Beijing Gas Blue Sky Holdings Limited
北京燃氣藍天控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 6828

ANNUAL REPORT 2018

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Cheng Ming Kit *(Co-chairman of the Board and appointed as Chief Executive Officer on 19 January 2018)*
Mr. Sze Chun Lee *(resigned on 4 February 2019)*
Mr. Hung Tao
Mr. Hu Xiaoming *(Chief Executive Officer) (resigned on 19 January 2018)*
Mr. Tam Man Kin *(Chief Financial Officer) (resigned on 13 October 2018)*
Mr. Li Weiqi

Non-executive Director

Mr. Zhi Xiaoye *(Co-chairman of the Board)*

Independent Non-executive Directors

Mr. Lim Siang Kai
Mr. Wee Piew
Mr. Ma Arthur On-hing
Mr. Pang Siu Yin

COMMITTEE MEMBERS

Audit Committee

Mr. Lim Siang Kai *(Chairman)*
Mr. Wee Piew
Mr. Ma Arthur On-hing
Mr. Pang Siu Yin

Remuneration Committee

Mr. Ma Arthur On-hing *(Chairman)*
Mr. Lim Siang Kai
Mr. Wee Piew
Mr. Pang Siu Yin

Nomination Committee

Mr. Ma Arthur On-hing *(Chairman)*
Mr. Lim Siang Kai
Mr. Wee Piew
Mr. Cheng Ming Kit
Mr. Pang Siu Yin

AUTHORISED REPRESENTATIVES

Mr. Hung Tao
Mr. Siew Chun Fai

COMPANY SECRETARY

Mr. Siew Chun Fai

REGISTERED OFFICE

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Bermuda

HEADQUARTERS AND PRINCIPAL EXECUTIVE OFFICE

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Hong Kong

BERMUDA SHARE REGISTRAR

Conyers Corporate Services (Bermuda) Limited
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Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor
One Pacific Place
88 Queensway
Hong Kong

PRINCIPAL BANKERS

Hong Kong and Shanghai Banking Corporation Limited
DBS Bank (Hong Kong) Limited
Bank of China (Hong Kong) Limited

COMPANY WEBSITE

www.bgbluesky.com

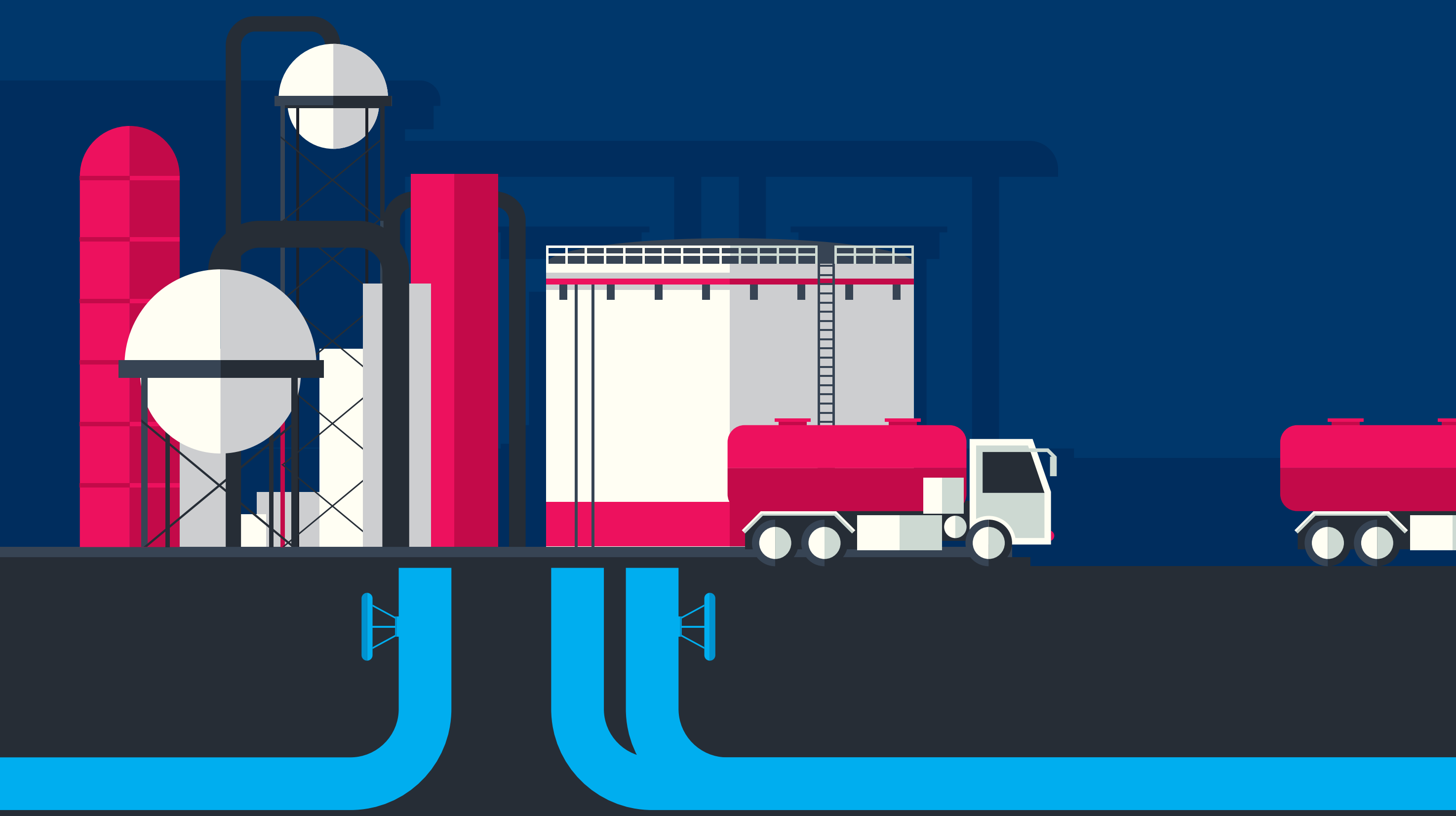
STOCK CODE

6828

CORPORATE PROFILE

Beijing Gas Blue Sky Holdings Limited is an integrated natural gas provider and operator focusing on the mid-to downstream segment development of the natural gas industry chain.

Its major natural gas business encompasses (i) natural gas refuelling station; (ii) trading and distribution of natural gas; and (iii) city gas, pipeline construction fee, value-added service and others. The Group proactively expands its business development and layout in accordance with its own "One Belt One Road" strategy, and gets involved in the development of the entire value chain in LNG industry in all aspects.



CHAIRMAN'S STATEMENT

2018 is a significant year for the Group and a watershed in the history of its business development, as it successfully completed its business restructuring leveraging its business penetration and operation in the natural gas industry in the previous years. As a newcomer to this sector, the Group rendered eye-catching financial performance during the year, with its core business growing stronger. In 2018, its revenue increased by 48.1% to HK$2,148.5 million as compared with the same period of the previous year, with the gas sales volume and throughput volume growing approximately 9 times year on year to 5,125.0 million cubic meters, and EBITDA increasing by 162.6% year on year to HK$642.6 million. Our profit for the year attributable to owners of the Company scored a turnaround and increased significantly to HK$260.7 million, with our total assets increasing by 38.5% year on year to HK$8,228.3 million. The three core business segments of the Group have taken shape, including the (i) natural gas refuelling station, (ii) trading and distribution of natural gas, (iii) city gas, pipeline construction fee, value-added service and others. The deployment of our core business has been completed, and a large-scale business presence has been established in the Bohai Rim and the Yangtze River Delta area, with our project spreading over 14 provinces, city and autonomous region across China.

In 2018, the natural gas industry underwent significant development with major breakthroughs achieved in a number of landmark events, in which the Group has played an important role. On 6 June, 2018, the acquisition of 29% equity interest of the PetroChina Jingtang LNG receiving terminal（中石油京唐LNG接收站）was completed. The successful injection of the first project of Beijing Gas Group（北京燃氣集團）will also have an active effect in facilitating the cooperation of the Group with its controlling shareholder. As a short supply asset in the natural gas industry, the Jingtang LNG receiving terminal has rendered outstanding performance, with its annual receiving/unloading volume continuing to grow, contributing considerable profits to the Group. With the further expansion of its production capacity, it is expected to maintain its strong growth in the future. In November 2018, the Group, together with its partners, participated in the bidding for the LNG receiving terminal window-period that CNOOC opened for the first time to third parties, the Group gained access to the LNG delivery window period during the winter with strong demand. Through its "multiple-point pick-up" approach, the Group completed the 12 million cubic meters LNG distribution of 12 million cubic meters out of a ship-load of LNG (about 60,000 tons) in December 2018, with the rest completed in January 2019, thus realizing a ground breaking breakthrough in its "offshore LNG import" business, and paving the way for it to develop the upstream business in the future.

Looking into the future, we are full of confidence. The national policies will continue to support the development of natural gas industry, as the Report on the Work of the Government for 2019 pointed out that China will continue to strengthen its pollution prevention and ecosystem construction efforts, vigorously promote green development, and consolidate the success in its battle to defend the blue sky. China will maintain its air pollution control efforts in the Beijing-Tianjin-Hebei region and the surrounding area, the Yangtze River Delta, and the Fen-Wei Plain, while strengthening the remediation work of the three major pollution sources, i.e. industry, coal and motor vehicles, and ensuring clean heating services are available in North China in winter. With the demand for natural gas industry continuing to grow, the reform of natural gas market is constantly advancing. The natural gas supply in China has been improving, with its natural gas business further diversified and the industry growing increasingly mature. As a company with mixed ownership that has been developing rapidly in the emerging industry following its successful transformation, the Group is doomed to benefit more from all of this.

With the increasing interaction with its controlling shareholder, the Group will deepen its cooperation with Beijing Gas Group. By coordinating the development strategy of its controlling shareholder, complementing each other with our advantages and releasing asset value as its development strategy, the Group will take a more active part in the business development in the Beijing-Tianjin-Hebei region and Northeast China, so as to achieve strategic synergies with its controlling shareholder, and seek rapid development with the support of its controlling shareholder in business synergies, brand influence, talent exchange and resources sharing. In terms of business development, the Group has built up a business capability with outstanding competitiveness and scale. The strategic layout of its LNG business has been completed, with which it will be able to seize the opportunities of the rapid growth of the imported LNG, promoting its business development throughout the whole industry chain, while actively cooperating with its controlling shareholder to consolidate its LNG terminal distribution capabilities. Our city gas business will expand its cooperation with the controlling shareholder and upstream gas suppliers, and fine-tune the management of its existing city gas projects to expand regional and market coverage. Cost control and improvement in operational efficiency and profitability are the important tasks that the Group is working and will continue to work on. The Group will adhere to the principle of "Large Business with Small Headquarter" while optimizing its organizational structure and personnel composition, strictly controlling the expenditure and improving the profitability of its projects. Meanwhile, with the success in its business transformation, the improvement in cash flow and the support of its controlling shareholder, the financing channels of the Group will continue to expand in the future. Relying on the increasing low-cost debts from commercial banks to optimize its debt structure, the Group’s financial costs will be maintained at a reasonable level, so as to enhance the overall profitability of the Group.

Looking forward, as a newcomer to the natural gas industry, the Group will continue to make unremitting efforts to become an outstanding natural gas operator in China, and to live up to the trust of its customers, employees, partners and shareholders, and make its own contribution to promote the development of China’s natural gas industry.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In 2018, the consumption of natural gas in China reached 280.3 billion cubic meters, an increase of about 18.1% over the same period in 2017. In order to improve the domestic natural gas supply shortage, imported pipeline gas and imported liquefied natural gas ("LNG") have become important supply source and there is significant increment. In 2018, China imported 125 billion cubic meters of natural gas, an increase of 35.5% over the same period in 2017. Among them, 51.4 billion cubic meters of pipeline gas was imported, a year on year increase of 25.7%. LNG became the most important supply growth point and continued to maintain a high growth rate with the annual import volume reaching 73.6 billion cubic meters in 2018, a year on year increase of 43.2%. In 2018, rapid development was noted in China's natural gas industry, and many landmark events made major breakthroughs, demonstrating the growth vitality of the natural gas industry, such as the first documents issued by the State Council to promote the development of the natural gas industry, the arrival of the first international LNG ship of "Polar Silk Road", China becoming the world's number one importer of natural gas for the first time and the first window period for product transaction. With China's emphasis on the coordinated and stable development of natural gas, the construction of production, supply, storage and marketing channels and the implementation of interconnection projects, the national natural gas supply in 2018 was significantly improved as compared to last year. The marketization reform of the natural gas industry was also underway, and certain events including the uniform prices for residential and non-resident stations, CNOOC's receiving terminal issued its first window period product and the put-into-operation of private LNG terminals indicated that China's natural gas business was further diversified. The Group had also made significant progress in business facing the industry's great development opportunities and became an important player in the development of China's natural gas industry in 2018.

REVIEW OF OPERATIONS

For the year ended 31 December 2018 ("FY2018"), the Group recorded revenue of HK$2,148.5 million (FY2017: HK$1,451.1 million), representing growth of 48.1% as compared to the corresponding period of last year, which was mainly attributable to a diversified income structure of the Group which contribute a growth in revenue generated from city gas business and LNG related business. Gross profit increased from HK$167.6 million for the year ended 31 December 2017 ("FY2017") to HK$198.4 million for FY2018. Earnings before interest, tax, depreciation and amortization ("EBITDA") increased by 162.6% to HK$642.6 million. Excluding one off gain on (i) disposal of subsidiaries, (ii) disposal of a joint venture, (iii) partial disposal of joint ventures, (iv) deemed partial disposal of an associate and (v) gain arising from acquisition of an associate, EBITDA increased by 154.6% to HK$374.1 million. Profit for the year attributable to owners of the Company increased significantly by approximately HK$273.1 million to HK$260.7 million (FY2017: loss for the year attributable to owners of the Company: HK$12.5 million). The improvement on the overall profitability of the Group was mainly due to its diversified business structure and contribution to its profit growth from different business segments. Specifically, the scale of the city gas business has been expanding rapidly. Benefiting from the "coal to gas" policy, the Group's rural coal-to-gas project in Shanxi has become more profitable, and the gas supply for the new projects secured in the Northeast, East and South China, the business scale and gross profit of the Group's direct supply business also increased significantly. The trading and distribution business, notwithstanding its slightly shrunken scale, achieved an improvement in income and profitability as the Group focused on the quality of its business and the concerted development of the whole LNG value chain; benefiting from the national environmental protection policy, the demand for gas from the Group's Shanxi and Hainan projects increased significantly, which in turn expanded the business scale and drove up the profit. In FY2018, the Group's total gas sales and throughput volume increased by 898.4% year on year to approximately 5,125.0 million cubic meters (FY2017: 513.3 million cubic meters).

