$14,136,000 (2017: HK$24,965,000).

The average credit period on purchase of goods is 90 days (2017: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

As at 31st December, 2017, deferred income and advance received classified as current liabilities represented amounts received from customers before the contract work is performed and receipts in advance from customers for purchase of natural gas from the Group.

As at 31st December, 2018, deferred income and advance received classified as non-current liabilities are government grants of HK$15,616,000 (2017: HK$6,048,000) received by the Group, and will be released to profit or loss when the related costs (for which the grants are intended to compensate) are recognised in profit or loss. Due to redevelopment of Jiaozuo City, Jiaozuo government subsidised the Group for enhancement and relocation of certain pipelines in Jiaozuo City.

As at 31st December, 2018, included in other payables and accrued charges are (i) refundable security deposits received from customers in relation to gas supply of HK$46,668,000 (2017: HK$47,953,000); (ii) accrued expenses of HK$30,204,000 (2017: HK$28,881,000); (iii) unsettled consideration for the acquisition of assets and liabilities through acquisition of subsidiaries of RMB1,738,000, equivalent to HK$1,988,000 (2017: RMB600,000, equivalent to HK$718,000); and (iv) unsettled consideration for the acquisition of subsidiaries of RMB34,744,000, equivalent to HK$39,744,000 (2017: RMB67,830,000, equivalent to HK$81,146,000).

33. AMOUNTS DUE TO AN ASSOCIATE AND RELATED PARTIES

The amounts due to an associate and related parties are unsecured, non-interest bearing and repayable on demand.

The amounts due to related parties represent dividend payables to non-controlling interests of subsidiaries.

34. BORROWINGS

	2018 HK$'000	2017 HK$'000
Secured bank borrowings	521,620	291,901
Unsecured bank borrowings	7,676,765	4,931,609
Unsecured other borrowings	31,834	35,275
	8,230,219	5,258,785
Carrying amounts of the above borrowings are repayable*:		
Within one year	3,692,178	1,581,936
More than one year, but not exceeding two years	1,592,747	3,325,000
More than two years but not exceeding five years	2,126,867	302,082
More than five years	10,753	49,767
	7,422,545	5,258,785
Carrying amounts of bank borrowings that contain a repayment on demand clause (shown under current liabilities) but repayable:		
Within one year	127,770	–
More than one year, but not exceeding two years	321,854	–
More than two years but not exceeding five years	358,050	–
	807,674	–
Less: Amounts due within one year shown under current liabilities	(4,499,852)	(1,581,936)
	3,730,367	3,676,849

* *the amounts due are based on scheduled repayment dates set out in the loan agreements.*

34. BORROWINGS *(Continued)*

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2018	2017
Effective interest rate:		
Fixed-rate borrowings	4.75% – 5.90%	3.81% – 5.90%
Variable-rate borrowings	2.66% – 6.67%	2.52% – 12.02%

The Group's certain variable-rate borrowings bear interest at a range of 100% to 133% (2017: 100% to 133%) of People's Bank of China ("PBOC") Prescribed Interest Rate per annum. Interest of London Interbank Offered Rate ("LIBOR") plus a premium ranging from 1.5% to 2.5% (2017: 1.5% to 3%) per annum and interest of Hong Kong Interbank Offered Rate ("HIBOR") plus a premium of 1.25% to 2.1% (2017: 1.75% to 2%) per annum is charged on remaining outstanding variable-rate loan balances.

As at 31st December, 2018, the bank borrowing balances consisted of HK$2,955,476,000 (2017: HK$1,944,367,000) and HK$2,543,983,000 (2017: HK$345,248,000) are denominated in US$ and HK$ respectively, which are foreign currencies of the respective group entities.

As at 31st December, 2017, certain bank borrowings were secured by the Group's prepaid lease payments and buildings with the carrying amounts of HK$40,291,000 (2018: nil) and HK$2,927,000 (2018: nil) respectively.

35. OBLIGATIONS UNDER FINANCE LEASES

	2018 HK$'000	2017 HK$'000
Analysed for reporting purpose as:		
Current liabilities	185,717	188,373
Non-current liabilities	61,537	258,583
	247,254	446,956

35. OBLIGATIONS UNDER FINANCE LEASES *(Continued)*

	Minimum lease payments		Present value of minimum lease payments	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amount payable under finance leases:				
Within one year	**192,902**	205,374	**185,717**	188,373
In more than one year but not more than two years	**62,823**	201,740	**61,537**	194,226
In more than two years but not more than five years	**–**	65,701	**–**	64,357
	255,725	472,815	**247,254**	446,956
Less: Future finance charges	**(8,471)**	(25,859)	**N/A**	N/A
Present value of lease obligations	**247,254**	446,956	**247,254**	446,956
Less: Amount due for settlement within one year (shown under current liabilities)			**(185,717)**	(188,373)
Amount due for settlement after one year			**61,537**	258,583

The Group leased certain of its pipelines under finance lease. The lease term is ranged from three to five years. Interest rates underlying all obligations under finance lease were ranged from 4.28% to 4.99% per annum. No arrangement was entered into for contingent rental payments.

As at 31st December, 2018, the Group's obligations under finance leases are secured by the Group's pipelines with an aggregate carrying amount of RMB555,848,000 (equivalent to HK$635,836,000) (2017: RMB591,210,000 (equivalent to HK$707,273,000)) and 50% of the equity interests of a subsidiary of the Company.

36. SHARE CAPITAL

	Notes	Number of shares 2018 '000	2017 '000	Amount 2018 HK$'000	2017 HK$'000
Authorised:					
Ordinary shares at HK$0.01 each		**10,000,000**	10,000,000	**100,000**	100,000
Issued and fully paid:					
At the beginning of the year		**2,525,008**	2,525,008	**25,250**	25,250
Issue of shares	(i)	**14,646**	–	**146**	–
Repurchase of shares	(ii)	**(2,442)**	–	**(24)**	–
At the end of the year		**2,537,212**	2,525,008	**25,372**	25,250

Notes:

(i) As disclosed in the announcement of the Company dated 4th July, 2018, the Company proposed to distribute final dividend of HK$0.05 per share for the year ended 31st December, 2017 to the holders of ordinary shares of the Company by way of allotment and issue of new shares to be credited as fully paid (the "Scrip Shares") or given an option to shareholders to receive the final dividend wholly in cash in lieu of Scrip Shares, or partly in cash and partly in the form of Scrip Shares (the "Scrip Dividend Scheme"). During the year ended 31st December, 2018, 14,645,873 Scrip Shares were issued at HK$6.36 per share as a result of Scrip Dividend Scheme. Total payment for Scrip Shares was HK$93,147,000.

(ii) During the year ended 31st December, 2018, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	**Number of ordinary shares of HK$0.01 each repurchased**	**Repurchased price per share Highest** HK$	**Lowest** HK$	**Aggregate consideration paid** HK$'000
Year ended 31st December, 2018				
October 2018	900,000	5.35	5.19	4,746
November 2018	200,000	5.40	5.38	1,080
December 2018	1,342,000	5.55	5.14	7,166
	2,442,000			

The repurchased shares were cancelled upon repurchase and the issued share capital of the Company was reduced by the nominal value of the repurchased shares. The premium payable on repurchase of the shares of HK$13,014,000 was charged to the share premium account.

37. DEFERRED TAXATION

The following is the deferred tax liabilities recognised and movements thereon during the current and prior years.

	Revaluation of investment properties and pipelines HK$'000	Other intangible assets HK$'000	Undistributed profits of subsidiaries HK$'000	Accelerated tax depreciation HK$'000	Total HK$'000
At 1st January, 2017	214,117	134,926	1,331	–	350,374
Exchange adjustments	15,009	9,460	94	–	24,563
Acquisitions of subsidiaries (note 40)	–	2,186	–	–	2,186
Credit to profit or loss (note 10)	(7,883)	(6,560)	–	–	(14,443)
Charge to property revaluation reserve	96,685	–	–	–	96,685
At 31st December, 2017	317,928	140,012	1,425	–	459,365
Exchange adjustments	(15,414)	(3,757)	(62)	(4,020)	(23,253)
Acquisitions of subsidiaries (note 40)	–	27,014	–	–	27,014
(Credit) charge to profit or loss (note 10)	(10,493)	(5,382)	–	117,956	102,081
Charge to property revaluation reserve	96,188	–	–	–	96,188
At 31st December, 2018	388,209	157,887	1,363	113,936	661,395

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits amounting to HK$2,099,876,000 (2017: HK$1,646,522,000) of certain PRC subsidiaries in relation to the owners of the Company. The Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At 31st December, 2018, the Group had unused estimated tax losses of HK$447,171,000 (2017: HK$473,951,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unrecognised estimated tax losses due to unpredictability of future profit stream. Included in unrecognised tax losses are losses of PRC subsidiaries of HK$134,755,000 (2017: HK$177,883,000) that will expire in various dates up to 2023 (2017: 2022), other losses may be carried forward indefinitely.

38. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option schemes

Pursuant to an ordinary resolution passed on 24th October, 2003, the Company adopted a share option scheme ("Old Share Option Scheme") pursuant to which the Directors were authorised to grant share option to its employees (including executive directors and employees of any of its subsidiaries) or any person who has contributed or will contribute to the Group. The Old Share Option Scheme was terminated and replaced by a new share option scheme ("New Share Option Scheme") on 3rd May, 2013 by an ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 3rd May, 2013.

Outstanding options under the Old Share Option Scheme shall continue to be valid and exercisable in accordance with the Old Share Option after its termination.

Under the New Share Option Scheme, the Directors may offer share options to any directors and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group who the board of directors of the Company considers, in its sole discretion, have contributed or will contribute to the Group, to subscribe for shares in the Company in accordance with the terms of the New Share Option Scheme.

The maximum number of shares which may be issued upon exercise of all share options to be granted under the New Share Option Scheme shall not, in the absence of shareholders' approval, in aggregate exceed 10% in nominal amount of the aggregate of shares in issue on the adoption date (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the New Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.

The Company may renew the Scheme Mandate Limit at any time subject to prior shareholders' approval but in any event, the total number of shares which may be issued upon exercise of all share options to be granted under the New Share Option Scheme under the limit as refreshed must not exceed 10% of the Shares in issue as at the date of the Shareholders' approval of the renewed limit. Options previously granted under the New Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the terms or exercised options) will not be counted for the purpose of calculating the limit as renewed.

Further, no options will be granted which would result in the maximum aggregate number of shares which may be issued upon exercise of all outstanding options granted but yet to be exercised under the New Share Option Scheme, the existing options granted under the Old Share Option Scheme, in aggregate, 30% of the issued share capital of the Company from time to time.

On 5th January, 2018, the Company has granted 126,000,000 share options to certain eligible participants (the "Grantees"), which are directors and employees of the Group subject to acceptance by such Grantees, under the New Share Option Scheme to subscribe for a total of 126,000,000 ordinary shares of HK$0.01 each of the Company at exercise price of HK$5.5 per share expiring on 4th January, 2028. The details of the grant of options are set out in the Company's announcement dated 5th January, 2018.

38. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option schemes *(Continued)*

The following table discloses movements of the Company's share options granted under the Old Share Option Scheme and New Share Option Scheme and movements in such holdings:

Category of grantee	Exercise price per share HK$ (note a)	Date of grant	Exercisable period	Number of share options: At 1st January, 2017, 31st December, 2017 and 1st January, 2018	Granted during the year	Exercised during the year	Adjustment during the year (note a)	Forfeited during the year (note b)	At 31st December, 2018
Directors	0.4872	11th April, 2011	11th April, 2011 to 10th April, 2021	2,000,000	–	–	11,600	–	2,011,600
	5.4680	5th January, 2018	5th January, 2018 to 4th January, 2028	–	12,500,000	–	72,500	–	12,572,500
				2,000,000	12,500,000	–	84,100	–	14,584,100
Employees	5.4680	5th January, 2018	5th January, 2018 to 4th January, 2028	–	3,000,000	–	17,400	–	3,017,400
	5.4680	5th January, 2018	5th January, 2020 to 4th January, 2028 (note c)	–	110,500,000	–	640,900	(3,017,400)	108,123,500
				–	113,500,000	–	658,300	(3,017,400)	111,140,900
				2,000,000	126,000,000	–	742,400	(3,017,400)	125,725,000
Exercisable at the end of the year				2,000,000					17,601,500
Weighted average exercise price				HK$0.49	HK$5.5	–	HK$5.39	HK$5.468	HK$5.388

38. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option schemes *(Continued)*

Notes:

(a) As disclosed in the announcement dated 1st August, 2018, as a result of the issue and allotment of new shares by the Company to shareholders who elected to receive the final dividend for the year ended 31st December, 2017 in scrip form, the numbers of outstanding share options and exercise price per share in respect of the share options granted on 11th April, 2011 had been adjusted from 2,000,000 to 2,011,600 and from HK$0.49 to HK$0.4872 respectively. In respect of the share options granted on 5th January, 2018, the number of outstanding share options and exercise price per share had been adjusted from 126,000,000 to 126,730,800 and from HK$5.5 to HK$5.4680 respectively.

(b) During the year ended 31st December, 2018, 3,017,400 options were forfeited with aggregate fair value of HK$2,445,000 in share option reserve had been transferred to accumulated profits.

(c) Those options are with vesting period from 5th January, 2018 to 4th January, 2020.

During the year ended 31st December, 2018, the Group recognised expense of HK$58,847,000 in relation to share options granted by the Company.

The options granted during the year ended 31st December, 2018 were granted to a number of directors and employees of the Group categorised as Batch 1, 2 and 3 as below, which were measured using Trinomial Option Pricing Model. The inputs into the model were summarised as follows:

Batch	Batch 1	Batch 2	Batch 3
No. of exercisable options	14,000,000	1,500,000	110,500,000
Expected volatility (*)	33.94%	35.33%	33.94%
Risk-free interest rate (**)	1.36%	1.44%	1.36%
Expected annual dividend yield (***)	Nil	Nil	Nil
Average fair value per option (HK$)	0.7943	0.9862	0.8149

* *Expected volatility was determined by using the daily volatility of the Company's shares in similar duration as of the date of valuation.*

** *Risk free rates were based on Hong Kong Government Bond Yield Curve as of the date of valuation.*

*** *Dividend yield was based on historical dividend trend and expected future dividend policy determined by the Company.*

39. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES

Year ended 31st December, 2018

(a) During the year ended 31st December, 2018, Zhongyu Henan has acquired additional 20% equity interest in 温縣中裕壓縮氣 and prepaid lease payment owned by the non-controlling shareholder at a total cash consideration of RMB5,250,000 (equivalent to HK$5,757,000) as set out in note 19, of which HK$4,682,000 was debited to prepaid lease payment during the year ended 31st December, 2018.

Year ended 31st December, 2017

(a) On 30th March, 2017, Zhongyu Gas Investment (Beijing) Limited ("Zhongyu Gas Beijing") (a wholly owned subsidiary of the Company) and a shareholder of Harmony Gas ("Vendor 1") entered into a sale and purchase agreement pursuant to which Zhongyu Gas Beijing agreed to acquire further 11.3% interests in Harmony Gas held by Vendor 1 at the consideration of US$18,000,000 (approximately HK$140,072,000) which shall be satisfied by cash at the completion date. The completion of the acquisition took place on 7th April, 2017. Following the completion of the acquisition, the Group's shareholding in Harmony Gas is 61.3%. The difference between the consideration paid and the carrying amount of the Group's additional interest in Harmony Gas of HK$70,535,000 was debited to equity as other reserve during the year ended 31st December, 2017.

(b) On 8th December, 2015, Zhongyu Gas Beijing, which was an existing 50% shareholder of Harmony Gas on that day, entered into the first amended and restated shareholders agreement with Harmony Gas and another joint venture partner, an existing 38.7% shareholder of Harmony Gas (the "Vendor").

Also, the Group has the obligation to purchase from the Vendor additional 38.7% equity interest in Harmony Gas for a cash consideration of US$78,722,395 (equivalent to HK$610,162,000), which is required to take place on or before 14th July, 2017 according to the sale and purchase agreement signed between Zhongyu Gas Beijing and the Vendor on 8th December, 2015. As a result, by applying a discount rate of 12.295% per annum, the present value of the liability is HK$507,817,000 and has been recognised by the Group as at 8th December, 2015, to reflect the Group's commitment to purchase the additional equity interest with the corresponding debit being recognised in non-controlling interests.

As at 31st December, 2016, the carrying amount of the liability is HK$575,791,000 and recorded as "obligation arising from forward contract with non-controlling interests". During the year ended 31st December, 2017, an imputed interest of HK$34,371,000 was charged to profit or loss.

The completion of the acquisition took place on 14th July, 2017. The difference between the consideration paid and the carrying amount of the Group's additional interest in Harmony Gas of HK$299,278,000 in total was debited to equity as other reserve, property revaluation reserve, translation reserve and accumulated profits during the year ended 31st December, 2017.

39. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES *(Continued)*

Year ended 31st December, 2017 *(Continued)*

(c) During the year ended 31st December, 2017, the Group acquired additional 49% of the equity interests in 臨沂中裕能源壓縮天然氣有限公司 at a consideration of RMB3,000,000 (equivalent to HK$3,589,000). The difference between the consideration paid and the carrying amount of the Group's additional interest in 臨沂中裕能源壓縮天然氣有限公司 of HK$833,000 was debited to equity as other reserve during the year ended 31st December, 2017.