The Group's major natural gas projects:

	Project Location	LNG/CNG refueling station As of December			City gas As of December		Direct supply As of December		Trading and distribution As of December		Subtotal As of December		LNG throughput As of December		As of December		Subtotal As of December		Total As of December	
		No.of station	Sales volume (m³)	Sales volume (%)	Sales volume (m³)	Sales volume (%)	Sales volume (m³)	Sales volume (%)	Sales volume (m³)	Sales volume (%)	Subtotaled sales volume (m³)	Subtotaled sales volume (%)	Gasification volume (m³)	Gasification volume (%)	Unloading volume (m³)	Unloading volume (%)	Subtotaled throughout (m³)	Subtotaled throughout (%)	Total volume (m³)	Total volume (%)
Subsidiaries	Liaoning Province	1	324,954	0.4%	2,229,901	1.6%	7,010,926	7.9%	–	0.0%	9,565,781	1.5%	–	0.0%	–	0.0%	–	0.0%	9,565,781	0.2%
	Shandong Province	1	783,076	0.9%	–	0.0%	15,875,293	17.8%	9,034,024	2.9%	25,692,393	4.1%	–	0.0%	–	0.0%	–	0.0%	25,692,393	0.5%
	Guizhou Province	2	3,463,747	4.0%	–	0.0%	3,590,102	4.0%	–	0.0%	7,053,849	1.1%	–	0.0%	–	0.0%	–	0.0%	7,053,849	0.1%
	Anhui Province	–	–	0.0%	–	0.0%	1,703,823	1.9%	72,861,064	23.3%	74,564,887	11.9%	–	0.0%	–	0.0%	–	0.0%	74,564,887	1.5%
	Hainan Province	5	15,950,503	18.3%	–	0.0%	3,508,410	4.0%	13,625,349	4.4%	33,084,262	5.3%	–	0.0%	–	0.0%	–	0.0%	33,084,262	0.6%
	Beijing City	–	–	0.0%	–	0.0%	–	0.0%	30,663,409	9.8%	30,663,409	4.9%	–	0.0%	–	0.0%	–	0.0%	30,663,409	0.6%
	Zhejiang Province	–	–	0.0%	–	0.0%	47,492,370	53.3%	87,943,730	28.2%	135,436,100	21.6%	–	0.0%	–	0.0%	–	0.0%	135,436,100	2.6%
	Shaanxi Province	–	–	0.0%	–	0.0%	–	0.0%	20,963,662	6.7%	20,963,662	3.3%	–	0.0%	–	0.0%	–	0.0%	20,963,662	0.4%
	Hebei Province	–	–	0.0%	–	0.0%	–	0.0%	28,475,160	9.1%	28,475,160	4.5%	–	0.0%	–	0.0%	–	0.0%	28,475,160	0.6%
	Jilin Province	2	2,824,877	3.2%	35,269,428	25.5%	9,986,200	11.2%	–	0.0%	48,080,505	7.7%	–	0.0%	–	0.0%	–	0.0%	48,080,505	0.9%
	Shanxi Province	7	12,102,073	13.9%	95,550,207	69.2%	–	0.0%	–	0.0%	107,652,280	17.2%	–	0.0%	–	0.0%	–	0.0%	107,652,280	2.1%
	Guangxi Province	–	–	0.0%	–	0.0%	–	0.0%	8,690,682	2.8%	8,690,682	1.4%	–	0.0%	–	0.0%	–	0.0%	8,690,682	0.2%
	Ningxia Autonomous Region	–	–	0.0%	–	0.0%	–	0.0%	3,427,704	1.1%	3,427,704	0.6%	–	0.0%	–	0.0%	–	0.0%	3,427,704	0.1%
	Subtotal	18	35,449,230	40.7%	133,049,536	96.3%	89,167,124	100%	275,684,784	88.3%	533,350,674	85.1%	–	0.0%	–	0.0%	–	0.0%	533,350,674	10.4%
Associates	Hainan Province	11	46,758,205	53.7%	–	0.0%	–	0.0%	–	0.0%	46,758,205	7.5%	–	0.0%	–	0.0%	–	0.0%	46,758,205	0.9%
	Anhui Province	5	4,786,317	5.5%	–	0.0%	–	0.0%	36,040,634	11.6%	40,826,951	6.5%	–	0.0%	–	0.0%	–	0.0%	40,826,951	0.8%
	Hebei Province	–	–	0.0%	–	0.0%	–	0.0%	–	0.0%	–	0.0%	4,097,740,617	100.0%	400,812,990	100.0%	4,498,553,607	100.0%	4,498,553,607	87.8%
	Subtotal	16	51,544,522	59.3%	–	0.0%	–	0.0%	36,040,634	11.6%	87,585,156	14.0%	4,097,740,617	100.0%	400,812,990	100.0%	4,498,553,607	100.0%	4,586,138,763	89.5%
Joint Venture	Hubei Province	–	–	0.0%	5,141,705	3.7%	–	0.0%	323,064	0.1%	5,464,769	0.9%	–	0.0%	–	0.0%	–	0.0%	5,464,769	0.1%
	Subtotal	–	–	0.0%	5,141,705	3.7%	–	0.0%	323,064	0.1%	5,464,769	0.9%	–	0.0%	–	0.0%	–	0.0%	5,464,769	0.1%
	Grand Total	34	86,993,752	100%	138,191,241	100%	89,167,124	100%	312,048,482	100%	626,400,599	100%	4,097,740,617	100%	400,812,990	100%	4,498,553,607	100%	5,124,954,206	100%

In FY2018, the gas sales volume from the subsidiaries amounted to 533.4 million cubic meters (FY2017: 433.3 million cubic meters). In addition, the gas sales and throughput volume from the associates of the Group amounted to 4,586.1 million cubic meters (FY2017: 78.1 million cubic meters), the significant increase was attributable to the completion of the Jing Tang Acquisition on 6 June 2018.

As at 31 December 2018, the Group's natural gas projects covered 14 provinces, city and autonomous region in the PRC, namely Liaoning, Jilin, Hubei, Hebei, Shandong, Anhui, Zhejiang, Shaanxi, Guizhou, Hainan, Guangxi, Ningxia Autonomous Region, Shanxi and Beijing City.

CITY GAS BUSINESS

As of FY2018, the Group had 5 city gas projects in Shanxi Province, Jilin Province, Liaoning Province and Hubei Province. During the year, the Group completed pipeline construction of piped gas for 59,870 users, and the accumulated number of users reached 432,401, of which 59,571 were new residential households users, and the accumulated number of users reached 430,165. The volume of natural gas sold by the Group to residential household users amounted to 53.8 million cubic meters (FY2017: 18.9 million cubic meters). The Group secured 299 new industrial and commercial users, and the accumulated industrial and commercial users reached 2,236, and the natural gas sold to industrial and commercial users reached 84.4 million cubic meters (FY2017: 24.4 million cubic meters), with connection fee income of HK$209.9 million (FY2017: HK$135.6 million), representing a growth of 54.7% as compared to the corresponding period of last year. During the period, the number of rural "coal to gas" users of the Group's Shanxi project amounted to approximately 7,000. Taking advantage of the "2+26" cities under the national air pollution prevention program, the Group vigorously promoted the implementation of the coal-to-gas project in Shanxi, and through effective management, its rural coal-to-gas program has produced satisfactory results, with its scale securing a leading position in Shanxi province.

The Group actively responded to national policies. In order to win the blue sky defense battle and improve the quality of the atmospheric environment, the Group deepened the existing project regional market and vigorously promoted the coal-to-gas process in the plain areas. Moreover, by developing high-quality industrial and commercial users to adjust the gas consumption structure of the Northeast market, the Group continued to improve the market system with the goal of "market integration" and made important contributions to the Group's overall gas volume and revenue. In FY2018, 12 ministries including the Ministry of Ecology and Environment and six provinces and cities such as Beijing jointly issued the "Action Plan for the Comprehensive Management of Air Pollution in the Autumn and Winter of 2018-2019 in Beijing-Tianjin-Hebei and Surrounding Areas", which clearly pointed out that the scattered coal shall be basically replaced in the plain areas of "2+26" cities. At the same time, according to the guidelines of the National 13th Five-Year Plan, by 2020, the proportion of natural gas consumption to primary energy will increase from 6% in 2016 to 10%, and the population using natural gas will increase from 330 million in 2015 to 470 million. In the future, the Group will continue to commit itself to promoting the "coal to gas" work to improve the overall natural gas penetration rate and hence contribute positively to the Group's overall profit. In addition, the Group has entered into a strategic cooperation agreement with Guizhou Branch of PetroChina KunLun Gas Co., Ltd.（中石油昆侖燃氣有限公司貴州分公司）during the year, and both parties would also strengthen strategic cooperation in the city gas segment in the region.

DIRECT SUPPLY BUSINESS

During the year, the Group sold 89.2 million cubic meters of natural gas (FY2017: 55.4 million cubic meters) to industrial and commercial users through the provision of the direct supply service, representing a growth of 61.0% as compared to the corresponding period of last year, covering Jilin Province, Liaoning Province, Hubei Province, Shandong Province, Anhui Province, Hainan Province, Guizhou Province and Zhejiang Province, etc. The Group relied on the high-quality gas sources obtained in the North China, East China and South China coastal areas and the inland LNG factories to provide industrial and commercial users with stable gas sources. Thanks to the rapid growth in the demand of the domestic industrial gas users and the continuous growth of imported LNG, the Group successfully secured a number of new users in the Northeast, East and South China with continuous and stable gas supply during the year. During the year, both the revenue and profit of the business segment recorded an increase.

LNG AND CNG REFUELLING STATION BUSINESS

The Group sold natural gas to LNG vehicles (trucks and buses) and CNG vehicles (taxis, buses and private cars). During FY2018, the Group owned 34 gas refuelling stations including 19 CNG refuelling stations and 15 LNG refuelling stations (FY2017: 39 gas refuelling stations including 22 CNG refuelling stations and 17 LNG refuelling stations) mainly covering Hainan Province, Anhui Province, Shandong Province, Guizhou Province, Jilin Province, Shanxi Province and Liaoning Province, with gas sales volume of 87.0 million cubic meters (FY2017: 75.3 million cubic meters) and sales income of HK$173.0 million (FY2017: HK$74.8 million), representing growth of 131.3% as compared to the corresponding period of last year, which was mainly due to the effective implementation of the environmental protection policy on air pollution in Shanxi Province and Hainan Province, increase in demand for transportation gas and expansion in the scale of the Group's refuelling stations business. Driven by the PRC government's promotion of clean energy vehicles, relevant policies on promoting application of environmental-friendly vehicles were introduced during the year. Hainan Province issued the "Hainan Province Clean Energy Vehicles Development Plan", which clearly points out that clean alternative fuel vehicles mainly include natural gas vehicles, and plans to realize the overall adoption of clean energy vehicles within the whole island by 2030, with 80% of the vehicles installed with clean energy engines. In addition, Shanxi Province issued the " Action Plan 2018 of Shanxi Provincial on Air Pollution Prevention and Control (《山西省大會污染防治2018年行動計劃》)", requiring further control of the traffic & transportation pollution. The Group will actively expand the gas refuelling stations business in this region by grasping opportunities and acting in response to national policies, in order to improve its market share.

TRADING AND DISTRIBUTION OF LNG AND CNG BUSINESS

As of 31 December 2018, the Group owned 29% equity interests in PetroChina Jingtang LNG Co., Ltd., and distributed LNG with gas sources from Sinopec's Dongjiakou receiving terminal in the Bohai Rim and distributed LNG with gas sources from CNOOC's Ningbo receiving terminal in the Eastern China. The Group recorded a total trading volume of 312.0 million cubic meters (FY2017: 339.4 million cubic meters) through distributing LNG by 52 self-owned natural gas transportation vehicles (FY2017: 67 natural gas transportation vehicles). The slight decrease in sales was mainly due to the Group focused on the quality of its trading business and actively adjusted its customer base. The trading and distribution business recorded a segment trading sales of HK$917.1 million (FY2017: 876.8 million). The Group participated in the bidding in the window period with its business partner last year, and gained access to the export and joint distribution right of offshore gas in the peak season of demand for LNG and completed the distribution of approximately 12 million cubic meters of LNG, the distribution of the remaining part was completed in January 2019. The layout of the Group's LNG business has become more solid upon building up the upstream gas resources, the stronger midstream logistics deployment capacity as well as the downstream terminal distribution advantages in the whole LNG value chain; in the meantime, the Group has formed a "technology + finance" overall solution for the industrial transfer of key industries such as metal processing, ceramics and glass, which became our powerful tool for market development. Therefore, the entire value chain of LNG has been fully developed, so that all links could fully exert synergy effects and promote the rapid growth of sales volume of LNG business.

LNG RECEIVING TERMINAL PROJECTS

Petrochina Jingtang (Caofeidian Jingtang LNG Receiving Terminal)

The completion of the acquisition of PetroChina Jingtang took place on 6 June 2018. The total throughput volume of LNG in this project reached 4,498.5 million cubic meters after the completion of the acquisition, among which, the gas volume externally delivered to the pipelines through gasification was 4,097.7 million cubic meters while the gas transportation volume of the tank truck was 400.8 million cubic meters. Currently, roof lifting work for two storage tanks of Caofeidian LNG Receiving Terminal expanding project has been commenced. It is expected that the utilization rate of the terminal will continue to increase in the future, providing stable gas supply guarantee for natural gas consumption in the entire Beijing-Tianjin-Hebei region and making positive contributions to the blue sky defense battle in the region.

Expansion initiatives

Up to now, the Group's business has covered 14 provinces, city and autonomous region in China. During FY2018, the Group completed the Jingtang Acquisition.

FINANCIAL RESOURCES OF THE GROUP

Cash and bank balances of the Group amounted to HK$281.6 million as of 31 December 2018. Given the Group's ample cash position, relatively low gearing level and support of premium institutions and industry investors, the Group is expected to expand its investment in the natural gas industry and grasp the industry development opportunities, so as to generate higher return for its shareholders. As of 31 December 2018, the principal amount of the Group's corporate bonds and convertible bonds were HK$1,210.0 million and HK$730.0 million, respectively. The Group's gearing ratio, which is total borrowings divided by total assets, was at 27.7% as at 31 December 2018. If excluding convertible bonds, the gearing ratio was 19.7% as at 31 December 2018 (18.0% as at 31 December 2017). Cash to total liabilities was 9.0% as at 31 December 2018 (5.0% as at 31 December 2017).

CONVERTIBLE BONDS ISSUANCE SUMMARY TABLE

Issue date	Investors	Principal amount *HK$'000*	Principal amount as at 31 December 2018 *HK$'000*	Cash interest during FY2018 *HK$'000*	Imputed interest during FY2018 *HK$'000*	Conversion price per share *HK$*	Maturity date
2015-09-09	Templeton Asset Management Ltd.'s Emerging Markets Group	116,000	–	–	8,884	0.40	2018-09-09
2015-12-11	Haitong International Securities Group Limited	200,000	–	745	14,448	0.48	2018-12-09
2016-01-07	Templeton Asset Management Ltd.'s Emerging Markets Group	15,000	–	–	2,168	0.40	2019-01-07
2016-05-11	Beijing Gas Group Co., Ltd.	350,000	–	3,878	14,297	0.45	2019-05-11
2016-12-29	China Orient Asset Management Co., Ltd.	200,000	200,000	10,389	35,949	0.67	2019-12-29
2017-04-24	Central China International Investment Company Limited	150,000	150,000	5,700	28,180	0.67	2019-12-23
2017-05-04	China Huarong International Holdings Limited	200,000	200,000	9,784	24,024	0.67	2020-04-24
2018-06-26	SK E&S Co., Ltd.	180,000	180,000	1,814	15,180	0.57	2020-06-26
			730,000	32,310	143,130		

FUTURE PROSPECTS

Looking forward to 2019, the natural gas industry will continue to maintain its growth momentum. The Report on the Work of Government for 2019 pointed out that the state should continue to strengthen pollution prevention and control and ecological construction, vigorously promote green development, and consolidate and expand the achievements of the blue sky defense battle. It also continued to carry out the air pollution control of the Beijing-Tianjin-Hebei region and the surrounding areas, Yangtze River Delta and the Fen-Wei Plains and strengthened the management of three major pollution sources of industry, coal-firing and motor vehicles, striving to do well in clean heating in the northern regions and ensure that the people can enjoy a warm winter. The Group expects natural gas consumption to continue to grow steadily. Imported natural gas will continue to be a major source of growth for the supply. The Group will strive to capture relevant opportunities arising from the growth in LNG import and the integration of the pipelines in the PRC.

As for the market, the Group will focus on the layout of projects related to LNG import and new project opportunities with the support of major shareholder. After several years of hard work, the Group has built a large-scale LNG operation and distribution capacity and completed the layout of the entire value chain of LNG. On the upstream side, we have stable gas sources for several LNG receiving terminals, hold the equity of the LNG receiving terminal located in Tangshan and successfully participated in the first international trading of LNG. We have built a proprietary trading and logistics network in the key Beijing-Tianjin-Hebei and the East China region for the midstream, while there are stable and large-scale industrial direct supply users in the downstream. In the future, in addition to continuing to consolidate the trading and operating capabilities as well as the size and quality of the end customers in the midstream and downstream, the Group will participate more in the upstream LNG trading and obtain more opportunities to independently import offshore resources under the general trend of the natural gas industry marketization, with a view to enhancing the Group's competitiveness and market share in the LNG industry.

In terms of city gas business, the Group will leverage the unique advantages of the controlling shareholder Beijing Gas Group to explore project opportunities of major shareholders in the Beijing-Tianjin-Hebei region and the northeast region along the East Pipeline between China and Russia and lay out key new project markets. For the existing city gas projects, the Group will adhere to refined management to improve the profitability of existing projects and achieve steady growth in the income of existing urban gas assets, and also leverage the existing projects' "point-to-area"（以點帶面）capability to focus on tapping the market potential of Shanxi and Jilin.

In terms of company management, guided by refined management, the Group will comprehensively carry out "reducing costs and increasing efficiency" under the principle of "Large Business with Small Headquarter" by optimizing organizational structure and personnel and strictly controlling expenses, so as to improve the project execution efficiency and enhance the Group's comprehensive profitability. In terms of finance, the financing channel will be broadened, and with the normal operation of the projects acquired and the support of the major shareholder, the debt ratio and the scale of current borrowings will be appropriately increased through more cooperation with commercial banks. Moreover, the Group will achieve a reasonable decline in finance cost by refinancing the existing debts, so as to improve the Group's profitability.

FINANCIAL REVIEW

Revenue

Revenue increased by 48.1% from HK$1,451.1 million for FY2017 to HK$2,148.5 million for FY2018, mainly attributable to the whole year contribution of Jilin project and Shanxi project which were acquired in April 2017 and October 2017 respectively. Jilin project and Shanxi project contributed to the revenue of HK$188.9 million (FY2017: HK$130.7 million) and HK$541.9 million (FY2017: HK$150.1 million) respectively.

Gross Profit and Segment Profit

The Group recorded gross profit of HK$198.4 million for FY2018 which increased by HK$30.8 million from HK$167.6 million for FY2017, which was mainly due to increase in gross profit arising from refuelling stations and city gas business of Jilin and Shanxi projects.

Segment profit increased by 431.2% from HK$106.1 million for FY2017 to HK$563.6 million for FY2018, which was mainly due to the gain arising from acquisition of an associate of HK$198.0 million and share of profit of associates of HK$251.5 million for FY2018.

Earnings before Interests, Tax, Depreciation and Amortisation

Earnings before interests, tax, depreciation and amortisation increased from HK$244.7 million for FY2017 to HK$642.6 million for FY2018, which was mainly due to (i) the increase in gross profit, (ii) the gain arising from acquisition of an associate and (iii) share of profit for the associate.

Other Gains and Losses and Other Income

Other gains and losses and other income decreased from HK$114.1 million for FY2017 to HK$100.4 million for the FY2018, which is mainly due to the combine effect of the loss from change in fair value of financial assets designated as at fair value through profit or loss of HK$45.6 million and increase in interest income.

Gain recognised on disposal of subsidiaries

During FY2018, the Group has disposed of certain non-core companies. Gain recognised on disposal of subsidiaries of HK$36.1 million, HK$21.3 million and HK$8.9 million represents the disposal of Chiping project, Waypost Limited and Shandong projects at a cash consideration of HK$50,000,000 (the "Chiping Disposal"), HK$22,000,000 (the "Waypost Disposal") and HK$55,000,000 (the "Shandong Disposal") respectively to independent third parties.

Operating expenses

(a) Administrative expenses

The administrative expenses increased by 58.1% from HK$180.1 million for FY2017 to HK$284.8 million for FY2018. It was mainly due to the increase in (i) costs of corporate bonds by HK$38.4 million (ii) employee benefit expenses by HK$29.1 million; (iii) amortisation and depreciation by HK$9.1 million; (iv) consultancy fee by HK$9.8 million; (v) repair and maintenance fee by HK$6.3 million; and other expenses by HK$12.0 million.

The Group has formulated employee-optimisation plan and intended to re-finance part of the corporate bonds in the future to reduce overall administrative expenses.

(b) Other expenses

Other expenses decreased by 37.0% from HK$17.0 million for FY2017 to HK$10.7 million for FY2018 which was mainly due to the decreased legal and professional fees by HK$6.0 million and bank charges by HK$0.5 million.

(c) Finance costs

Finance costs increased from HK$165.7 million for FY2017 to HK$241.8 million for FY2018 which was mainly due to the increase in (i) interest on convertible bonds of HK$44.1 million; and (ii) interest on bank and other borrowings of HK$37.4 million.

(d) Income tax credit/(expense)

Income tax credit/(expense) was calculated at 25% and 8.25% or 16.5% of the estimated assessable profits of its PRC subsidiaries and Hong Kong subsidiaries for FY2017 and FY2018 respectively.

Income tax credit of HK$2.3 million for FY2018 represented the current taxation arising from the PRC subsidiaries of HK$15.7 million and the deferred tax credit of HK$18.0 million arising from fair value adjustments of intangible assets from acquisition of various natural gas projects.

(e) Profit/(loss) attributable to the owners of the Company

The Group's profit for the year attributable to the owners of the Company arrived at HK$260.7 million for FY2018, representing an increase by HK$273.1 million from FY2017.

USE OF PROCEEDS

On 24 January 2018, the Company entered into a subscription agreement in principal amount of HK$85,500,000 with Mrs. Surangrat Chirathivat (the "Subscriber"), a businesswoman and a citizen of Thailand, pursuant to which the Company has agreed to issue 150,000,000 new shares at the price of HK$0.57 (the "January 2018 Placement") to the Subscriber. As at the date of the subscription agreement, the closing market price of the Company's shares as quoted on the Stock Exchange was HK$0.54 per share.

On 17 August 2018, the Company and the Subscriber entered into a supplemental agreement, pursuant to which the Subscriber shall subscribe for all of the subscription shares in two tranches. The first tranche of 100,000,000 subscription shares were issued and allotted to the Subscriber on 20 August 2018. The subscription for the second tranche of 50,000,000 shares was unconditionally terminated by mutual agreement between the Company and the Subscriber on 30 November 2018.

Net proceeds from the issue of new shares under first tranche after deducting related transaction costs was approximately HK$55.6 million, which was used for the general working capital of the Group.

On 5 March 2018, the Company entered into a convertible bond subscription agreement in the principal amount of HK$180,000,000 with Prism Energy International Pte. Ltd., a limited liability company incorporated under the laws of Republic of Singapore, pursuant to which the Company has agreed to issue convertible bond at the conversion price of HK$0.57 per conversion share (the "March 2018 Placement") to the investor. As at the date of the subscription agreement, the closing market price of the Company's shares as quoted on the Stock Exchange was HK$0.59 per share.

On 26 June 2018, the March 2018 Placement was completed. Net proceeds from the issue of convertible bond after deducting related transaction costs was HK$173.2 million, which shall be utilised as proposed for mergers and acquisition of natural gas projects and as the general working capital of the Group.

CAPITAL STRUCTURE AND FINANCIAL RESOURCES

The Group financed its operations with shareholders' equity, obligation under finance lease, convertible bonds, bank and other borrowings.

The Group maintained bank deposits, bank balances and cash amounting to HK$281.6 million as at 31 December 2018 (31 December 2017: HK$127.7 million), an increase of 120.5% from 31 December 2017.

The Group had total borrowings of HK$2,277.4 million as at 31 December 2018 (2017: HK$1,717.6 million). The Group's leverage ratio, which is total borrowings divided by the total assets was 27.7% (2017: 28.9%).

The Group's non-current assets increased to HK$6,338.9 million (31 December 2017: HK$4,784.0 million), primarily due to the increase in interests in associates of HK$1,611.3 million.

As at 31 December 2018, the Group's current assets of HK$1,889.4 million (31 December 2017: HK$1,155.6 million), mainly comprised of trade and other receivables of HK$1,154.9 million (31 December 2017: HK$703.3 million); cash and bank balances of HK$281.6 million (31 December 2017: HK$127.7 million); financial assets at fair value through profit or loss of HK$220.9 million (31 December 2017: HK$220.9 million); Contract assets of HK$93.0 million (31 December 2017: nil); inventory of HK$57.0 million (31 December 2017: HK$22.4 million); amounts due from joint ventures of HK$37.6 million (31 December 2017: HK$15.5 million); amounts due from associates of HK$30.7 million (31 December 2017: HK$18.9 million); promissory note receivable of HK$8.3 million (31 December 2017: HK$23.0 million) and prepaid lease payments of HK$5.4 million (31 December 2017: HK$4.7 million).

As at 31 December 2018, the Group's current liabilities of HK$1,789.4 million (31 December 2017: HK$1,123.6 million), mainly comprised of bank and other borrowings of HK$925.2 million (31 December 2017: HK$253.9 million); convertible bonds of HK$331.9 million (31 December 2017: HK$129.2 million); contract liabilities of HK$269.7 million (31 December 2017: nil); trade and other payables of HK$254.0 million (31 December 2017: HK$462.1 million); embedded derivatives at fair value through profit or loss of HK$6.0 million (31 December 2017: HK$23.2 million) and obligation under finance leases of HK$2.6 million (31 December 2017: HK$83.2 million).

As at 31 December 2018, the net current assets of the Group amounted to HK$100.0 million (31 December 2017: HK$32.0 million). The Group's current ratio (calculated on the basis of the Group's current assets over current liabilities) was 1.06 as at 31 December 2018 (31 December 2017: 1.03).

During the year ended 31 December 2018, the Group has not entered into any financial instrument for hedging purposes nor other hedging instruments to hedge against foreign exchange rate risks.

During the year ended 31 December 2018 and up to the date of this announcement, the Company has entered into separate agreements with the following independent third parties in respect of the issue of the corporate bonds by the Company:

Subscribers	**Issue Date**	**Principal Amount** *(HK$'000)*
One to two year(s) corporate bonds:		
Liu Chengkun 劉城昆	26 June 2018	10,000
Sang Lei 桑磊	19 September 2018	5,000
Fang Xiangzai 方香崽	30 November 2018	10,000
Shen Chen 沈忱	12 December 2018	10,000
Yan Huijuan 嚴惠娟	19 March 2019	5,300

EMPLOYEES' INFORMATION

Our employees are based in Hong Kong and the PRC. As at 31 December 2018, there were 944 (2017: 934) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical insurance, grants discretionary incentive bonuses and/or share options to eligible staff based on their performance and contributions to the Group.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Cheng Ming Kit ("Mr. Cheng"), aged 44, has been appointed as an executive Director and a member of the nomination committee of the Company since 7 May 2014, is the Co-chairman of the Board and was appointed as the chief executive officer in January 2018. Mr. Cheng is responsible for the strategic plans and future direction of the Group. He has been appointed as a member of the Ningxia Hui Autonomous Region CPPCC in January 2018. He holds a MBA degree from University of North Carolina, Charlotte and a bachelor degree in Commerce from the University of Alberta, Canada. Mr. Cheng has over 10 years of experience across mergers and acquisitions, capital markets, and corporate finance and has built a specific focus on investment and management in the energy business in Hong Kong, PRC and overseas. From 1995 to 2003, Mr. Cheng held various positions which were responsible for corporate finance and property development activities in PRC. From 2003 to 2008, Mr. Cheng was involved in the investment and operations in the gold mining industry in the PRC and had held senior positions in a mining company listed on the Toronto Stock Exchange Venture Board with mining and exploration operations in PRC. Mr. Cheng stepped down as a non-executive director of New Times Energy Corporation Limited (stock code: 0166) on 13 April 2018, which shares are listed on the SEHK.