40. ACQUISITION OF BUSINESS

Year ended 31st December, 2018

Acquisition of a subsidiary – Tongshan

On 26th July, 2018, the Group acquired 100% of the registered share capital of 銅山縣恒信嘉業燃氣有限公司 ("Tongshan") for consideration of RMB21,583,000 (equivalent to HK$24,948,000) from independent third parties, on that date, control in Tongshan was passed to the Group. This acquisition has been accounted for using the purchase method. Tongshan is principally engaged in the sales of piped gas and gas pipeline construction. Tongshan was acquired so as to continue the expansion of the Group's operations.

Consideration transferred:

	HK$'000
Cash	24,948

40. ACQUISITION OF BUSINESS *(Continued)*

Year ended 31st December, 2018 *(Continued)*

Acquisition of a subsidiary – Tongshan (Continued)

Assets acquired and liabilities of Tongshan recognised at the date of acquisition are as follows:

	HK$'000
Property, plant and equipment	22,059
Other intangible assets – exclusive right of operation in sales of piped gas	94,871
Trade receivables	5,442
Inventories	5,116
Deposits, prepayments and other receivables	7,573
Bank balances and cash	2,722
Trade payables	(12,588)
Other payables and accrued charges	(83,415)
Contract liabilities	(18,972)
Deferred tax liability	(23,718)
	(910)

The fair value as well as the gross contractual amounts of the trade receivables and other receivables acquired amounted to HK$9,864,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flow not expected to be collected is nil.

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	24,948
Add: Fair value of identifiable net liabilities acquired	910
	25,858

Goodwill arose in the acquisition of Tongshan because the consideration paid for the acquisition included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforce arising from the acquisition of Tongshan. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

40. ACQUISITION OF BUSINESS *(Continued)*

Year ended 31st December, 2018 *(Continued)*

Acquisition of a subsidiary – Tongshan (Continued)

The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

Net cash outflow on acquisition of Tongshan during the year ended 31st December, 2018:

	HK$'000
Total cash consideration	24,948
Less: cash and cash equivalents balances acquired	(2,722)
	22,226

Included in the profit for the year ended 31st December, 2018 is profit of HK$14,763,000 attributable to Tongshan. Revenue for the year ended 31st December, 2018 includes HK$38,168,000 generated from Tongshan.

Had the acquisition of Tongshan been completed on 1st January, 2018, total group revenue for the year would have been HK$7,645,473,000 and profit for the year would have been HK$677,541,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2018, nor is it intended to be a projection of future results.

Acquisition of subsidiaries – Beijing Energy-Net De. and its subsidiaries

On 30th July, 2018, the Group acquired 70% of the registered share capital of Beijing Energy-Net De. for consideration of RMB2,340,000 (equivalent to HK$2,692,000) from independent third parties, on that date control in Beijing Energy-Net De. was passed to the Group. This acquisition has been accounted for using the purchase method. Beijing Energy-Net De. is principally engaged in design and consulting of energy projects. Beijing Energy-Net De. was acquired so as to continue the expansion of the Group's operations.

Consideration transferred:

	HK$'000
Cash	2,692

40. ACQUISITION OF BUSINESS *(Continued)*

Year ended 31st December, 2018 *(Continued)*

Acquisition of subsidiaries – Beijing Energy-Net De. and its subsidiaries (Continued)

Assets acquired and liabilities of Beijing Energy-Net De. and its subsidiaries recognised at the date of acquisition are as follows:

	HK$'000
Property, plant and equipment	3,998
Other intangible assets – technology know-how	21,970
Investment in an associate	2,301
Trade receivables	1,797
Deposits, prepayments and other receivables	5,817
Bank balances and cash	92
Trade payables	(128)
Other payables and accrued charges	(10,654)
Deferred tax liability	(3,296)
Borrowings	(38,465)
	(16,568)

The fair value as well as the gross contractual amounts of the trade receivables and other receivables acquired amounted to HK$2,901,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flow not expected to be collected is nil.

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	2,692
Add: Non-controlling interests (30% in Beijing Energy-Net De.) (note)	(4,970)
Add: Fair value of identifiable net liabilities acquired	16,568
	14,290

Note: *The non-controlling interests in Beijing Energy-Net De. recognised at the date when the Group obtained control over Beijing Energy-Net De. was measured by reference to the fair value of 30% equity interest in Beijing Energy-Net De..*

40. ACQUISITION OF BUSINESS *(Continued)*

Year ended 31st December, 2018 *(Continued)*

Acquisition of subsidiaries – Beijing Energy-Net De. and its subsidiaries (Continued)

Goodwill arose in the acquisition of Beijing Energy-Net De. because the consideration paid for the acquisition included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforce arising from the acquisition of Beijing Energy-Net De.. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

Net cash outflow on acquisition of Beijing Energy-Net De. during the year ended 31st December, 2018:

	HK$'000
Total cash consideration	2,692
Less: cash and cash equivalents balances acquired	(92)
	2,600

Included in the profit for the year ended 31st December, 2018 is loss of HK$4,556,000 attributable to Beijing Energy-Net De.. Revenue for the year ended 31st December, 2018 includes HK$3,212,000 generated from Beijing Energy-Net De..

Had the acquisition of Beijing Energy-Net De. been completed on 1st January, 2018, total group revenue for the year would have been HK$7,636,185,000 and profit for the year would have been HK$707,552,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2018, nor is it intended to be a projection of future results.

40. ACQUISITION OF BUSINESS *(Continued)*

Year ended 31st December, 2017

Acquisition of a subsidiary – Gucheng Minghua

On 31st January, 2017, the Group acquired 100% of the equity interest in 故城明華燃氣有限公司 ("Gucheng Minghua") for consideration of RMB53,300,000 (equivalent to HK$60,280,000) from independent third parties, on that date, control in Gucheng Minghua was passed to the Group. This acquisition has been accounted for using the purchase method. Gucheng Minghua is principally engaged in the sales of piped gas. Gucheng Minghua was acquired so as to continue the expansion of the Group's operations.

Consideration transferred:

	HK$'000
Cash	60,280

Assets acquired and liabilities of Gucheng Minghua recognised at the date of acquisition are as follows:

	HK$'000
Property, plant and equipment	50,023
Other intangible assets – exclusive right of operation in sales of piped gas	8,742
Interest in a joint venture	5,655
Trade receivables	34
Inventories	225
Deposits, prepayments and other receivables	1,293
Bank balances and cash	139
Trade payables	(78)
Other payables and accrued charges	(6,006)
Deferred tax liability	(2,186)
	57,841

The fair value as well as the gross contractual amounts of the trade receivables and other receivables acquired amounted to HK$1,222,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flow not expected to be collected is nil.

40. ACQUISITION OF BUSINESS *(Continued)*

Year ended 31st December, 2017 *(Continued)*

Acquisition of a subsidiary – Gucheng Minghua *(Continued)*

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	60,280
Less: Fair value of identifiable net assets acquired	(57,841)
	2,439

Goodwill arose in the acquisition of Gucheng Minghua because the consideration paid for the acquisition included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforce arising from the acquisition of Gucheng Minghua. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

Net cash outflow on acquisition of Gucheng Minghua during the year ended 31st December, 2017:

	HK$'000
Total cash consideration	60,280
Less: Cash and cash equivalents balances acquired	(139)
Unsettled consideration (included in other payables and accrued charges as at 31st December, 2017) (RMB31,980,000)	(36,168)
	23,973

Included in the profit for the year ended 31st December, 2017 is profit of HK$6,401,000 attributable to Gucheng Minghua. Revenue for the year ended 31st December, 2017 includes HK$15,214,000 generated from Gucheng Minghua.

Had the acquisition of Gucheng Minghua been completed on 1st January, 2017, total group revenue for the year would have been HK$5,048,265,000 and profit for the year would have been HK$591,580,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2017, nor is it intended to be a projection of future results.

41. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES

Acquisition of Energy-Net De. (Shenqiu)

On 18th May, 2018, the Group acquired 80% of the registered share capital of 恩耐特(沈丘)分布式能源有限公司 ("Energy-Net De. (Shenqiu)") for a cash consideration of RMB1,408,000 (equivalent to HK$1,722,000) from independent third parties. The principal assets of Energy-Net De. (Shenqiu) are prepaid lease payments. Energy-Net De. (Shenqiu) has not commenced business at the date of acquisition.