Mr. Hung Tao ("Mr. Hung"), aged 54, has been appointed as an executive Director of the Company since 28 October 2013. He is a real estate appraiser of the China Institute of Real Estate Appraisers and Agents. Mr. Hung holds a bachelor degree in Biology Department of Science Faculty from the Chinese University of Hong Kong and a MBA degree of University of Northern Virginia, the United States. He has more than 22 years' experience involving in due diligence for China state-owned, private enterprises and joint ventures, for the purpose of initial public offerings, mergers and acquisitions, financing and etc. Before joining the Group, Mr. Hung was a senior director and head of China Valuation Department of Savills Valuation and Professional Services Limited from 2005 to 2013.

Mr. Li Weiqi ("Mr. Li"), aged 44, has been appointed as an executive director of the Company since 21 February 2017. He graduated from City Gas Engineering from Beijing Construction Engineering College (now Beijing University of Civil Engineering and Architecture) in 1998 and is a senior engineer. Mr. Li has over 19 years of experience in gas design, strategic planning, infrastructure investment and market development. Prior to joining the Company, Mr. Li served as the deputy manager of planning and development of Beijing Gas Group from 2011 to 2016. Mr. Li also held various positions of designer, consultant, business manager and deputy head of marketing in Beijing Gas and Heating Engineering Design Institute for 11 years.

NON-EXECUTIVE DIRECTOR

Mr. Zhi Xiaoye ("Mr. Zhi"), aged 51, a non-executive Director and Co-chairman of the Board of the Company. Mr. Zhi graduated from Beijing University of Technology with a master degree in Management Science and Engineering, possesses the title of senior engineer, and had worked at Tokyo Gas in Japan as researcher, at Beijing Gas as transmission branch manager, at Beijing Dingxin New Technology Company Limited（北京市鼎新新技術有限公司）as chairman and at Beijing Gas as executive deputy general manager. Mr. Zhi has plenty of experience in pipe gas business and corporate management. He has been the vice president of Beijing Enterprises Holdings Limited (a company listed on the Stock Exchange, stock code: 392) since July 2014 and a director and a general manager of Beijing Gas Group Company Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lim Siang Kai ("Mr. Lim"), aged 62, has been an independent non-executive Director since 26 March 2007. Prior to joining the Group, Mr. Lim held various positions in banks, financial services companies and a fund management company and has over 30 years of experience in the securities, private and investment banking and fund management industries. Mr. Lim is the chairman and independent non-executive director of ISDN Holdings Limited (a company listed in Singapore and also on the Hong Kong Stock Exchange under stock code 1656) and an independent director of Joyas International Holdings Limited (a company listed in Singapore). Mr. Lim has been the chairman and independent director of Samurai 2K Aerosol Limited (a company listed in Singapore) since 16 January 2017. He ceased to be an independent director of Natural Cool Holdings Limited (a company listed in Singapore) on 8 February 2017. Mr. Lim holds a bachelor of arts degree and a bachelor of social sciences (Honours) degree from the National University of Singapore, and a master of arts degree in economics from the University of Canterbury, New Zealand.

Mr. Wee Piew ("Mr. Wee"), aged 55, has been an independent non-executive Director of the Company since 26 March 2007. He is currently the non-executive chairman and independent director of Hosen Group Ltd as well as a non-executive independent director of Miyoshi Limited – both companies are listed in Singapore. Mr. Wee was previously the chief executive officer and executive director of three public listed companies in Singapore – PSL Holdings Ltd, HG Metal Manufacturing Ltd and Kian Ho Bearings Ltd. Prior to joining the corporate world, Mr. Wee held various positions in both local and foreign banks. He graduated from the National University of Singapore with a bachelor of Accountancy (Honours) in 1988 and was a Fellow of the Institute of Singapore Chartered Accountants (ISCA) from 2004 to 2017.

Mr. Ma Arthur On-hing ("Mr. Ma"), aged 50, has been an independent non-executive Director of the Company since 3 November 2014. Mr. Ma has over 20 years of experience in investment, fund management and financial management. He is currently an advisor to the blockchain and healthcare projects for a private investment group. Before that, he was Chief Operations Officer of Wealthy Global Financial Asset Management Limited. He was an executive director of KOALA Finance Group Limited (previously known as "Sunrise (China) Technology Group Limited") (stock code: 8226) until 30 June 2017 which shares are listed on the Growth Enterprise Market of the SEHK. He holds a bachelor's degree in Accounting and Finance from San Francisco State University, USA, a master's degree in Finance from Golden Gate University, USA, and a master's degree in Linguistics from the Chinese University of Hong Kong. He is a member of the American Institute of Certified Public Accountants.

Mr. Pang Siu Yin ("Mr. Pang"), aged 59, has been appointed as an independent non-executive director of the Company since 21 February 2017. He graduated from the University of Leeds with a bachelor of laws degree in 1984 and obtained a master of business administration degree from the University of Aston in 1985. Mr. Pang also obtained a postgraduate certificate in laws from the University of Hong Kong in 1988. Mr. Pang has been a practising solicitor of the high court of Hong Kong since 1990 and was also admitted as a solicitor in England and Wales in 1997. He is currently a partner of LCP, a firm of solicitors in Hong Kong, with his practice focusing on commercial and litigation. Mr. Pang was appointed as an independent non-executive director of Aurum Pacific (China) Group Limited (stock code: 8148) on 15 January 2018, which is listed on the Stock Exchange. Mr. Pang was an Independent non-executive director of Affluent Partners Holdings Limited (stock code: 1466) from November 2016 to September 2018 and was an independent non-executive director of Winto Group (Holdings) Limtied (stock code:8238) from July 2015 to March 2018.

SENIOR MANAGEMENT

Mr. Siew Chun Fai ("Mr. Siew"), aged 46, is the financial controller and company secretary of the Group. He holds a Bachelor degree in accounting from the University of Western Sydney, Australia and a Master of Business Administration degree from the University of South Australia, Australia. Mr. Siew is a member of the Hong Kong Institute of Certified Public Accountants, CPA Australia and the Chartered Accountants Australia and New Zealand. He has more than 20 years of experience in finance and accounting. Prior to joining the Group in August 2014, he had held various senior positions in certain listed and private companies in Hong Kong.

Mr. Jin Qiang ("Mr. Jin"), aged 49, is the deputy general manager of the Group. Mr. Jin obtained a Bachelor degree of City Gas Engineering from Beijing Construction Engineering College (now Beijing University of Civil Engineering and Architecture) in 1992 and a Master degree of Electronic and Communication Engineering from Beijing University of Technology in 2001. Mr. Jin has over 25 years of experience in gas design, operation scheduling and corporate safety. Prior to joining the Company, Mr. Jin was responsible for pipe network business of 北京市煤氣公司 from 1992 to 2000 and has served as the deputy manager of corporate safety department of Beijing Gas Group for more than 18 years.

Mr. Li Guangfeng ("Mr. Li"), aged 50, is the chief operation officer of the Group. He holds a Master degree from International Relations in Renmin University of China. Prior to joining the Group, Mr. Li worked at ENN Energy Holdings Limited (a company listed on the Stock Exchange under stock code 2688) for more than 10 years and held various positions in different subsidiaries of ENN group including general manager and vice president.

Mr. Che Fuli ("Mr. Che"), aged 42, is the vice president of the Group. He holds a Bachelor degree in City Gas Engineering from Shandong University of Science and Technology and a Master degree in Project Management from Zhejiang University of Technology. Mr. Che has 10 years' experience in natural gas business. Prior to joining the Group, he worked at Shandong Xineng Natural Gas Co., Ltd, ENN Energy Holdings Limited (a company listed on the Stock Exchange under stock code 2688), and Towngas China Company Limited (a company listed on the Stock Exchange under stock code 1083) and held various positions as deputy general manager, general manager and manager for sales management centre.

Mr. Tong Kam Wing ("Mr. Tong"), aged 57, is the business development director of the Group. Mr. Tong is experienced in energy trading business, including trading of refined oil, natural gas and other petro-chemical products. He has been focusing on finance and investment business for many years, and possesses vast experience in investment in Hong Kong and PRC.

Mr. Tseung Kit ("Mr. Tseung"), aged 71, is the operation director of the Group. He holds a Bachelor degree in Chemical Machinery from Jiangsu Institute of Chemical Technology, PRC. Mr. Tseung holds engineer qualification, with Security Management Certificate (hazardous chemicals) issued by the State Administration of Work Safety Bureau, PRC. He previously held various senior positions in The Hong Kong and China Gas Company Limited (HKSE: 0003). He has over 10 years of experience in establishment, acquisition and operation of natural gas business.

Mr. Xue Qiang ("Mr. Xue"), aged 39, is the assistant to the chairman of the board of Directors and the senior vice president of the Group. Mr. Xue graduated from China University of Political Science and Law with a Bachelor degree in Law in 2001 and obtained a legal practising certificate through the judicial qualification examination in 2002. Prior to joining the Group, Mr. Xue was a senior manager at Shanxi Minsheng Natural Gas Co., Ltd.（山西民生天然氣有限公司）and Yongji Minsheng Natural Gas Co., Ltd.（永濟市民生天然氣有限公司）responsible for market development. He has more than 10 years of experience in market development and utilization of natural gas business.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board of Directors (the "Board") of Beijing Gas Blue Sky Holdings Limited (the "Company") is committed to maintaining a high standard of corporate governance and has put in place self-regulatory corporate practices for compliance with the code provisions set out from time to time in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules"). The Group has adopted practices which meet the CG Code during the year.

The Company has complied with the code provisions set out in the CG Code throughout the year ended 31 December 2018 (the "Year") save for the deviations as disclosed below.

BOARD OF DIRECTORS

Board's Conduct of its Affairs

The Company is effectively headed by the Board to lead and control it. Apart from its statutory duties and responsibilities, the Board is collectively responsible for the success of the Company and its subsidiaries (the "Group") and it works with management to achieve this. The management is responsible for the management and administrative functions on running the day-to-day operations of the Group delegated by the Board and remains accountable to the Board. The Board oversees the affairs of the Group and focuses on strategies and policies, with particular attention paid to growth and financial performance. It delegates the formulation of business policies and day-to-day management to the executive Directors. The Board is responsible for:

1. providing entrepreneurial leadership, setting strategic goals, and ensuring that the necessary financial and human resources are in place for the Group to meet its objectives;

2. establishing a framework of prudent and effective control which enables risk to be assessed and managed;

3. reviewing management performance and direction of the Group's business strategies;

4. setting the Group's values and standards, and ensuring that obligations to shareholders and others are understood and met with the aim to maximize the shareholder value and long-term success of the Company;

5. ensuring the Group's compliance with laws, regulations, policies, directives, guidelines and its internal code of conduct;

6. ensuring the Group's compliance with good corporate governance practices; and

7. approving half-year and full-year results announcements.

The Company has adopted internal guidelines setting forth matters that require Board approval, examples of which include corporate plans and budgets, material acquisitions and disposals of assets, share issuances, dividends and other distributions to shareholders. All Directors objectively make decisions in the interests of the Company. The Board also delegates certain of its functions to the Audit, Nomination and Remuneration Committees and these functions are described separately under the various sections of each Committee below. Each Committee has its own defined terms of reference and operating procedures.

The Board scheduled to meet at least 4 times a year and as and when warranted by circumstances. Notices of not less than 14 days will be given for regular meetings to provide all Directors with an opportunity to attend and include matters in the agenda. The Company's bye-laws ("Bye-laws") allow a board meeting to be conducted by way of a telephone conference or by means of similar communication equipment whereby all persons participating in the meeting are able to hear each other. Draft agenda for the board meetings will be circulated to all Directors to enable them to include any other matters in the agenda. The meeting papers will be sent to all Directors at least 3 days in advance or within reasonable time prior to the board meetings. Minutes of Board meetings and Board committee meetings, drafted in sufficient details, were circulated to all Directors for their comment and records.

If any Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, that Director will abstain from voting at such Board meeting.

Directors' attendance at Board Meetings, Committee Meetings and General Meetings

The number of meetings held in the Year and the attendance of the Directors are set out in the table below:

	Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	General Meeting
Mr. Cheng Ming Kit	2/4	N/A	1/1	N/A	0/2
Mr. Sze Chun Lee[(1)]	0/4	N/A	N/A	N/A	0/2
Mr. Hung Tao	4/4	N/A	N/A	N/A	0/2
Mr. Tam Man Kin[(2)]	3/3	N/A	N/A	N/A	2/2
Mr. Li Weiqi	3/4	N/A	N/A	N/A	0/2
Mr. Zhi Xiaoye	1/4	N/A	N/A	N/A	0/2
Mr. Lim Siang Kai	4/4	2/2	1/1	1/1	2/2
Mr. Wee Piew	3/4	2/2	1/1	1/1	2/2
Mr. Ma Arthur On-hing	4/4	2/2	1/1	1/1	2/2
Mr. Pang Siu Yin	2/4	1/2	0/1	0/1	0/2

Notes:

(1) Resigned on 4 February 2019.

(2) Resigned on 13 October 2018.

Pursuant to code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings. Mr. Pang Siu Yin and Mr. Zhi Xiaoye did not attend general meetings held in the Year due to their other business commitments.

BOARD COMPOSITION AND GUIDANCE

The Board comprises:

Executive Directors
Mr. Cheng Ming Kit *(Co-chairman & chief executive officer)*
Mr. Sze Chun Lee *(Resigned on 4 February 2019)*
Mr. Hung Tao
Mr. Tam Man Kin *(Resigned on 13 October 2018)*
Mr. Li Weiqi

Non-executive Director
Mr. Zhi Xiaoye *(Co-chairman)*

Independent Non-executive Directors
Mr. Lim Siang Kai
Mr. Wee Piew
Mr. Ma Arthur On-hing
Mr. Pang Siu Yin

The biographical details of each of the Directors are set out on pages 19 to 20 under the section headed "Biographies of Directors and Senior Management" of this annual report.

When new Directors are appointed, the Company will provide a formal induction to the new Directors setting out their duties and obligations under the laws and the Listing Rules as well as a briefing by the Chairman, on the Group's business and operations, policies and governance practices to ensure that they have a proper understanding.

The Board, taking into account the nature and scope of the Group's operations and the impact of the number of Directors upon effectiveness in decision making, is of the view that it maintained a balanced composition of executive Directors and non-executive Directors which induce a strong independent element to the Board during the Year. The Board exercises judgment on corporate affairs objectively and independently, in particular, from management and no individual or small group of individuals dominates the Board's decision making.

The independent non-executive Directors consist of respected individuals from different backgrounds whose core competencies, qualifications, skills, age, culture and experience are extensive and complementary, and these competencies include accounting, finance and business management and legal knowledge who provide valuable advice to the Board. None of the independent non-executive Directors has any relationship with the Company, its related companies or its officers that could interfere, or be perceived to interfere with the exercise of their independent business judgment in the best interests of the Company.

The independent non-executive Directors constructively challenge and help develop proposals on strategy, review the performance of management in meeting agreed goals and objectives, and monitor the reporting of performance.

The composition of the Board and independence of each independent non-executive Director are and will be reviewed annually by the nomination committee. The Company has received from each of the independent non-executive Director an annual confirmation of his independence as required under Rule 3.13 of the Listing Rules and considers that all these Directors (including Mr. Lim Siang Kai and Mr. Wee Piew who have served as independent non-executive Directors of the Company for more than 9 years) are independent.

The non-executive Director, Mr. Zhi Xiaoye, was appointed with the initial term of three years up to 10 May 2019 and shall be automatically renewed annually thereafter and may be terminated by not less than three months' notice in writing served by either party. The independent non-executive Directors Mr. Lim Siang Kai and Mr. Wee Piew were appointed with the initial term of the appointment up to 31 May 2013 and 26 May 2012 respectively and the term of appointment shall be automatically renewed annually for such annual period thereafter, and may be terminated by not less than three months' notice in writing served by the Company. The independent non-executive Director Mr. Ma Arthur On-hing was appointed with initial term up to 2 November 2015 and the terms of appointment shall be automatically renewed annually thereafter, and may be terminated by not less than three months' notice in writing served by each party on the other. Mr. Pang Siu Yin was appointed with initial term of the appointment up to 20 February 2018 and shall be automatically renewed annually thereafter, and may be terminated by not less than three months' notice in writing served by each party on the other. All Directors will be subject to retirement by rotation and eligible for re-election at general meeting pursuant to the Bye-laws.

The Company has arranged appropriate directors' and officers' liabilities insurance coverage for the Directors and officers of the Company.

Role of Chairman and Chief Executive Officer

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Cheng Ming Kit, a co-chairman of the Company, was appointed as chief executive officer on 19 January 2018 and performed both the roles of chairman and chief executive officer of the Company which is deviated from code provision A.2.1 of the CG Code. The Company believes that Mr. Cheng Ming Kit serves as both the co-chairman and the chief executive officer of the Company is more efficient and effective for the Company to develop its long-term strategies and in the execution of its business plans. The responsibilities of the co-chairman and chief executive officer include:

1. leading the Board to ensure its effectiveness on all aspects of its role and setting its agenda;

2. ensuring that the Directors receive accurate, timely, clear and reliable information;

3. ensuring effective communication and preserving harmonious relations with the shareholders;

4. encouraging constructive relations between the Board and management and between the executive Directors and non-executive Directors;

5. facilitating the effective contribution of the non-executive Directors in particular;

6. promoting high standards of corporate governance and ensuring the Group's compliance with the CG Code;

7. acting in the best interest of the Company and the shareholders; and

8. day to day management.

PROFESSIONAL DEVELOPMENT

Every newly appointed Director will be given an induction training so as to ensure that he/she has appropriate understanding of the Group's business and of his/her duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements.

The Company also provides regular updates on the business development of the Group. The Directors are regularly briefed on the latest development regarding the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practices. In addition, all Directors were encouraged to participate in appropriate continuous professional development and refresh their knowledge and skills during the year for ensuring their contribution to the Board remains informed and relevant. Such professional development could be completed either by way of attending briefings, conference, courses, forum and seminars, teaching, self-reading and participated in business-related research which are relevant to the business or directors' duties. All Directors are requested to provide the Company with their respective training records pursuant to the CG Code.

During the Year, Directors were provided with reading materials on the relevant rules and regulatory updates.

Directors	Reading materials
Cheng Ming Kit	✓
Sze Chun Lee (Note 1)	✓
Hung Tao	✓
Tam Man Kin (Note 2)	✓
Li Weiqi	✓
Zhi Xiaoye	✓
Lim Siang Kai	✓
Wee Piew	✓
Ma Arthur On-hing	✓
Pang Siu Yin	✓

Notes:

(1) Resigned on 4 February 2019.

(2) Resigned on 13 October 2018.

BOARD COMMITTEES

Nomination Committee

The members of the Nomination Committee ("NC") are as follows:

Mr. Ma Arthur On-hing	*(Chairman)*
Mr. Wee Piew	*(Member)*
Mr. Lim Siang Kai	*(Member)*
Mr. Cheng Ming Kit	*(Member)*
Mr. Pang Siu Yin	*(Member)*

The NC is currently made up of four independent non-executive Directors and one executive Director and chaired by an independent non-executive Director. The NC is scheduled to meet at least once a year. The NC is regulated by a set of terms of reference and its role is to establish a formal and transparent process for:

1. reviewing the structure, size and composition (including the gender, age, skills, knowledge and experience) of the Board annually and making recommendations to the Board on all Board appointments;

2. the re-appointment of the Directors having regard to each Director's contribution and performance, including, if applicable, the independent non-executive Director;

3. assessing annually the independence of independent non-executive Directors; and

4. deciding whether or not a Director is able to carry out and has adequately carried out his duties as a director.

Nomination Policy

In the selection and nomination of new Directors, the NC shall consider the following criteria:

1. Character and integrity.

2. Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy.

3. Willing to devote adequate time to discharge duties as a Board member and other directorships and significant commitments.

4. Requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidates would be considered independent with reference to the independence guidelines set out in the Listing Rules.

5. Board diversity policy and any measurable objectives adopted by the NC for achieving diversity on the Board.

6. Such other perspectives appropriate to the Company's business.

Nomination Procedures

Appointment of New Director

1. The NC shall, upon receipt of the proposal on appointment of new director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the above criteria to determine whether such candidate is qualified for directorship.

2. If the process yields one or more desirable candidates, the NC shall rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).

3. The NC shall then recommend to appoint the appropriate candidate for directorship.

4. For any person that is nominated by a shareholder for election as a director at the general meeting of the Company, the NC shall evaluate such candidate based on the above criteria to determine whether such candidate is qualified for directorship and where appropriate, the NC and/or the Board shall make recommendation to shareholders in respect of the proposed election at the general meeting.

Re-election of Director at General Meeting

1. The NC shall review the overall contribution and service to the Company of the retiring director including his attendance of Board meetings and, where applicable, general meetings, and the level of participation and performance on the Board.

2. The NC shall also review and determine whether the retiring director continues to meet the above criteria.

3. The NC and/or the Board shall then make recommendation to shareholders in respect of the proposed re-election of director at the general meeting.

During the Year, no new Director was appointed.

Board Diversity

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Measurable Objectives

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Board's composition (including gender, age, and length of service) will be disclosed in the corporate governance report of the Company annually.

The NC has reviewed the board diversity policy to ensure its effectiveness and considered that the Group has achieved the objectives of the board diversity policy during the Year.

The NC chairman is not, and is not directly associated with, a substantial shareholder with interest of 10% or more in the voting rights of the Company.

The NC has established a formal appraisal process to assess the performance and effectiveness of the Board as a whole as well as to assess the contribution of individual Directors. The appraisal process focuses on a set of performance criteria which includes the evaluation of the Board composition and size, the Board process, the Board effectiveness and training, the provision of information to the Board, the Board standards of conduct and financial performance indicators. Such performance criteria are approved by the Board and they address how the Board has enhanced long term shareholders' value. The performance criteria do not change unless circumstances deem it necessary and a decision to change them would be justified by the Board.

The Chairman acts on the results of the performance evaluation, and where appropriate, proposes new members to be appointed to the Board or seek the resignation of Directors in consultation with the NC.

New Directors are appointed by way of a board resolution, after the NC has approved their nominations. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Pursuant to the Bye-laws, all Directors are required to offer themselves for re-election at least once every three years.

Although some of the independent non-executive Directors hold directorships in other companies which are not in the Group, the Board is of the view that such multiple board representations do not hinder them from carrying out their duties as Directors. These Directors would widen the experience of the Board and give it a broader perspective. As such, the NC has not established a maximum number of listed company board representations and/or other principal commitments which Directors may hold. The NC will regularly monitor the competing time commitments faced by these Directors serving on multiple boards.

Remuneration Committee

The Remuneration Committee ("RC") comprises the following Directors:

Mr. Ma Arthur On-hing	*(Chairman)*
Mr. Lim Siang Kai	*(Member)*
Mr. Wee Piew	*(Member)*
Mr. Pang Siu Yin	*(Member)*

The RC is made up of entirely independent non-executive Directors so as to minimise the risk of any potential conflict.

The RC is scheduled to meet at least once a year. During the Year, one meeting of the RC was held to review the Directors' fees and remuneration of the executive Directors. The RC is regulated by a set of terms of reference and has access to professional advice inside the Company and independent external sources, if necessary, in respect of the remuneration of all Directors and key executives.

The RC's main duties are:

1. to review and recommend to the Board for its decision a framework of remuneration and to determine and/or review the specific remuneration packages and terms of employment for each of the Directors and key executives, including those employees related to the executive Directors and controlling shareholders of the Group, if any, bearing in mind the need for a cautious comparison (in order to prevent the risk of an upward ratchet of remuneration levels with no corresponding improvements in performance) of pay and employment conditions of comparable companies in the same or similar industries, and to submit such recommendations for endorsement by the Board; and

2. to carry out its duties in the manner that it deemed expedient, subject always to any regulations or restrictions that may be imposed upon the RC by the Board from time to time.

As part of its review, the RC shall ensure that:

1. all aspects of remuneration, including Directors' fees, salaries, allowances, bonuses, options and benefits-in-kind are covered;

2. the remuneration packages of Directors and key executives are comparable to companies in same or similar industries and that for executive Directors, a significant proportion of such remuneration packages include performance-related elements;

3. the performance-related elements mentioned above are designed to align interests of executive Directors with those of shareholders, that they link rewards to corporate and individual performance and that there are appropriate and meaningful measures for the purpose of assessing such performance-related elements in respect of executive Directors;

4. the level of remuneration of non-executive Directors are appropriate to the level of contribution, taking into account factors such as effort and time spent, and responsibilities of the Directors, but also bearing in mind that non-executive Directors are not over-compensated to the extent that their independence may be compromised;

5. the level of remuneration is appropriate to attract, retain and motivate the Directors needed to run the Group successfully without such levels being more than is necessary for this purpose; and

6. the remuneration package of employees related to executive Directors and controlling shareholders of the Group are in line with the Group's staff remuneration guidelines and commensurate with their respective job scopes and levels of responsibilities.

The Company adopts a formal and transparent procedure for developing policy on key executive remuneration and for fixing remuneration packages of individual Directors. No Director is involved in deciding his own remuneration. In setting remuneration packages, the Company takes into account the emolument and employment conditions of comparable companies in the same or similar industries, as well as the Group's relative performance and the performance of individual Director or key executive.

Executive Directors do not receive directors' fees. The remuneration policy for executive Directors and key executives consists of two components, that is fixed cash and annual variable. The fixed component includes salary, pension fund contributions and other allowances. The variable component comprises a performance bonus which, for executive Directors, forms a significant proportion of their total remuneration package and is payable on the achievement of corporate and individual performance targets. The Company's share option scheme (the "Scheme") was put in place on 26 May 2011. No share options have been granted during 2018 pursuant to the Scheme.

The independent non-executive Directors are paid a basic fee. In determining the quantum of such fees, factors such as frequency of meetings, time spent and responsibilities of Directors are taken into account. Such fees are pro-rated if the Directors serve for less than one year. The Board seeks authorization from shareholders to fix the remuneration of Directors at the AGM.

The executive Directors are paid in accordance with their respective service agreements. These service agreements do not have onerous removal clauses. The executive Directors or the Company may terminate the service agreement by giving to the other party not less than two to six months' notice in writing, or in lieu of notice, payment of an amount equivalent to two to six months' salary based on the executive Director's last drawn salary. Details of the remuneration payable to the Directors and five highest paid individuals of the Group during the Year under review are set out in note 14 to the consolidated financial statements.

No emoluments were paid by the Group to any of the directors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office or are there any arrangement under which a director waived or agree to waive any remuneration for both years.

Audit Committee

The Audit Committee ("AC") comprises the following Directors:

Mr. Lim Siang Kai	*(Chairman)*
Mr. Wee Piew	*(Member)*
Mr. Ma Arthur On-hing	*(Member)*
Mr. Pang Siu Yin	*(Member)*

The AC comprises entirely independent non-executive Directors. The AC is scheduled to meet at least twice a year. The AC is regulated by a written set of terms of reference and performs the following functions:

1. reviewing significant financial reporting issues and judgments so as to ensure the integrity of the financial statements and any formal announcements relating to the Group's financial performance before their submission to the Board;

2. reviewing the audit plans of the Company's external and internal auditors and the results of their examination;

3. reviewing adequacy and effectiveness of the Group's risk management and internal controls, including financial, operational, compliance and information technology controls via reviews carried out by the internal/external auditors;

4. ensuring co-ordination between the internal and external auditors;

5. reviewing the adequacy and effectiveness of the Group's internal audit function;

6. nominating or recommending the nomination of the external auditors for appointment, re-appointment or removal;

7. approving the remuneration and terms of engagement of the external auditors;

8. reviewing the independence and objectivity of the external auditors at least annually; and

9. reviewing interested person transactions.

In addition to the above, the AC has explicit authority to investigate any matter within its terms of reference, full access to and co-operation by management and full discretion to invite any Director or key executive to attend its meetings, and reasonable resources to enable it to discharge its functions properly.

The Board considers that the members of the AC are appropriately qualified to discharge their responsibilities. Three members have accounting or related financial management expertise and experience.

The external and internal auditors have full access to the AC. The Company has put in place a whistle-blowing framework where employees of the Group may raise concerns about possible improprieties in matters of financial reporting, risk management and internal control or other matters in confidence to the AC. This arrangement facilitates independent investigation of such matters for appropriate resolution. The AC has expressed power to commence investigations into any matters, which has or is likely to have material impact on the Group's operating results or financial results.

For the Year, the AC met twice with the external auditors. The AC has undertaken a review of all non-audit services provided by the external auditors for the Year, has kept the nature and extent of such services under review, has balanced the maintenance of objectivity and value for money and is satisfied that the provision of such services has not, in the AC's opinion, affected the independence of the external auditors.