	HK$'000
Net assets acquired	
Prepaid lease payments	2,434
Bank balances and cash	2
Other payables	(283)
	2,153
Non-controlling interest	(431)
	1,722
Net cash outflow arising on acquisition	
Cash consideration paid	1,722
Less: cash and cash equivalents balances acquired	(2)
	1,720

In the opinion of the Directors, the above acquisition did not constitute a business combination in accordance with HKFRS 3 "Business Combinations" as Energy-Net De. (Shenqiu) has not commenced business at the date of acquisition and requires additional resources to enable it to start the business. The acquisition has been accounted for as acquisition of assets and liabilities through acquisition of a subsidiary.

Acquisition of Zhengzhou Paicheng

On 31st December, 2018, the Group acquired 100% of the registered share capital of 鄭州派誠新能源發展有限公司 ("Zhengzhou Paicheng") for a cash consideration of RMB1,638,000 (equivalent to HK$1,874,000) from independent third parties. The principal assets of Zhengzhou Paicheng are land and buildings and equipment. Zhengzhou Paicheng has not commenced business at the date of acquisition.

41. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisition of Zhengzhou Paicheng *(Continued)*

	HK$'000
Net assets acquired	
Property, plant and equipment	8,961
Prepayments and other receivables	3,268
Bank balances and cash	2
Other payables	(10,357)
	1,874
Net cash outflow arising on acquisition	
Cash consideration paid	1,874
Less: Cash and cash equivalents balances acquired	(2)
Unsettled consideration (included in other payables and accrued charges as at 31st December, 2018)	(1,302)
	570

In the opinion of the Directors, the above acquisition did not constitute a business combination in accordance with HKFRS 3 "Business Combinations" as Zhengzhou Paicheng has not commenced business at the date of acquisition and requires additional resources to enable it to start the business. The acquisition has been accounted for as acquisition of assets and liabilities through acquisition of a subsidiary.

42. OPERATING LEASES

The Group as lessee

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

	2018 HK$'000	2017 HK$'000
Within one year	9,911	11,154
In the second to fifth year inclusive	12,928	10,373
Over five years	2,599	6,708
	25,438	28,235

Operating lease payments represent rental payable by the Group in respect of leasehold land and buildings and equipment. Leases for rented premises and equipment are negotiated for a period of one to twenty-five years (2017: one to twenty-five years) with fixed rental.

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises and equipment which fall due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	650	1,534
In the second to fifth year inclusive	1,160	450
Over five years	987	–
	2,797	1,984

Leases are negotiated for an average term of five years (2017: five years).

The Group's investment properties with a carrying amount of HK$42,940,000 (2017: HK$44,516,000) are held for rental purposes. All of the properties held have committed tenants for the next one to ten years (2017: two to five years).

43. RETIREMENT BENEFITS PLANS

The Group had joined the Mandatory Provident Fund Scheme under the rules and regulations of the Hong Kong Mandatory Provident Fund Schemes Authority. The Group's employees in Hong Kong are required to join the scheme. The Group and each employee employed in Hong Kong are required to make a contribution of 5% on the employees' monthly relevant income with a maximum monthly contribution of HK$1,500 per person.

The Company's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in various central pension schemes operated by the relevant municipal and provincial governments. These subsidiaries are required to make defined contributions to these schemes at rates ranging from 15% to 30% of their covered payroll. The Group has no other material obligation for the payment of its staff's retirement and other post-retirement benefits other than the contributions described above.

44. RELATED PARTY TRANSACTIONS

During the year, the Group purchased gas and kitchen appliances of RMB11,742,000 (equivalent to HK$13,906,000) (2017: RMB57,729,000 (equivalent to HK$66,630,000)) from Gasbo Electrical and Gas Appliance Co., Ltd. and RMB1,493,000 (equivalent to HK$1,768,000) (2017: nil) from 蕪湖中燃滕燃商貿有限公司 respectively. Both of them are subsidiaries of the controlling shareholder of the Company. Details of the outstanding balances with these related companies are set out in note 32.

Compensation of key management personnel

The Directors considered that they are the only key management personnel of the Group. Their emoluments are set out in note 12.

45. CAPITAL AND OTHER COMMITMENTS

As at 31st December, 2018, the capital expenditure in respect of the acquisition of property, plant and equipment and prepaid lease payments contracted for but not provided in the consolidated financial statements is HK$167,297,000 (2017: HK$120,529,000).

46. MAJOR NON-CASH TRANSACTION

During the year ended 31st December, 2016, the Group has derecognised certain prepaid lease payments at the carrying amount of HK$8,666,000 due to redevelopment of Sanmenxia City. As the local government of Sanmexia City compensated another leasehold land and agreed to pay cash compensation to the Group, the Group has recognised the new leasehold land as prepaid lease payments of HK$2,753,000 and the difference of HK$5,913,000 was recognised as other receivables and included in "deposits, prepayments and other receivables" as at 31st December, 2016. During the year ended 31st December, 2017, the cash compensation of HK$37,791,000 was received. A gain on disposal of prepaid lease payment of HK$31,687,000 was credited to profit or loss upon finalisation and receipt of the cash compensation during the year ended 31st December, 2017.

47. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes borrowings disclosed in note 34 net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, accumulated profits and other reserves.

The management of the Group reviews the capital structure on a continuous basis taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through new share issues, repurchase of shares and the issue of new debt or the redemption of the existing debt.

Categories of financial instruments

	2018 **HK$'000**	2017 HK$'000
Financial assets		
Financial assets at FVTOCI	**23,310**	–
Available-for-sale investments	**–**	3,589
Financial assets at FVTPL	**75,676**	–
Financial assets at amortised cost/loans and receivables (including cash and cash equivalents)	**3,476,618**	1,457,231
Financial liabilities		
Amortised cost	**9,830,520**	6,289,416

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, refundable deposits, other receivables, entrusted loan receivable, amounts due from an associate and a related party, pledged bank deposits and bank balances and cash, trade payables, other payables, accrued charges, amounts due to an associate and related parties and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

47. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk

Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate entrusted loan receivable, fixed-rate amounts due from an associate and a related party, fixed-rate bank borrowings and fixed-rate obligations under finance lease, currently, the Group has not used any derivative contracts to hedge these exposure to interest rate risk. However, management monitors interest rate exposure and will consider hedging significant fixed rate borrowings should the need arise.

The Group's cash flow interest rate risk primarily relates to variable-rate bank balances and variable-rate bank borrowings. The Group has not used any interest rate swaps to mitigate its exposure to cash flow interest rate risk. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated. The interest rates of variable bank borrowings are based on (1) a range of multiples of PBOC Prescribed Interest Rate; or (2) interest rate at LIBOR plus a premium; or (3) interest rate at HIBOR plus a premium.

The sensitivity analysis has been determined based on the exposure to the variable-rate bank balances and bank borrowings at the end of the reporting period and management's assessment of the reasonably possible change interest rates. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. If interest rates on bank borrowings and bank balances had been 50 basis points and 20 basis points respectively (2017: 50 basis points for bank borrowings and 20 basis points for bank balances) higher/lower and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by HK$28,051,000 (2017: decrease/increase HK$18,353,000).

Foreign currency risk

The Group collects most of its revenue in RMB and incurs most of the expenditures as well as capital expenditures in RMB. The Directors consider that the Group's exposure to foreign currency exchange risk is insignificant, except for certain bank balances and bank borrowings which are denominated in US$ or HK$, as the majority of the Group's transactions are denominated in the functional currency of the respective group entities. The equivalent amount of HK$ are set out below:

47. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

***Market risk** (Continued)*

Foreign currency risk (Continued)

	Assets		Liabilities	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
US$	**223,146**	173,544	**2,955,476**	1,944,367
HK$	**123,462**	38,712	**2,543,983**	345,248
	346,608	212,256	**5,499,459**	2,289,615

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Sensitivity analysis

The Group is mainly exposed to the foreign currency risk in HK$ and US$.

The following table details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in RMB against US$ or HK$. 5% (2017: 5%) represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes respective US$ and HK$ bank balances and bank borrowings, and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates increase in post-tax profit where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit or loss.

	2018	2017
	HK$'000	HK$'000
US$	**102,463**	66,406
HK$	**90,770**	11,495

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

47. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment

As at 31st December, 2018, the Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at the end of reporting period, in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

Trade receivables and contract assets arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade receivables and contract assets based on provision matrix.

Deposits and other receivables and amount due from a related party

The Group has taken into account the economic outlook of the industries in which the debtors operate, and concluded that there has been no significant increase in credit risk since initial recognition. The expected credit losses on deposits and other receivables and amount due from a related party are considered to be insignificant.

Amount due from an associate

The Group has assessed the financial position of an associate as well as the economic outlook of the industry in which the associate operates, and concluded that there has been no significant increase in credit risk since initial recognition. The expected credit losses on amount due from an associate is considered to be insignificant.