The work completed by the AC during the Year and in the course of review of the Group's half-yearly and annual results included consideration of the following matters:

- the integrity and accuracy of the 2018 annual financial statements to ensure that the information presents a true and balanced assessment of the financial position of the Group;
- the Group's compliance with statutory and regulatory requirements;
- developments in accounting standards and the effect on the Group;
- the Group's financial and accounting policies and practices;
- the Group's financial controls, the risk management and internal control systems to ensure that management has discharged its duty to have an effective risk management and internal control systems;
- monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard, and discussing with the external auditors the nature and scope of the audit and reporting obligations;
- the audit fees payable to external auditors and the scope and timetable of the audit for the Year;
- discussion with auditor for financial results and financial position of the Group for the Year; and
- recommendations to the Board, for the approval by shareholders, for the reappointment of the external auditors.

Auditors' Remuneration

For the year ended 31 December 2018, audit services and non-audit services provided to the Group and the amounts of remuneration paid and payable in connection therewith are as follows:

	HK$'000
Annual audit services provided by Deloitte Touche Tohmatsu	3,000
Non-audit services provided by Deloitte Touche Tohmatsu	683
Non-audit services provided by other auditors	1,935
	5,618

Corporate Governance Functions

The Board is responsible for performing the corporate governance functions, which shall include, but not limited to, the following:

- to develop and review the Company's corporate governance policies and practices;
- to review and monitor the training and continuous professional development of the Directors and senior management;
- to review and monitor the Company's policies and practices in relation to compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct applicable to the Directors and employees of the Group; and
- to review the Company's compliance with the CG Code and the disclosure in the corporate governance report of the Company as required under the Listing Rules.

Access to Information

In order to ensure that the Board is able to fulfill its responsibilities, management provides the Board members with management accounts and all relevant information which present a balanced and understandable assessment of the Group's performance, position and prospects on a regular basis. In addition, all relevant information on material events and transactions are circulated to Directors as and when they arise. Whenever necessary, senior management staff will be invited to attend the Board meetings and Board committee meetings to answer queries and provide detailed insights into their areas of operations. The Board, either individually or as a group, also has separate and independent access to the senior management staff.

The Board, either individually or as a group, in the discharge of its duties, has access to independent professional advice, if necessary, at the Company's expense.

The Board members have separate and independent access to the company secretary. Under the direction of the Chairman, the company secretary ensures good information flow within the Board and its committees and between management and non-executive Directors, as well as facilitates orientation and assists with professional development as required. The company secretary attends all Board meetings and committees meetings and advises the Board on all governance matters and assists the Board to ensure that the Board procedures and relevant rules and regulations are complied with. The appointment and removal of the company secretary is a matter for the Board as a whole.

The minutes of board meetings recorded the matters considered by the Board in details. The minutes of all board meetings and all other committee meetings are kept by the company secretary and are available for inspection by any Director upon request.

ACCOUNTABILITY AND AUDIT

Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for the preparation of the financial statements which give a true and fair view of the state of affairs of the Group. The financial statements for the Year set out on pages 94 to 235 of this report were prepared on a going concern basis and were prepared in accordance with all relevant statutory requirements and applicable accounting standards.

The Board has received assurance from the Chairman of the Board and financial controller that the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finance.

Risk Management and Internal Control

Risk management and internal control are essential parts of corporate governance. The Board acknowledges that it is its responsibility to ensure that appropriate and effective risk management and internal control systems are established and maintained, and to oversee the systems on an ongoing basis and to review the effectiveness of the risk management and internal control systems at least annually, while management ensures sufficient and effective operational controls over the key business processes are properly implemented with regular reviews and updates.

The Board is responsible for evaluating and determining the nature and extent of risks it is willing to take in achieving its strategic objectives and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems.

The Board has put in place risk management and internal control systems which enable the Group to respond appropriately to significant business, operational, financial, compliance and other risks. This includes safeguarding assets from inappropriate use or from loss and fraud, and ensuring that liabilities are identified and managed.

To ensure that all major risks are properly identified, evaluated and monitored for achieving a sound and effective risk management system, risk owners across the Group are required to report the risk review exercises regularly. They need to report the effectiveness of the risk management system and details of the key risks including the risk description, change of risk level, current risk level and the corresponding key risk control regularly.

The Company has established its risk management guidelines and has delegated certain finance personnel to carry out the internal audit personnel reports directly to the chief financial officer and/or financial controller and ensure the risk management and internal control systems are in place and function properly.

The Company has engaged Ernst & Young Advisory Services Limited to assess the effectiveness of the Group's risk management and internal control systems which covered all material controls, including financial, operational and compliance controls as well as risk management functions during the Year. The Board and the Audit Committee acknowledge that they have reviewed the effectiveness of the risk management and internal control systems of the Group for the Year.

The risk management and internal control process includes:

1. To determine the scope, identify risks and compile risk lists;

2. To conduct the risk assessment on the impact on operating efficiency, sustainable development capability and creditworthiness and prioritise them according to the generally accepted risk management framework and based on the likelihood of various potential risks and the concern of the Group's management along with potential financial loss resulting from risks;

3. To identify risk management measures of significant risks, conduct internal control assessment on the design and implementation of risk management measures, formulate measures against deficiencies for improvement;

4. To regularly review and summarise the risk management and internal control system of the Group to unleash and continuously enhance the effectiveness of risk management through carrying out internal control assessment on significant risks and implementing rectification measures by the management;

5. To prepare risk management system in connection with the risk management and internal control work, define the responsibilities of the management, the Board and the AC in the risk management work, and continuously monitor the risk management and internal control system according to the risk management manual;

6. To report the results of regular review and assessment on the risk management and internal control system during the reporting period, significant risk factors and the corresponding measures to the AC by the management.

However, the 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 but not absolute assurance against material misstatement or loss.

The significant risks set out below are those that could result in the Group's businesses, financial condition and results of operations differing materially from expected or historical results. Such factors are by no means exhaustive or comprehensive, and there may be other risks in addition to those listed below which may not be material now but could turn out to be material in the future.

Changes in government policies and legislations

Any changes in the government policies and legislations such as pricing modification, licensing requirements and tax regulations may adversely and materially affect the Group's financial condition and results of operations. There can be no assurance that the future conditions are no less favourable than the prevailing environment.

Production safety

Any errors appear in operation process of refuelling station, construction of natural gas connection pipelines and supply of piped gas may adversely and materially affect the stability of gas supply to customers or may cause significant personal injury or death.

Financing environment stability

Additional capital may be required to fund our capital expenditure associated with our expansion plan such as proposed acquisition and construction of refuelling stations as well as the expansion of existing business coverage within our existing market. There can be no assurance that we will be able to obtain adequate financing on acceptable terms, or at all.

Areas of improvement have been identified and appropriate measures have been put in place to manage the risks. The management will perform ongoing and periodic monitoring of the risks and ensure that appropriate responses and controls are in place.

Inside information

The Company recognises its obligations under the Securities and Futures Ordinance and the Listing Rules, pursuant to which the Company is required to announce the inside information immediately after such information comes to its attention. The Company conducts its affairs with reference to the Guidelines on Disclosure of Inside Information published by the Securities and Futures Commission and regularly reminds the directors and employees of the compliance with Listing Rules and other regulatory requirements for the handling and dissemination of inside information.

DEALINGS IN SECURITIES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. In particular, the Directors and officers of the Company may not deal in the Company's securities 30 days and 60 days before the announcements of the Company's half year and full year financial results respectively.

The Company has confirmed with the Directors that they had complied with the required standard as set out in the CG Code and the Model Code throughout the year ended 31 December 2018.

INTERESTED PERSON TRANSACTIONS

The Company has established procedures to ensure that all transactions with interested persons are reported in a timely manner to the AC and that the transactions are carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders.

Details of interested person and related party transactions of the Group for the year ended 31 December 2018 which fall under Chapter 14A of the Listing Rules are set out in note 46 to the consolidated financial statements.

COMPANY SECRETARY

Mr. Siew Chun Fai ("Mr. Siew") is an employee of the Company and has day-to-day knowledge of the Company's affairs. He was appointed as the company secretary of the Company on 1 August 2015. The biography of Mr. Siew is set out in the section headed "Biographies of Directors and Senior Management". Mr. Siew has taken no less than 15 hours of relevant professional training during the Year.

COMMUNICATION WITH SHAREHOLDERS

The Company recognises the need to communicate regularly, effectively, timely and fairly with its shareholders on all material matters affecting the Group. Information would be communicated to shareholders mainly through the Company's corporate communications including interim and annual reports, announcements and circulars, all of which are released through SEHK's website at www.hkexnews.hk, and the Company's website at www.bgbluesky.com. The Company may also hold media meetings on significant events.

All shareholders of the Company receive the annual report and notice of the upcoming AGM. At the AGMs, shareholders are encouraged to participate and are given the opportunity to voice their views and ask questions regarding the Group and its businesses. Separate resolutions on each substantially separate issue are proposed at general meetings for approval. "Bundling" of resolutions are kept to a minimum and are done only where the resolutions are interdependent so as to form one significant proposal and only where there are reasons and material implications involved. All resolutions are also put to vote by poll. The external auditors and legal advisors (if necessary) are present to assist the Directors in addressing any queries by shareholders. In addition, the chairman of the AC, NC and RC are present to address questions at the AGM. The Directors will also engage in investor relations activities to allow the Company to communicate with shareholders as and when it deems necessary and appropriate.

Apart from the AGMs, the Company also regularly conveys pertinent information, gathers views or inputs, and addresses shareholders' concerns. In disclosing information, the Company strives to be as descriptive, detailed and forthcoming as possible.

The Company records minutes of all AGMs and questions and comments from shareholders together with the respective responses are also recorded.

Under code provision E.1.2, the chairman of the Board should attend the annual general meeting. Mr. Cheng Ming Kit and Mr. Zhi Xiaoye, the co-chairmen of the Board, were unable to attend the annual general meeting of the Company held on 8 June 2018 due to their other business commitments.

SHAREHOLDERS' RIGHTS

(i) Shareholders to convene a Special General Meeting

Pursuant to Bye-law 57 of the Bye-laws of the Company, members 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 Secretary of the Company, to require a special 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 (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so.

(ii) Procedures for Nomination of a Director

A notice in writing of the intention to propose a person for election as a director of the Company and a notice in writing by that person of his willingness to be elected together with his/her particulars (such as qualifications and experience) and information as required to be disclosed under Rule 13.51(2) of the Rules Governing the Listing of Securities on the SEHK shall be lodged at the Company's head office and principal place of business. The period for lodgment of the notices required will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting, and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

(iii) Procedures for directing Shareholders' enquires to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing to the principal place of business of the Company in Hong Kong or by email for the attention of the company secretary or the Investor Relations of the Company.

CONSTITUTIONAL DOCUMENTS

There is no change in the Company's constitutional documents during the Year.

The Bye-laws are available through SEHK's website at www.hkexnews.hk and the Company's website at www.bgbluesky.com.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This report is the third Environmental, Social and Governance (the "ESG") Report published by Beijing Gas Blue Sky Holdings Limited (the "Company"), which allows every stakeholder to better understand the progress and direction of sustainable development of the Company and its subsidiaries (collectively, "Beijing Gas Blue Sky" or the "Group") through reporting the Group's policies, measures and performances in the environmental, social and governance aspects. This report is prepared in both Chinese and English.

Scope of Report

Beijing Gas Blue Sky is an integrated natural gas distributor and operator in Mainland China. This report focuses on its operations in the downstream segment of the natural gas industry chain, covering operations of the business segments of natural gas refuelling stations, trading and distribution of natural gas, city gas, pipeline construction fee, value-added service and others for the period from 1 January 2018 to 31 December 2018 (the "Year").

Compared with the Environmental, Social and Governance Report for 2017, apart from the Group's natural gas refuelling stations of Haikou Xinyuan project in Hainan Province ("Hainan Xinyuan") and office of the Anhui Power Energy in Anhui Province ("Anhui Power Energy"), the scope of this report is expanded to cover the environmental and social performance of the Jilin Songyuan natural gas project in Jilin Province ("Jilin Songyuan").

The report currently does not cover certain operations of the Group in Mainland China[1], however, it is the Group's plan to gradually expand the scope of this report.

Reporting Standards

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "Guide") as set out in the Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and adopts four reporting principles as set out in the Guide, including Materiality, Quantitative, Balance and Consistency, as the basis of preparation of this report. To give stakeholders a more comprehensive picture of the Group's performance in environmental, social and governance, this report not only discloses the environmental key performance indicators in compliance with the "comply or explain" provisions, but also reports certain key social performance indicators in the "Recommended Disclosures" section of the Guide.

In future, Beijing Gas Blue Sky intends to make reference to the Global Reporting Initiative (GRI) for the preparation of its ESG report to better respond to the expectations of investors and other stakeholders regarding the Group's ESG information disclosure.

Data Preparation

All information referred to in this report is derived from official documents and statistics of the Group. The report was reviewed and approved by the Board on 28 March 2019.

Feedbacks

The opinions and advices from stakeholders would help the Group to establish a more comprehensive and sound sustainability strategy. If you are in doubt or have any recommendations in regard to the content or reporting format of this report, you are welcome to contact us through ir@bgbluesky.com.

[1] This report does not cover the operations of the Group in the provinces of Liaoning, Shaanxi, Shanxi, Shandong, Zhejiang, Hubei, Guizhou and Sichuan.

MESSAGE FROM THE CHAIRMAN

To mitigate the impact of climate change, the international community has taken a proactive stance to promote the development of clean energies, aiming at gradually phasing out fossil fuels. As a global leader in tackling climate change, China has identified low-carbon energy system as an essential direction of its energy strategy, and promised that by 2020, the consumption of non-fossil energy and natural gas, as a proportion of primary energy, should reach 15% and 10%, respectively. Compared with other traditional fossil fuels, natural gas produces less CO2 and is more efficient and safer. Beijing Gas Blue Sky will keep abreast of any market and policy changes, actively expand the development and layout of the natural gas business, to reduce national carbon emissions and air pollution issues.

How Beijing Gas Blue Sky establishes its long-term sustainable development and comprehensive risk management plan is closely related to the understanding and expectation of the society on different environmental and social issues. Thus, the Group has always been valuing the communication with stakeholders, and has engaged a sustainable development consultant to conduct a stakeholder questionnaire survey to identify significant topics through substantive analysis during the Year. Discussion about these topics will form a key part of this report. By understanding the needs and expectation of stakeholders, we can further identify the risks and opportunities associated with sustainable development and adjust its policies accordingly to achieve sustainable development.

We understand the concerns of stakeholders on the potential safety impact of the natural gas business, and ensure safe operation through the establishment of a safety committee, implementation of safety management responsibility systems, as well as standardizing systems for investigation of potential hazards and emergency management. Internally, we have always been strengthening employee's wellbeing and providing a desirable working environment, and committed to growing together with our employees. For environmental protection, the Group is committed to energy-conservation and improvement of energy efficiency, and actively assists the society in emission reduction and transformation to a low-carbon economy. We hope to create long-term value shared with stakeholders through sustainable development practices that safeguarding operational safety, supporting employees' development and promoting green development.

In future, for the purpose of raising efficiency and governance level of its sustainable development work, the Group will consider establishing a sustainable development governance structure comprising the members of the Board to formulate further strategies regarding each of the sustainability topics. In addition, we also plan to develop a long-term stakeholder communication strategy with reference to the standards of international institutions to strengthen communication with stakeholders. The Group will continuously seek for ways to drive its sustainable development, and work with stakeholders to build a better environment.

Beijing Gas Blue Sky Holdings Limited

Co-chairman	*Co-chairman and CEO*
Zhi Xiaoye	**Cheng Ming Kit**

28 March 2019

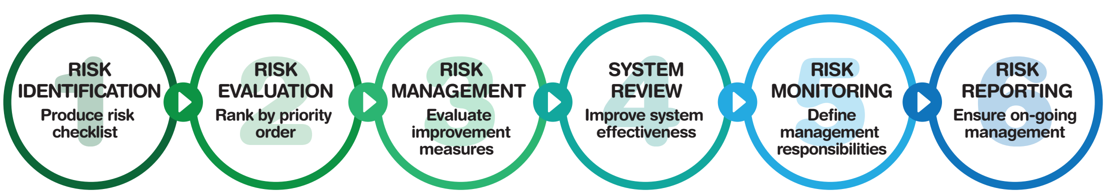
SUSTAINABLE DEVELOPMENT GOVERNANCE

The Board of the Company is committed to maintaining high-level corporate governance, and believes that good corporate governance practices could effectively guide Beijing Gas Blue Sky to establish and achieve long-term strategy and goals. The Board currently comprises eight directors shouldering the responsibilities for the success of the Group, including steering the Company in grasping opportunities and coping with risks arising from sustainable development.

The content of sustainable development covers various areas of the Group's operations. To effectively incorporate the sustainability concept into our operations, the Board considered establishing an Environmental, Social and Governance committee with terms of reference in due course, to define its limits of powers, work scope and resources. Members of the committee will comprise the senior management from each core business, which could facilitate the further formulation and implementation of the Group's strategies, goals and practices in labour management, product responsibility, environmental protection and community investment.

Risk Management

As far as Beijing Gas Blue Sky is concerned, risk management is an essential part of daily management process and good corporate governance. The Group has established risk management and internal control systems, while the Board is responsible for overseeing the systems on an ongoing basis and reviewing their effectiveness. The Board is responsible for evaluating and determining the nature and extent of risks it is willing to take and reviewing related measures for risk management and internal control. The management regularly reviews and updates operational control of key business processes to ensure their sufficient and effective implementation. In addition, risk owners across the Group are required to report the risk review exercises regularly, including the risk description, change of risk, risk level and the corresponding risk control measures.



Through effective risk management and internal control systems, the Board identifies the material risks of the Group, including the ESG-related risks such as product safety and has provided countermeasures. Beijing Gas Blue Sky is aware that its existing risk management and internal control systems do not fully cover sustainable development topics. In the future, the Group will cover the potential environmental and social topics, so that it could timely identify risks and work out countermeasures.

COMMUNICATION WITH STAKEHOLDERS

Encouraging Stakeholder Engagement

Beijing Gas Blue Sky expects to listen to the voices of different stakeholders in order to respond to their opinions and concerns.

The Group's stakeholders refer to the groups and individuals with significant influence on or affected by its business, including but not limited to its employees, shareholders, suppliers, customers, regulators and community groups. The Group communicates with major stakeholders through various channels to well understand their views and expectations, with a view to keeping improvement of the Group's operation.

Employees

Employees could express suggestions in improving business processes, project management and engineering technologies, or work difficulties, through performance appraisal, our journal "Blue Sky", various seminars, forums, team sharing sessions and other platforms.

Suppliers

Pay an on-site visit to suppliers' plants to conduct an investigation, spot check and evaluation, including their environmental and social performance, such as pollutants control, occupational disease hazard prevention and product specifications.

Regulators

Participate in improvement programs and new technology application plans organized by the industry and local government regulators.

Shareholders

Encourage shareholders to take part in our annual general meeting, and collect and respond to shareholders' opinions.

Customers

Timely respond to the customer complaints lodged via phone calls and the website, and make a return visit and satisfaction survey on a regular basis.

Community

To serve the community and give back to society through volunteer activities.

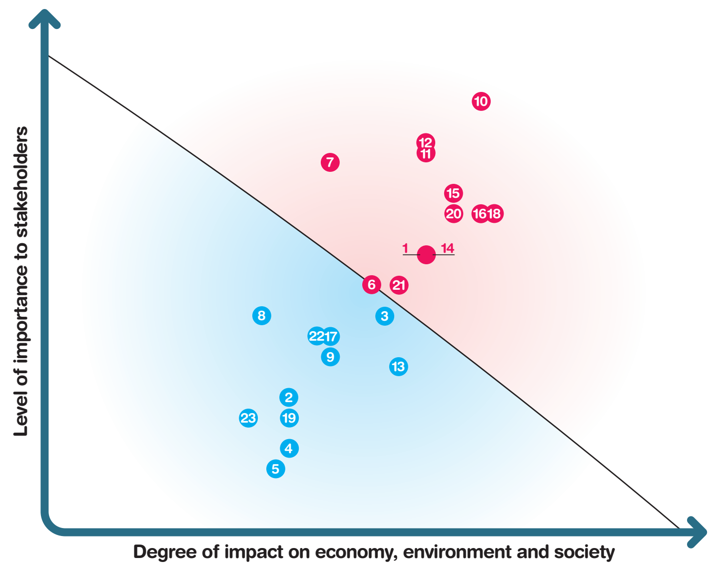
Identification of Substantive Topics

In order to formulate sustainable development strategies and approaches by understanding the areas of stakeholder's concerns and identifying the topics, which are or will be critical to its business, Beijing Gas Blue Sky re-engaged the independent sustainability consultant to conduct stakeholder communication in the Year.

The Group's communication with stakeholders regarding ESG issues mainly involves the following steps:

Steps	Actions
Identifying the relevant topics	With the assistance of the consultant, Beijing Gas Blue Sky reviewed the ESG topics relevant to the Group to ensure the topics could sufficiently reflect the nature of its business and the results of historical stakeholder communications. The Group identified 23 topics, covering four major scopes, namely "environmental protection", "employment and labour standards", "operating practices" and "community investment", which served as the basis for the communication with internal and external stakeholders.
Collecting stakeholder's feedbacks	The Group issued questionnaires at an online platform to request stakeholders to grade the sustainability topics according to the level of importance of such topics to them and their environmental and social impact. The Group received 83 valid feedbacks in total, including 64 from internal stakeholders and 19 from external stakeholders.
Identifying significant topics	Based on the results of the questionnaire survey, the consultant set up the substantive matrix. As shown in the figure below, the 12 topics in the upper right area above the black line are those most critical to the Group.
Verification	The substantive matrix was reviewed by the management of Beijing Gas Blue Sky. Such 12 topics were confirmed as the substantive topics of the Group for the Year, on which the report will focus.

SUBSTANTIVE MATRIX OF BEIJING GAS BLUE SKY IN 2018



No.	Substantive topics (in the order of materiality from high to low)	Relevant sections
10	Employee health and safety	Provide safe and quality service
12	Labour standards	Build a desirable working environment
11	Training and development	Build a desirable working environment
18	Protection of customer privacy	Provide safe and quality service
16	Quality management	Provide safe and quality service
15	Customer and community safety	Provide safe and quality service
20	Anti-corruption	Follow a cooperative and win-win business philosophy
7	Employment management systems	Build a desirable working environment
1	Use of energy and efficiency	Build a green future
14	Evaluate and manage the actual and potential negative impact of supply chain on the society	Follow a cooperative and win-win business philosophy
21	Prevention of anti-competitive behaviour	Follow a cooperative and win-win business philosophy
6	The environment and natural resources	Build a green future

Beijing Gas Blue Sky has been carrying out communication with stakeholders since 2016 and gradually expanding communication with external stakeholders. Looking forward, the Group plans to adopt a long-term stakeholder communication strategy by referencing to an internationally recognized framework, AA1000 Stakeholder Engagement Standard, and identify important groups of stakeholders to collect their opinions on the Group's ESG work and performance periodically and respond to them as and when appropriate.

PROVIDE SAFE AND QUALITY SERVICE

As an energy enterprise, it is an important responsibility of Beijing Gas Blue Sky to ensure safe and quality energy supply. In this regard, the Group keeps improving its management systems optimizing its policies and practices, with a view to create a safe operating environment and provide stable and quality products and services.

Safe Operation

In an effort to improve its safety management systems, Beijing Gas Blue Sky established the Production Safety Committee this year, to be responsible for formulating and reviewing the Group's safety policies, goals and management measures. Each of our project companies also established their respective project safety committee to work together with the Group's Production Safety Committee.

Safety Management Systems	Safety Protection Measures	Safety Accident Management

Safety Management Systems

The Group has established and implemented a series of safety management systems, including the Production Safety Responsibility System, Gas Refuelling/Gasification Stations Safety Management Guidelines as well as Emergency Management Guidelines. Under the leadership of the Production Safety Committee, our safety work process is divided to be the responsibilities of each functional department, hence realizing a level-by-level administration and making everyone responsible. The division of responsibility could nail down the management duties of department at different levels and facilitate the implementation of safety management of different importance.

For instance, the Group's Gas Refuelling/Gasification Stations Safety Management Guidelines provides clear guidance to the roles and duties of the Production Safety Committee, project companies and functional departments, the chief executive officer, regional heads, project managers and employees in maintaining the safety of refuelling/gasification stations. In addition, the Group standardizes procedures for the management of hazardous operations, investigates and treats the potential accidents, and arrange the study of safety laws and regulations. In case of a safety accident, the Safety Inspection Department will be responsible for discovering the causes of accident and work injury verification, and proposing improvement measures to prevent reoccurrence of similar accidents.

Furthermore, the Group has included the production safety work as a component of performance assessment, to urge the implementation of the Production Safety Responsibility System.

Safety Protection Measures

i. Equipment management

The Group's operation involves a large number of infrastructures. In respect of equipment management, Beijing Gas Blue Sky has formulated the Equipment Management Rules in accordance with national standards such as the "Safety Technical Specification for Operation, Maintenance and Rush-repair of City Gas Facilities" and the "Regulations on Periodical Inspection of Pressure Pipelines", to set out the management responsibilities of different departments and provide clear-cut guidance to employees in respect of the whole management process covering equipment procurement, installation, use, inspection, repair and retrofit, which enhances the safety and reliability of equipments in operation.

With regard to the key equipments such as pressure vessels, high-pressure pipelines and valve chambers, apart from daily inspection, the Group requires employees to conduct annual inspection on their safety conditions as well as the running conditions of the equipments and the safety accessories. With regard to the station equipments, the Group requires daily, weekly, monthly and quarterly inspection to discover the potential hazards in a timely manner and avoid any harmful impact on the safety and environment in the neighbour. The department using the equipment at the project company is responsible for preparing and implementing the inspection plan, dealing with any problems discovered and reporting the same to the production department.

ii. Safety inspection

In an effort to enforce the principle of "safety first, prevention as priority", apart from the safety inspection and management for equipments, the Group's safety management department also conducts regular check against any potential risks in many aspects such as management, plant construction, safety devices and working environment, record the check results and monitor the rectifications. Jilin Songyuan carried out daily inspection on gas pipelines and designed a seasonal inspection plan to identify the risk factors specific to different seasons after considering the local seasonality. For instance, the inspection will focus on the prevention of flood, thunder and electric shock in rainy summer, while it will focus on prevention of fire, explosion and freeze in cold and dry winter.

According to our Production Safety Responsibility System, where a potential hazard is discovered, "the rectification shall be made by the working shift, or if unable, the immediately superior department, or if unable, the department at the Company level, therefore ensuring the timely enforcement of safety countermeasures. In case of a significant potential hazard, the Group also provides explicit process guidance for the reporting.

iii. Safety training

Beijing Gas Blue Sky well understands the importance of employee's safe operation and safety awareness to the safety of its natural gas operations. To strengthen the internal safety culture within the Group, Beijing Gas Blue Sky provides comprehensive training to employees after taking into account the characteristics of the natural gas industry, covering safety rules, laws and regulations, the standardized use of equipments, and safety technical knowledge such as anti-fire, anti-explosion and anti-poisoning. After completing the training, an employee is required to pass the relevant assessment to ensure he/she has fully mastered the safety technical knowledge for the post, avoid any accident due to operation error and minimize the risk of personal injury. The Group also provides the dedicated safety staff with special training on safety management techniques.

In addition, all new employees are required to receive "three-level" safety education and pass the examination before they could take up their posts.

Level 1 safety education
(not less than 48 hours)

- Production safety rules, regulations, standards and laws promulgated by the government
- Introduction of the Group's characteristics
- Basic requirements of production safety
- Anti-fire, anti-explosion and anti-poisoning knowledge and general first-aid knowledge

Level 2 safety education
(not less than 36 hours)

- Characteristics of the production and construction of his/her department
- Safety technical specifications and production saftey rules of the department
- Correct use of fire equipments frequently used by the department

Level 3 safety education
(not less than 24 hours)

- Post safety procedures
- Post accident cases
- Measures to prevent disaster accidents
- Safety fixtures and instruments
- How to use personal protective articles

iv. Safety education

To protect the public safety, Beijing Gas Blue Sky regularly arranges professional personnel to conduct an on-site safety inspection on the pipelines and relevant equipments of its users, including household users, industrial and commercial users and service sector users, and record the inspection results. The Group completed a total of 114,674 safety inspections for residential households users during the Year.

The Group also publicize the general knowledge about safety to its users through media, internet and daily papers, with an aim to reduce the risk of safety accidents due to their improper operation.

The gas leakage ratio not only affects the economic benefits of gas companies, but also may threaten their safe operation. In 2017, Beijing Gas Blue Sky established a management team to coordinate the control of pipe network leakage, improve measurement accuracy, strengthen the gas meter record, prevent gas stealing and leakage behaviors and so on.