Pledged bank deposits and bank balances and cash

The credit risk on liquid funds is limited because the counterparties are reputable banks in the PRC or banks with high credit-ratings assigned by international credit-rating agencies and the Group has limited exposure to any single financial institution.

As at 31st December, 2018, the Group performed impairment assessment on bank balances by reference to the average loss rates for respective credit rating grades published by international credit-rating agencies and concluded that the expected credit losses is insignificant.

As at 31st December, 2018, other than the concentration of credit risk on the amounts due from an associate and a related party (2017: other than the concentration of credit risk on the amounts due from an associate and related party and entrusted loan receivable), the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

47. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment (Continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/ Contract assets	Other financial assets/other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settles after due date	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

47. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment (Continued)

The table below details the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2018	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK$'000
Financial assets at amortised cost					
Other long-term deposit	19	N/A	Low risk	12-month ECL (not credit impaired and assessed individually)	13,727
Trade receivables	26	N/A	(Note)	Lifetime ECL (not credit impaired and provision matrix)	1,669,455
				Lifetime ECL (credit-impaired)	16,332
					1,685,787
Deposits and other receivables	26	N/A	Low risk	12-month ECL (not credit impaired and assessed individually)	126,783
Amount due from an associate	28	N/A	Low risk	12-month ECL (not credit impaired and assessed individually)	57,195
Amount due from a related party	28	N/A	Low risk	12-month ECL (not credit impaired and assessed individually)	8,579
Pledged bank deposits	31	A1	Low risk	12-month ECL (not credit impaired and assessed individually)	5,720
Bank balances and cash	31	Aa2 to Baa3	Low risk	12-month ECL (not credit impaired and assessed individually)	1,595,157
Other item					
Contract assets	29	N/A	(Note)	Lifetime ECL (not credit impaired and provision matrix)	185,698
				Lifetime ECL (credit-impaired)	56,735
					242,433

47. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment (Continued)

Note: *For trade receivables and contract assets, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with credit-impaired which are assessed individually, the Group determines the expected credit losses on these items grouped by past due status for trade receivables and the status of the relevant projects of the contract assets. When there are indicators that the relevant contract assets maybe credit impaired, the relevant amount will be assessed for expected credit losses individually.*

The Group uses debtors' aging to assess the impairment for its customers in relation to its operation because these customers consist of a large number of customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Based on the Group's assessment of historical credit loss experience of the existing debtors and all available forward looking information, including but not limited to the expected economic conditions in the PRC and expected subsequent settlements, the Group does not consider that default occurs for those contractual payments that are more than 90 days past due.

The Group used estimated loss rates based on aging for classes with different credit risk characteristics and exposures, and the estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31st December, 2018, the Group made a reversal of HK$95,000 on trade receivables and recognised HK$16,390,000 impairment loss allowance for contract assets, based on the individual assessment.

The following table shows the movement in lifetime ECL and 12-month ECL that has been recognised for both trade receivables and contract assets under the simplified approach and other receivables respectively.

	Trade receivables Lifetime ECL (credit-impaired) HK$'000	**Contract assets Lifetime ECL (credit-impaired)** HK$'000	**Other receivables 12-month ECL (credit-impaired)** HK$'000
As at 31st December, 2017 (under HKAS 39)/ as at 1st January, 2018 (under HKFRS 9)	16,427	40,345	4,732
Net remeasurement of impairment losses allowance	(95)	16,390	–
As at 31st December, 2018	16,332	56,735	4,732

47. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk

As at 31st December, 2018, the Group has net current liabilities of HK$2,790,038,000. As explained in note 1, the Directors are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future, taking into account that the new bank borrowings facilities amounting to HK$4,427,000,000 and US$15,000,000 (equivalent to HK$117,506,000), respectively, have been obtained subsequent to 31st December, 2018, in which the borrowings are due after one year from the date of draw down.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on bank borrowings as significant sources of liquidity. The management monitors the utilisation of bank borrowings and ensures compliance with the relevant covenants.

The following table details the Group's remaining contractual maturity based on the agreed repayment terms for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest (estimated based on interest rate at the end of the reporting period) and principal cash flows.

Liquidity tables

	Weighted average effective interest rate %	On demand or less than 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount at 31.12.2018 HK$'000
2018							
Non-derivative financial liabilities							
Trade payables	–	1,206,316	–	–	–	1,206,316	1,206,316
Other payables and accrued charges	–	311,860	–	–	–	311,860	311,860
Amount due to an associate	–	1,023	–	–	–	1,023	1,023
Amount due to related parties	–	81,102	–	–	–	81,102	81,102
Obligations under finance leases	4.73	100,063	92,839	62,823	–	255,725	247,254
Bank borrowings							
– fixed rate	5.31	–	99,519	6,724	19,095	125,338	111,908
– variable rate	4.56	1,153,304	3,412,424	4,163,658	–	8,729,386	8,118,311
		2,853,668	3,604,782	4,233,205	19,095	10,710,750	10,077,774

47. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Liquidity tables (Continued)

	Weighted average effective interest rate %	On demand or less than 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount at 31.12.2017 HK$'000
2017							
Non-derivative financial liabilities							
Trade payables	–	727,274	–	–	–	727,274	727,274
Other payables and accrued charges	–	302,120	–	–	–	302,120	302,120
Amount due to an associate	–	1,236	–	–	–	1,236	1,236
Obligations under finance leases	4.70	81,576	123,798	267,441	–	472,815	446,956
Bank borrowings							
– fixed rate	4.69	–	103,956	72,666	22,181	198,803	178,834
– variable rate	5.90	484,768	1,040,633	4,036,849	49,875	5,612,125	5,079,951
		1,596,974	1,268,387	4,376,956	72,056	7,314,373	6,736,371

Note: The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Bank borrowings with a repayment on demand clause are included in the "on demand or less than 3 months" time band in the above maturity analysis. As at 31st December, 2018, the aggregate carrying amounts of these bank loans amounted to HK$807,674,000 (2017: nil). Taking into account the Group's financial position, the Directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The Directors believe that such bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

47. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Maturity Analysis – Bank borrowings with a repayment on demand clause based on scheduled repayments

	Less than 3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount HK$'000
31st December, 2018	23,386	134,758	708,882	–	867,026	807,674
31st December, 2017	–	–	–	–	–	–

Fair value

The fair value of financial assets and financial liabilities carried at amortised cost are determined by in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

47. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Fair value *(Continued)*

Fair value measurement recognised in the consolidated statement of financial position

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from 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 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets/financial liabilities in the consolidated statement of financial position	Fair value as at 31st December, 2018	Fair value as at 31st December, 2017	Fair value hierarchy	Valuation techniques and key inputs
1) Investments in unlisted equity investments classified as financial assets at FVTOCI/available-for-sales investments	**Assets – HK$20,590,000**	Assets – (note 1)	Level 3	Asset-Based approach – reference to fair values of the underlying assets and liabilities held by the investee
2) Investment components of life insurance contracts classified as financial assets at FVTPL/loans and receivables	**Assets – HK$75,676,000**	Assets – (note 2)	Level 3	Discounted cash flows – reference to expected cash flows and applied appropriate discount rate

Notes:

(1) *The relevant investments with carrying amount of HK$3,589,000 were measured at cost less any identified impairment losses at 31st December, 2017 under HKAS 39.*

(2) *The relevant carrying amount of HK$73,827,000 were measured at amortised cost less any identified impairment loss at 31st December, 2017 under HKAS 39. The returns of these investments are at the discretion of the insurer and the surrender charge is for termination of both the insurance and investment components. Accordingly, the Directors consider the account value as at 31st December, 2018 is an appropriate estimate of fair value.*

48. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Amount due to an associate	Obligation arising from forward contract with non-controlling interests	Dividend payables	Dividend payables to non-controlling interests of subsidiaries	Interest payables	Borrowings	Obligations under finance leases	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (Note 34)	HK$'000 (Note 35)	HK$'000
At 1st January, 2017	1,155	575,791	–	–	3,902	4,109,430	315,095	5,005,373
Financing cash flows	–	(610,162)	–	(13,315)	(227,158)	909,789	(137,911)	(78,757)
Dividend declared	–	–	–	12,846	–	–	–	12,846
New finance leases	–	–	–	–	–	–	230,840	230,840
Foreign exchange translation								
– profit or loss	–	–	–	469	25	(113,430)	–	(112,936)
Foreign exchange translation								
– other comprehensive income	81	–	–	–	–	331,666	25,685	357,432
Interest expenses	–	34,371	–	–	227,521	21,330	13,247	296,469
At 31st December, 2017	1,236	–	–	–	4,290	5,258,785	446,956	5,711,267
Financing cash flows	(165)	–	(33,103)	–	(269,673)	3,046,853	(206,815)	2,537,097
Dividend declared	–	–	126,250	81,102	–	–	–	207,352
Issue of shares as scrip dividend	–	–	(93,147)	–	–	–	–	(93,147)
Acquisition of a subsidiary	–	–	–	–	–	38,465	–	38,465
Foreign exchange translation								
– profit or loss	–	–	–	–	(432)	307,084	–	306,652
Foreign exchange translation								
– other comprehensive income	(48)	–	–	–	–	(459,068)	(13,225)	(472,341)
Interest expenses	–	–	–	–	281,233	38,100	20,338	339,671
At 31st December, 2018	1,023	–	–	81,102	15,418	8,230,219	247,254	8,575,016

49. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

As at 31st December, 2018 and 2017

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2018 %	2017 %	Principal activities
Zhongyu Gas Investment Limited	Hong Kong	Limited liability company	1 ordinary share of HK$1 each	100#	100#	Investment holding
Zhongyu Gas Investment Limited###	British Virgin Islands	Incorporated	1 ordinary share of US$1 each	100#	100#	Investment holding
Zhongyu Gas Investment (Beijing) Limited###	British Virgin Islands	Incorporated	1 ordinary share of US$1 each	100#	100#	Investment holding
China City Gas Construction Holdings Co., Ltd.###	British Virgin Islands	Incorporated	100 ordinary shares of US$1 each	100##	100##	Investment holding
China City Gas Construction Explore Co., Ltd.###	British Virgin Islands	Incorporated	100 ordinary shares of US$1 each	100##	100##	Investment holding
China Gas Construction Expansion Co., Ltd.###	British Virgin Islands	Incorporated	1,330,000 ordinary shares of US$1 each	100##	100##	Investment holding
China City Gas Construction Development Co., Ltd.###	British Virgin Islands	Incorporated	100 ordinary shares of US$1 each	100##	100##	Investment holding
China City Gas Construction Investment Co., Ltd.###	British Virgin Islands	Incorporated	100 ordinary shares of US$1 each	100##	100##	Investment holding
永城中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital HK$50,000,000	100##	100##	Trading of natural gas and gas pipeline construction
三門峽中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital HK$50,000,000	90##	90##	Trading of natural gas and liquefied petroleum gas and gas pipeline construction

49. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2018 and 2017 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2018 %	2017 %	Principal activities
新密中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital HK$15,000,000	97##	97##	Trading of natural gas and gas pipeline construction
新密中裕壓縮氣有限公司	PRC	Limited liability company	Registered capital RMB63,000,000	99.8##	99.8##	Operation of CNG/LNG vehicle filling stations
偃師中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital HK$25,000,000	95##	95##	Trading of natural gas and liquefied petroleum gas and gas pipeline construction
臨沂中裕能源有限公司	PRC	Wholly-foreign owned enterprise	Registered capital HK$210,000,000	100##	100##	Trading of natural gas and gas pipeline construction
臨沂中裕能源壓縮天然氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100##	100##	Operation of CNG/LNG vehicle filling stations
臨沭中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB15,160,000	100##	100##	Trading of natural gas and gas pipeline construction
焦作中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital RMB84,800,000	93.2##	93.2##	Trading of natural gas, coal gas and liquefied petroleum gas and gas pipeline construction
焦作中裕燃氣工程安裝有限公司	PRC	Limited liability company	Registered capital RMB100,000,000	93.2##	93.2##	Gas pipeline construction
修武中裕燃氣發展有限公司	PRC	Limited liability company	Registered capital RMB40,000,000	99.2##	96.7##	Trading of natural gas and gas pipeline construction
濟源中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital RMB40,280,000	92.9##	92.9##	Trading of natural gas and gas pipeline construction

49. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2018 and 2017 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2018 %	2017 %	Principal activities
漯河中裕燃氣有限公司 ("Luohe Zhongyu")	PRC	Sino-foreign joint venture	Registered capital RMB95,468,511	77.3##	77.3##	Trading of natural gas and gas pipeline construction
漯河中裕政融智慧能源科技有限公司	PRC	Limited liability company	Registered capital RMB142,968,700	58.0##	–	Not yet commenced business
漯河中裕燃氣工程安裝有限公司	PRC	Sino-foreign joint venture	Registered capital RMB5,000,000	73.4##	73.4##	Gas pipeline construction
漯河中裕能源有限公司	PRC	Limited liability company	Registered capital RMB100,000,000	88.9##	88.9##	Not yet commenced business
臨沂中裕燃氣有限公司 ("Linyi Zhongyu")	PRC	Sino-foreign joint venture	Registered capital RMB42,000,000	51#	51#	Trading of natural gas and gas pipeline construction
中裕(河南)能源控股有限公司	PRC	Wholly-foreign owned enterprise	Registered capital HK$600,000,000	100#	100#	Investment holding
邵武中裕壓縮氣有限公司	PRC	Limited liability company	Registered capital RMB6,000,000	100##	100##	Operation of CNG/LNG vehicle filling stations
濟源中裕壓縮氣有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100##	100##	Operation of CNG/LNG vehicle filling stations
三門峽中裕能源有限公司	PRC	Limited liability company	Registered capital RMB50,000,000	100##	100##	Operation of CNG/LNG vehicle filling stations
南京晶橋中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100##	100##	Trading of natural gas and gas pipeline construction
武夷山中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB30,000,000	99.8##	99.8##	Trading of natural gas and gas pipeline construction

49. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2018 and 2017 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2018 %	2017 %	Principal activities
武陟中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB26,000,000	100##	100##	Trading of natural gas, gas pipeline construction and operation of CNG/LNG vehicle filling stations
鐵力中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100##	100##	Trading of natural gas and gas pipeline construction
焦作中裕壓縮氣有限公司	PRC	Limited liability company	Registered capital RMB15,000,000	100##	100##	Operation of CNG/LNG vehicle filling stations
修武縣寧城能源利用有限公司	PRC	Limited liability company	Registered capital RMB5,500,000	100##	100##	Not yet commenced business
漯河中裕壓縮氣有限公司	PRC	Sino-foreign joint venture	Registered capital RMB10,000,000	100##	100##	Operation of CNG/LNG vehicle filling stations
漯河裕聯加氣站經營有限公司	PRC	Limited liability company	Registered capital RMB9,300,000	100##	100##	Operation of CNG/LNG vehicle filling stations
上海宣閩能源投資管理有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100##	100##	Investment holding
邵武中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100##	100##	Trading of natural gas and gas pipeline construction
河南怡誠大有燃氣有限公司	PRC	Limited liability company	Registered capital RMB50,000,000	70##	70##	Trading of natural gas and gas pipeline construction
西平中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	100##	100##	Research and development of natural gas technology

49. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2018 and 2017 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2018 %	2017 %	Principal activities
鄭州中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB200,000,000	100##	100##	Not yet commenced business
靈寶中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB35,000,000	100##	100##	Trading of natural gas and gas pipeline construction
德州中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB25,000,000	100##	100##	Trading of natural gas, gas pipeline construction and operation of CNG/LNG vehicle filling stations
温縣中裕壓縮氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	100##	80##	Trading of natural gas and gas pipeline construction
深圳市鵬凱吉星貿易有限公司	PRC	Limited liability company	Registered capital RMB100,000	100##	100##	Not yet commenced business
沁陽中裕燃氣有限公司	PRC	Wholly-foreign owned enterprise	Registered capital RMB10,000,000	100##	100##	Trading of natural gas and gas pipeline construction
原陽縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB55,000,000	100##	100##	Trading of natural gas and gas pipeline construction
輝縣市中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	100##	100##	Not yet commenced business
河南中裕智慧能源有限公司	PRC	Limited liability company	Registered capital RMB200,100,000	100##	100##	Not yet commenced business
浙江中裕燃氣有限公司	PRC	Wholly-foreign owned enterprise	Registered capital US$10,000,000	100##	100##	Trading of natural gas, gas pipeline construction and operation of CNG/LNG vehicle filling stations

49. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2018 and 2017 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2018 %	2017 %	Principal activities
中裕城市能源投資控股(深圳)有限公司	PRC	Wholly-foreign owned enterprise	Registered capital US$100,000,000	100##	100##	Investment holding
故城明華燃氣有限公司	PRC	Limited liability company	Registered capital RMB47,600,000	100##	100##	Trading of natural gas and gas pipeline construction
臨江中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100##	100##	Not yet commenced business
灌南中裕燃氣有限公司	PRC	Limited liability company	Registered capital HKD150,000,000	100##	100##	Trading of natural gas and gas pipeline construction
刑台南宮裕聯天然氣管道有限公司	PRC	Limited liability company	Registered capital RMB30,000,000	100##	–	Trading of natural gas and gas pipeline construction
河南中裕燃氣工程設計有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100##	100##	Design of gas pipeline construction project
中裕(河南)能源貿易有限公司	PRC	Limited liability company	Registered capital RMB50,000,000	100##	100##	Trading of natural gas
永城中裕運輸有限公司	PRC	Limited liability company	Registered capital RMB600,000	100##	100##	Dangerous goods transportation
樂清中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB50,000,000	85##	85##	Not yet commenced business
泗洪沃金燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100##	100##	Trading of natural gas and gas pipeline construction
東海縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB79,000,000	100##	100##	Trading of natural gas and gas pipeline construction

49. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2018 and 2017 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2018 %	2017 %	Principal activities
偃師中裕能源有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100##	100##	Not yet commenced business
中裕聯合(深圳)供應鏈有限公司	PRC	Limited liability company	Registered capital RMB30,000,000	100##	–	Provision of management services to group companies
中裕智慧科技(深圳)有限公司	PRC	Limited liability company	Registered capital RMB50,000,000	100##	–	Provision of management services to group companies
中裕(深圳)智慧能源有限公司	PRC	Limited liability company	Registered capital RMB200,000,000	100##	–	Investment holding
焦作中裕智慧能源有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100##	–	Not yet commenced business
鄭州派誠新能源發展有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100##	–	Not yet commenced business
北京恩耐特分布能源技術有限公司	PRC	Limited liability company	Registered capital RMB50,000,000	70##	–	Design and consulting of energy projects
龍口恩耐特峻和新能源有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	49##	–	Design and consulting of energy projects
北京恩耐特分布式能源工程技術有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	70##	–	Design and consulting of energy projects
北京恩耐特藍天能源技術服務有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	70##	–	Design and consulting of energy projects
恩耐特(蘇州)新能源有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	70##	–	Design and consulting of energy projects

49. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2018 and 2017 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2018 %	2017 %	Principal activities
恩耐特(寧波)新能源有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	63##	–	Design and consulting of energy projects
山東中裕智慧能源有限公司	PRC	Limited liability company	Registered capital RMB200,100,000	100##	–	Not yet commenced business
恩耐特(沈丘)分布式能源有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	80##	–	Not yet commenced business
南京中裕壓縮氣體有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	–	100##	Operation of CNG/LNG vehicle filling stations
南京中裕天然氣加氣有限公司	PRC	Limited liability company	Registered capital RMB7,000,000	–	70##	Operation of CNG/LNG vehicle filling stations
Harmony Gas Holdings Limited###	Cayman Islands	Limited liability company	78,287,805 ordinary shares of US$0.0001 each	100##	100##	Investment holding
Prosperity Gas Holdings Ltd.###	Cayman Islands	Limited liability company	201 ordinary shares of US$1 each	100##	100##	Investment holding
Prosperity Gas 2 Co., Ltd.	Hong Kong	Limited liability company	1 ordinary shares of HK$1 each	100##	100##	Investment holding
Sino Gas International Holdings, Inc###	United States of America	Incorporated	1,000 common stock without par value	100##	100##	Investment holding
Gas Investment China Co., Ltd.###	British Virgin Islands	Incorporated	21,500,000 ordinary shares of US$1 each	100##	100##	Investment holding

49. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2018 and 2017 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2018 %	2017 %	Principal activities
Tong Yuan International Holding Limited	Hong Kong	Limited liability company	10,000 ordinary shares of HK$1 each	**51##**	51##	Investment holding
Sino Gas Construction Limited###	British Virgin Islands	Incorporated	1,909,730 ordinary shares of US$1 each	**97.3##**	97.3##	Investment holding
北京中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB206,000,000	**100##**	100##	Trading of natural gas
邢台裕發天然氣管道有限公司	PRC	Limited liability company	Registered capital RMB50,000,000	**100##**	–	Not yet commenced business
平山縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	**100##**	–	Trading of natural gas and gas pipeline construction
五河中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	**100##**	100##	Trading of natural gas and gas pipeline construction
新河縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	**100##**	100##	Trading of natural gas and gas pipeline construction
泗縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	**100##**	100##	Trading of natural gas and gas pipeline construction
泗洪偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB40,000,000	**100##**	100##	Trading of natural gas and gas pipeline construction
昌黎中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	**100##**	100##	Trading of natural gas and gas pipeline construction

49. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2018 and 2017 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2018 %	2017 %	Principal activities
玉田縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB30,000,000	100##	100##	Trading of natural gas and gas pipeline construction
蔚縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100##	100##	Trading of natural gas and gas pipeline construction
張家口下花園中裕燃氣有限責任公司	PRC	Limited liability company	Registered capital RMB5,000,000	100##	100##	Trading of natural gas and gas pipeline construction
成安中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100##	100##	Trading of natural gas and gas pipeline construction
臨漳中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100##	100##	Trading of natural gas and gas pipeline construction
吳橋中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100##	100##	Trading of natural gas and gas pipeline construction
雞澤中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100##	100##	Trading of natural gas and gas pipeline construction
行唐中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100##	100##	Trading of natural gas and gas pipeline construction
南宮中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100##	100##	Trading of natural gas and gas pipeline construction
衡水中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100##	100##	Trading of natural gas and gas pipeline construction
寧晉縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB30,000,000	100##	100##	Trading of natural gas and gas pipeline construction

49. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2018 and 2017 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				2018	2017	
				%	%	
邢台中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	**100[##]**	100[##]	Trading of natural gas and gas pipeline construction
徐州中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB30,000,000	**100[##]**	100[##]	Trading of natural gas and gas pipeline construction
銅山縣恒信嘉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB40,000,000	**100[##]**	–	Trading of natural gas and gas pipeline construction
北京晨光燃氣有限公司	PRC	Limited liability company	Registered capital RMB35,239,600	**100[##]**	100[##]	Trading of natural gas and gas pipeline construction
石家莊鹿泉區晨光燃氣有限公司	PRC	Limited liability company	Registered capital RMB6,000,000	**100[##]**	100[##]	Trading of natural gas and gas pipeline construction
石家莊市藁城區偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	**100[##]**	100[##]	Trading of natural gas and gas pipeline construction
白山市偉業管道天然氣有限公司	PRC	Limited liability company	Registered capital RMB50,000,000	**100[##]**	100[##]	Not yet commenced business
白山中裕城市燃氣有限公司	PRC	Limited liability company	Registered capital RMB80,000,000	**100[##]**	100[##]	Trading of natural gas and liquefied petroleum gas and gas pipeline construction
白山市偉業燃氣物資有限公司	PRC	Limited liability company	Registered capital RMB1,000,000	**100[##]**	100[##]	Sales of gas equipment and materials
撫松中裕城鎮燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	**100[##]**	100[##]	Trading of natural gas and gas pipeline construction

49. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2018 and 2017 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2018 %	2017 %	Principal activities
白山市意和建設工程有限公司	PRC	Limited liability company	Registered capital RMB6,000,000	100##	100##	Gas pipeline construction
白山中裕車用燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100##	100##	Operation of CNG/LNG vehicle filling stations
河北中燃偉業燃氣集團有限公司	PRC	Limited liability company	Registered capital RMB95,579,270	100##	100##	Trading of natural gas
故城中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB14,500,000	100##	100##	Trading of natural gas and gas pipeline construction
隆堯中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,825,000	100##	100##	Trading of natural gas and gas pipeline construction
廊坊開發區偉業危險貨物運輸有限公司	PRC	Limited liability company	Registered capital RMB1,000,000	100##	100##	Dangerous goods transportation
江蘇中裕能源有限公司	PRC	Limited liability company	Registered capital RMB132,100,000	–	100##	Investment holding

\# *The nominal value of issued share capital/registered capital directly held by the Company.*

\## *The nominal value of issued share capital/registered capital indirectly held by the Company.*

\### *The place of operation of the company is Hong Kong.*

None of the subsidiaries had issued any debt securities at the end of the both years.

50. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) for the year attributable to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	**2018**	2017	**2018**	2017
				HK$'000	HK$'000	**HK$'000**	HK$'000
Linyi Zhongyu	PRC – Shangdong province	**49%**	49%	**29,186**	29,066	**216,228**	274,828
Luohe Zhongyu	PRC – Henan province	**22.71%**	22.71%	**35,500**	20,628	**123,080**	93,365
Individually immaterial subsidiaries with non-controlling interests, including Harmony Gas' subsidiaries				**28,985**	(16,057)	**242,342**	181,072
				93,671	33,637	**581,650**	549,265

Summarised financial information in respect of each of the Group's subsidiaries that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

50. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

(i) Linyi Zhongyu

	2018 HK$'000	2017 HK$'000
Current assets	**258,288**	156,058
Non-current assets	**620,530**	603,049
Current liabilities	**(403,865)**	(172,961)
Non-current liabilities	**(33,672)**	(25,273)
Equity attributable to owners of the Company	**225,053**	286,045
Non-controlling interests	**216,228**	274,828
Revenue	**534,987**	463,526
Expenses	**(475,422)**	(404,208)
Profit for the year	**59,565**	59,318
Profit attributable to owners of the Company	**30,379**	30,252
Profit attributable to the non-controlling interests	**29,186**	29,066
Profit for the year	**59,565**	59,318

50. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

(i) Linyi Zhongyu *(Continued)*

	2018 **HK$'000**	2017 HK$'000
Other comprehensive (expense) income attributable to owners of the Company	**(9,696)**	27,854
Other comprehensive (expense) income attributable to the non-controlling interests	**(9,314)**	26,762
Other comprehensive (expense) income for the year	**(19,010)**	54,616
Total comprehensive income attributable to owners of the Company	**20,683**	58,106
Total comprehensive income attributable to the non-controlling interests	**19,872**	55,828
Total comprehensive income for the year	**40,555**	113,934
Dividends declared to non-controlling interests	**78,472**	–
Net cash generated from operating activities	**88,020**	56,159
Net cash generated from (used in) investing activities	**17,614**	(29,076)
Net cash generated from (used in) financing activities	**42,528**	(25,364)
Net cash inflow	**148,162**	1,719

(ii) Luohe Zhongyu

	2018 **HK$'000**	2017 HK$'000
Current assets	**721,284**	381,569
Non-current assets	**886,540**	672,461
Current liabilities	**(869,657)**	(369,337)
Non-current liabilities	**(250,799)**	(328,169)
Equity attributable to owners of the Company	**364,288**	263,159
Non-controlling interests	**123,080**	93,365

50. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

(ii) Luohe Zhongyu *(Continued)*

	2018 HK$'000	2017 HK$'000
Revenue	691,621	448,069
Expenses	(535,303)	(357,238)
Profit for the year	156,318	90,831
Profit attributable to owners of the Company	120,818	70,203
Profit attributable to the non-controlling interests	35,500	20,628
Profit for the year	156,318	90,831
Other comprehensive (expense) income attributable to owners of the Company	(19,689)	41,504
Other comprehensive (expense) income attributable to the non-controlling interests	(5,785)	12,195
Other comprehensive (expense) income for the year	(25,474)	53,699
Total comprehensive income attributable to owners of the Company	101,129	111,707
Total comprehensive income attributable to the non-controlling interests	29,715	32,823
Total comprehensive income for the year	130,844	144,530
Dividends paid to non-controlling interests	–	10,923
Net cash generated from operating activities	148,668	135,542
Net cash used in investing activities	(261,140)	(79,100)
Net cash generated from (used in) financing activities	341,191	(55,162)
Net cash inflow	228,719	1,280

51. EVENT AFTER THE REPORTING PERIOD

On 22nd January, 2019, Zhongyu Henan, a wholly-owned subsidiary of the Company and each of the vendors of Mengzhou City Gaoyuan Natural Gas Co., Ltd. ("Gaoyuan Gas (Mengzhou)") and Wen County Gaoyuan Natural Gas Co., Ltd. ("Gaoyuan Gas (Wen County)") (collectively refer to as "the Vendors") entered into the sale and purchase agreements pursuant to which Zhongyu (Henan) agreed to acquire and the Vendors agreed to sell 100% of the equity interest in each of Gaoyuan Gas (Mengzhou) and Gaoyuan Gas (Wen County) at an aggregate consideration of RMB462,152,000 (equivalent to approximately HK$536,096,000) which will be settled by cash in three installments. Gaoyuan Gas (Mengzhou) and Gaoyuan Gas (Wen County) are principally engaged in the businesses of pipeline gas; sale of gas appliances, metal hardware and electrical appliances, steel and building materials; design, repair and installation of gas appliances; sale of vehicle-used compressed natural gas in Henan Province. Each of Gaoyuan Gas (Mengzhou) and Gaoyuan Gas (Wen County) has signed a franchise agreement with the local governmental authority of Mengzhou City and Wen County pursuant to which an exclusive right has been granted to each of them to invest in, build and operate piped gas business and provide the ancillary services in Mengzhou City and Wen County for a period of 30 years and 27 years ending in 2035 and 2039, respectively. The acquisition of business had been completed up to the date of approving the issuance of these consolidated financial statements.

52. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2018 HK$'000	2017 HK$'000
Non-current assets		
Unlisted investments in subsidiaries	1,374,190	1,408,311
Investments in life insurance contracts	78,693	77,083
Financial asset at FVTOCI	2,720	–
Available-for-sale investment	–	2,720
Amounts due from group companies	4,984,353	3,219,924
	6,439,956	4,708,038
Current assets		
Other receivables	8,428	5,766
Tax recoverable	15,517	15,517
Bank balances and cash	342,761	127,614
	366,706	148,897
Current liabilities		
Other payables and accrued charges	16,392	5,092
Amount due to a group company	18,500	–
Bank borrowings	3,254,827	786,664
Tax payables	4,228	–
	3,293,947	791,756
Net current liabilities	(2,927,241)	(642,859)
Total assets less current liabilities	3,512,715	4,065,179
Capital and reserves		
Share capital (note 36)	25,372	25,250
Reserves (Note)	608,840	1,052,181
Total equity	634,212	1,077,431
Non-current liabilities		
Bank borrowings	2,878,503	2,987,748
	3,512,715	4,065,179

52. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

Reserves of the Company

	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Translation reserve HK$'000	Accumulated (loss) profits HK$'000	Total HK$'000
At 1st January, 2017	25,250	895,736	319	47,270	4,098	972,673
Profit for the year	–	–	–	–	68,677	68,677
Other comprehensive income for the year	–	–	–	36,081	–	36,081
Total comprehensive income for the year	–	–	–	36,081	68,677	104,758
At 31st December, 2017	25,250	895,736	319	83,351	72,775	1,077,431
Loss for the year	–	–	–	–	(582,539)	(582,539)
Other comprehensive income for the year	–	–	–	126,614	–	126,614
Total comprehensive income (expense) for the year	–	–	–	126,614	(582,539)	(455,925)
Issue of shares as scrip dividend (note 13)	146	93,001	–	–	(93,147)	–
Repurchase of shares (note 36)	(24)	(13,014)	–	–	–	(13,038)
Dividend paid in cash (note 13)	–	–	–	–	(33,103)	(33,103)
Recognition of share-based payments (note 38)	–	–	58,847	–	–	58,847
Transfer to accumulated profits upon forfeiture of share options (note 38)	–	–	(2,445)	–	2,445	–
At 31st December, 2018	25,372	975,723	56,721	209,965	(633,569)	634,212

Note: In the current year, the Company has applied HKFRS 15, HKFRS 9 and other amendments to HKFRSs. Apart from certain reclassification, there was no material impact on the Company's statement of financial position upon adoption of those new standards.

	For the year ended 31st December,				
	2018 **HK$'000** **(note)**	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Turnover	**7,627,088**	5,048,100	3,722,507	3,276,666	3,412,690
Profit (loss) for the year attributable to					
Owners of the Company	**620,684**	557,959	206,150	93,390	324,351
Non-controlling interests	**93,671**	33,637	(102,549)	56,478	65,429
	714,355	591,596	103,601	149,868	389,780

	As at 31st December,				
	2018 **HK$'000** **(note)**	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Assets and liabilities					
Total assets	**16,281,354**	11,800,731	9,623,663	8,709,309	6,898,822
Total liabilities	**(11,761,185)**	(8,077,514)	(6,817,732)	(6,436,915)	(4,606,082)
	4,520,169	3,723,217	2,805,931	2,272,394	2,292,740
Equity attributable to the owners of the Company	**3,938,519**	3,173,952	2,553,206	2,006,664	1,994,048
Non-controlling interests	**581,650**	549,265	252,725	265,730	298,692
	4,520,169	3,723,217	2,805,931	2,272,394	2,292,740

Note: In the current year, the Group has applied HKFRS 15, HKFRS 9 and other amendments to HKFRSs (see note 2 of the Notes to the Consolidated Financial Statements section for the summary of the corresponding financial impact). Accordingly, certain comparative information for the years ended 31st December, 2014, 2015, 2016 and 2017 may not be comparable to the year ended 31st December, 2018 as such comparative information was prepared under HKAS 18, HKAS 11 and HKAS 39. Accounting policies resulting from application of HKFRS 15 and HKFRS 9 are disclosed in the "Significant Accounting Policies" section.

腾飞中裕

同心筑梦

中裕燃氣

ZHONGYU GAS

(Incorporated in the Cayman Islands with limited liability)

（於開曼群島註冊成立之有限公司）

www.zhongyugas.com