During the Year, in order to strengthen the management of gas leakage ratio, and further protect the economic and security interests of both users and the Group, the Group adjusted the team structure with the executive director or vice president of the Group as the team leader, and incorporated the business leaders of each project company into the organizational structure to improve the execution of the work. Meanwhile, the Group required each project company to establish gas leakage control plan and objective, stipulating the responsibilities of each responsible person, the time of completing the task, and management methods of performance appraisal, to ensure the timely and high-quality implementation of various measures, and achieve our goal of reducing the gas leakage ratio to 4% eventually.

Safety Accident Management

In strict compliance with its Emergency Management Guidelines, Beijing Gas Blue Sky has improved its contingency plan and formulated detailed emergency handling process against the possible emergencies during its production and operation such as gas leakage, fire disaster, explosion, intoxication and suffocation. The Group has also set up the Emergency Command Office to centrally command and coordinate the warning of, responding to, and handling of emergencies. In case of emergencies, the Emergency Command Office will properly record the accidents, evaluate the handling process and propose future improvement plans.

In daily operation, each project company actively conducts emergency publicity, education, training, drill and evaluation to enhance the employee's capability in handling emergencies.

Topic: Strengthen Safety Management of Pipeline Network

The gas business in Jilin Songyuan relies on a network of gas pipelines to deliver natural gas to users. In order to ensure the safety of gas supply to customers and the community, Jilin Songyuan has taken strict safety measures to strengthen the safe construction, monitoring and warning, inspection and maintenance as well as emergency rescue of the pipe network.

SAFETY CONSTRUCTION

- prepare the Guide for Safety Operation of Gas Engineering Construction to prescribe the safety requirements for the contractors' construction in using electricity, fire and welding, as well as high and lifting work
- each construction unit is required to conduct assessment according to the specific construction environment, and formulate corresponding safety measures, accident reporting system as well as the emergency response plan
- each engineering and safety department personnel and contractor management personnel is required to conduct weekly safety inspections, to rectify safety hazards timely and ensure construction safety

SAFETY TECHNOLOGIES

- introduce a smart pipeline network technology system to strengthen real-time monitoring and alarm reminders on pipeline network operations. When the system perceives gas leakage and pipeline vibration, the system automatically sends text message and voice alarms to the responsible person of the pipeline network, to inform the relevant abnormal situation, so that the responsible person can make timely response.

SAFETY INSPECTIONS

- comprehensive prevention and protection of potential hazards in the pipeline network through five types of safety inspections
- comprehensive daily safety inspection: through the monthly inspection by the general manager and the weekly inspection by the safety department, to conduct safety inspections on-site, and check the use of labor protection equipment as well as employees' behaviors
- seasonal safety inspection: key inspections based on local seasonal characteristics to prevent seasonal disaster risks
- holiday safety inspection: check production equipment, fire equipment, backup facilities, emergency plans and relief supplies before the holidays to ensure safe transportation of gas during holidays
- professional safety inspection: in-depth inspection of the responsible business under each department organized by the safety inspection center, production operation department, engineering and technology department and other major departments
- safety inspections from time to time: conduct safety inspection in case of major changes, such as using new equipment, device modification, revising operation process and accident occurrence

EMERGENCY RESPONSE

- the Emergency Management System divides emergency events into four types of warning levels for emergency response, to ensure that responsible personnel can deal with the emergencies promptly and effectively to reduce losses
- establishment of emergency control center, dispatch center and on-site control center for emergency response and management, and also responsible for personnel gathering, pipeline data assistance, operational command, equipment support and update the events to the public
- the accident investigation team was appointed by the general manager after the accident. It is responsible for investigating the cause of the accident, making suggestions on preventing similar incidents, improving facilities according to the suggestions, and providing training and education for the staff
- during the daily operations, each department prepares and regularly update special emergency plans, which covering natural disasters, security incidents, insufficient supply, gas leakage, fire and explosions, to provide guidance for emergency response.

Quality Service

The Group attaches much importance to the provision of high-quality service to its customers. In this connection, Beijing Gas Blue Sky has put in place procedures for service quality inspection and responding to customer complaints, striving for excellence in customer service.

Our on-site Inspection Management Measures sets out mechanisms and procedures for on-site inspection to examine the implementation of standards and specifications and the mastering of service skills by the service personnel, as well as the information on the service documents and equipments and environment of the operation premises. The inspection covers not only Beijing Gas Blue Sky and its member companies, but also the services provided by its outsourcing third parties. After the inspection, the inspection personnel shall provide a complete inspection report and propose improvements to the problems discovered, so that entities subject to inspection could make improvements and enhance customer service quality as required.

In addition, the Group also formulated the Service Quality Supervision and Management Methods, whereby our Operation Management Department shall provide leadership and supervision on each entity of the Company so that they could provide up-to-standard and reasonably priced services in a proper manner.

Respect Customer's Privacy

Beijing Gas Blue Sky respects customer's privacy, observes the information confidentiality principles and specifies in its Staff Manual the responsibilities of employees for information confidentiality. All employees are required to properly report the written and electronic archives about customers and suppliers and not to disclose them without the consent of the Group. In line with the increasing digitalization trend Beijing Gas Blue Sky will adopt IT security policies in the future to complement the Group's smart gas management, further protect data security and enhance the security and stability of its IT systems.

Attend to Customer's Opinions

Beijing Gas Blue Sky attaches much importance to improving after-sales management and constantly attends to opinions of customers regarding its products and services. Taking an open-minded attitude, the Group collects customer's opinions and suggestions at irregular intervals through channels such as visits, letters and user conversaziones, and earnestly deals with customer enquiries.

To strengthen management of customer complaints, the Group established the Management Measures for Customer Complaints to standardize the complaints addressing process. Customers may lodge a complaint about our products, marketing, services or prices via phone calls and the website of the Group. The employee or department receiving the complaint shall record the complaint in detail and on the same day report the same to the complaint management department, so that the relevant department could make timely investigation and reply, implement the countermeasures and apply the results in improving the product and service quality. During the Year, the Group did not receive any complaints about our products or services.

The Group complies with laws and regulations relating to health, safety and product responsibility, including the Law of the People's Republic of China on Work Safety. During the Year, there was no violation by the Group involving health, safety and product responsibility.

BUILD A DESIRABLE WORKING ENVIRONMENT

The Group strives to understand the needs of employees, pay attention to employee development and create an amicable, equal, healthy and safe working environment for employees.

Employment System

	Place of operation	Gender	Age below 30	Age 31-40	Age 41-50	Age over 50	Total
Number of employees	Hainan Xinyuan	Male	9	19	18	11	91
		Female	0	14	18	2	
	Anhui Power Energy	Male	2	1	0	0	5
		Female	2	0	0	0	
	Jilin Songyuan	Male	32	68	29	14	226
		Female	17	33	32	1	

The Group specifies in the Staff Manual policies regarding recruitment, promotion, working hours, remuneration and benefits, allowing employees to understand their rights and obligations. The Group has been following impartial and transparent employment systems. The Remuneration Management System stipulates the detailed management rules for employee's wage, based on which, the project companies formulate their respective clear-cut management rules appropriate to their respective circumstances, informing employees of the basic wage and other subsidies for different post rankings, as well as the basis for salary adjustment. The annual performance bonus is determined and paid in accordance with the Performance Management Rules. With regard to employee welfare, apart from statutory holidays, employees are entitled to paid leaves including marriage leave, maternity leave, compassionate leave, paternity leave and so on. On traditional festivals such as the Chinese New Year and the Mid-Autumn Festival, the Group provides employees with additional benefits such as festival gifts or cash allowance. Beijing Gas Blue Sky evaluates the remuneration level and industry practices on regional markets on a regular basis and reviews the aforesaid remuneration and welfare policies.

The Group believes that an amicable, equal, diversified and mutually respectful working environment could help employees to unleash their strength. The Staff Manual sets out the disciplinary provisions relating to anti-discrimination, reflecting the Group's commitment to the equal opportunities and elimination of discrimination in employment, whereby all employees are treated impartially regardless of race, gender, sexual orientation, age, socioeconomic status, physical ability, religion, nationality and political preference. The Group also formulated the Diversity Policy to set out the responsibility of the Board to set measurable indicators relating to diversity and regularly review the performance against such indicators. The measurable indicators include the objectives set by the Group in gender diversity, such as the ratio of male to female employees reaches 1:1. During the Year, the ratio was 1.02:1[2] at the Group, gradually approaching the target value set by the Group.

As at 31 December 2018, the Group employed 322 employees for Hainan Xinyuan, Anhui Power Energy and Jilin Songyuan, including C-Level senior management, senior and middle level managers and general employees.

2 As compared with 2017, the ratio of male to female employees during the Year at Hainan Xinyuan and Anhui Power Energy changed from 1.15:1 to 0.96:1.

Communication with Employees

Beijing Gas Blue Sky encourages the interactive communication between the management and employees to cultivate mutual trust, enhance productivity and boost employee's morale. The Group employs various channels, such as employee communication seminar, the Group's publication "Beijing Gas Blue Sky" and social media (Weibo and Wechat official account, etc.), to transmit the latest information about the Group to employees, allowing them to be clearly informed of the Company's operation developments and activity information, and collects opinions of employees. The "Open Dialogue Policy" of the Group stipulates the handling procedures of employees' suggestions and opinions, whereby the human resources department or other persons responsible for collecting the opinions are required to give feedback within five working days after receiving the opinion, and give a reply about the outcome within one month. Once the suggestion or proposal is affirmed as practically beneficial to our engineering technology or business operation, the relevant employee will receive an award from the Group.

On the other hand, the Group has set appeal channels for employees to encourage employees suffering from unfair, prejudiced or unreasonable matters to appeal in writing to his/her immediate superior who will submit the same to the human resources department, and together with this department, follow up with and respond to the appeal as the first stage. If the problem is not solved in the first stage, the department at a higher level will take it over until the rights of the employee concerned could be protected. The Group will strictly keep all appeals and their contents confidential.

The Group stipulates in its Management Rules on Prohibition of Child Labour and Minors the procedures for recruitment and employment, whereby trainings are provided to the personnel in charge of recruitment, covering certificate identification, interview techniques and questioning methods, interview recording and verification of documents. During the recruitment, the Group will verify the identity documents of the candidates to avoid any child labour. In case child labour is mistakenly employed, the Group will take remedial measures to send them safely back to their hometowns to receive appropriate education, and will be responsible for the medical treatment for the child labour suffering work-related disease, injury or disability.

In addition, in order to prevent forced labour, the Group enters into or make alternations to labour contracts on the principle of equality and willingness through mutual negotiation, and will never adopt unfair measures to restrict the employment relationship between employees and the Group. Meanwhile, the Staff Manual also sets out the management measures for overtime work, whereby employees are entitled to days-in-lieu or overtime pay, which could protect their interests.

The Group stays in strict compliance with laws and regulations relating to employment and labour standards such as the Labour Law of the People's Republic of China and the Labour Contract Law of the People's Republic of China. During the Year, the Group did not have any violation of laws and regulations relating to employment, child and forced labour.

Development and Training

The development of an enterprise and the personal growth of its employees complement each other. The Group believes training is very important for the constant improvement of employee's work performance as well as their vocational development.

According to its Training Management Regulations, the Group arranges training for employees from different departments on a regular basis. In addition to face-to-face training, the Group launched the Micro-Class Program to make the training more flexible through the live platform, which enables employees to study the training courses conveniently via computer or mobile phone to achieve self-enhancement. During the Year, the Group has carried out 9 live broadcast training, the content of which covered, among others, laws and regulations, duties knowledge and business etiquette, with a total of 376 participants.

The Group also maintains training archives and record the employee's assessment results for the training, which will serve as an important reference basis for determining salary adjustment and promotion. Meanwhile, to analyze and review the effectiveness of training, employees are required to, by way of questionnaire or written examination, give their comments on the lecturer, effectiveness and arrangement of the training. Employees may indicate in the questionnaire the training category suitable to them, which would be considered in formulating the next-year training plan.

The Group cares about the career development of our employees. While having put in place clear-cut vocational development routes for the four business functions (i.e. business market, project, finance and business support), the Group also employs incentive mechanisms to motivate employees to enhance performance. In addition, the Group also carries out the construction of talent teams through providing study routes designed for employees from different departments and ranks and selection and assessment of internal reserve cadres on a regular basis.

96%

Percentage of employees trained[3]

14.47hours

Average training hours completed[4]

[3] Include the training data of Hainan Xinyuan and Jilin Songyuan. As Anhui Power Energy has not set up the system for collecting training data, the relevant data will be disclosed in next year.

[4] The same as above.

FOLLOW A COOPERATIVE AND WIN-WIN BUSINESS PHILOSOPHY

Anti-corruption

Adhering to the principle of integrity and impartiality, Beijing Gas Blue Sky is committed to cultivating moral conviction of our employees and strictly prohibits bribery, extortion, fraud and money laundering conducts in any form, so as to ensure the impartiality, integrity and compliance of the business and working environment. To maintain and promote the anti-corruption and integrity culture, the Group formulated the Staff Manual and Code of Conduct for Employees to strictly regulate employee's behaviours and set out clear-cut provisions regarding receipt of gifts or entertainment, avoidance of interest conflict, procurement of goods or services and use of corporate resources.

Our Project Bidding Management System also stipulates the work disciplines regarding project bidding. Bid evaluation experts are not allowed to have any private contact with the bidder, accept valuables or other benefits from the bidder or disclose the information on the evaluation. In case of an interest in the relevant party or the bid, the expert shall voluntarily ask to abstain to ensure the objectiveness and impartiality of the bid. The Group's Project Bid Evaluation Committee is responsible for formulating the bidding procedures on the principle of openness, impartiality, fairness and integrity to guide and monitor the bidding practice, prevent any illegal interference in the biding and ensure fair competition.

The Group has established the complaining and whistleblowing mechanism to encourage employees to report any known or suspected corruption or any duty-related illegal conducts to the human resources department, risk control department and the senior manager in charge of the relevant matters.

The Group complies with the relevant law and regulations including the Criminal Law of the People's Republic of China and the Law of the People's Republic of China against Unfair Competition. During the Year, the Group did not have any case reported to it of any lawsuit or non-compliance involving corruption or unfair competition.

Service and Product Information

Beijing Gas Blue Sky understands its responsibility in advertising and product labelling and has formulated the Advertising Marketing Management Measures to ensure all advertising and promotion activities and the related materials would be approved in advance and the systems, tools, rules and methods relating to advertising and promotion could be properly implemented. During the Year, the Group strictly abide by relevant laws and regulations in all advertising and marketing activities, including the Advertising Law of the People's Republic of China, and there is no case of violation of laws or regulations related to advertising.

Supply Chain Management

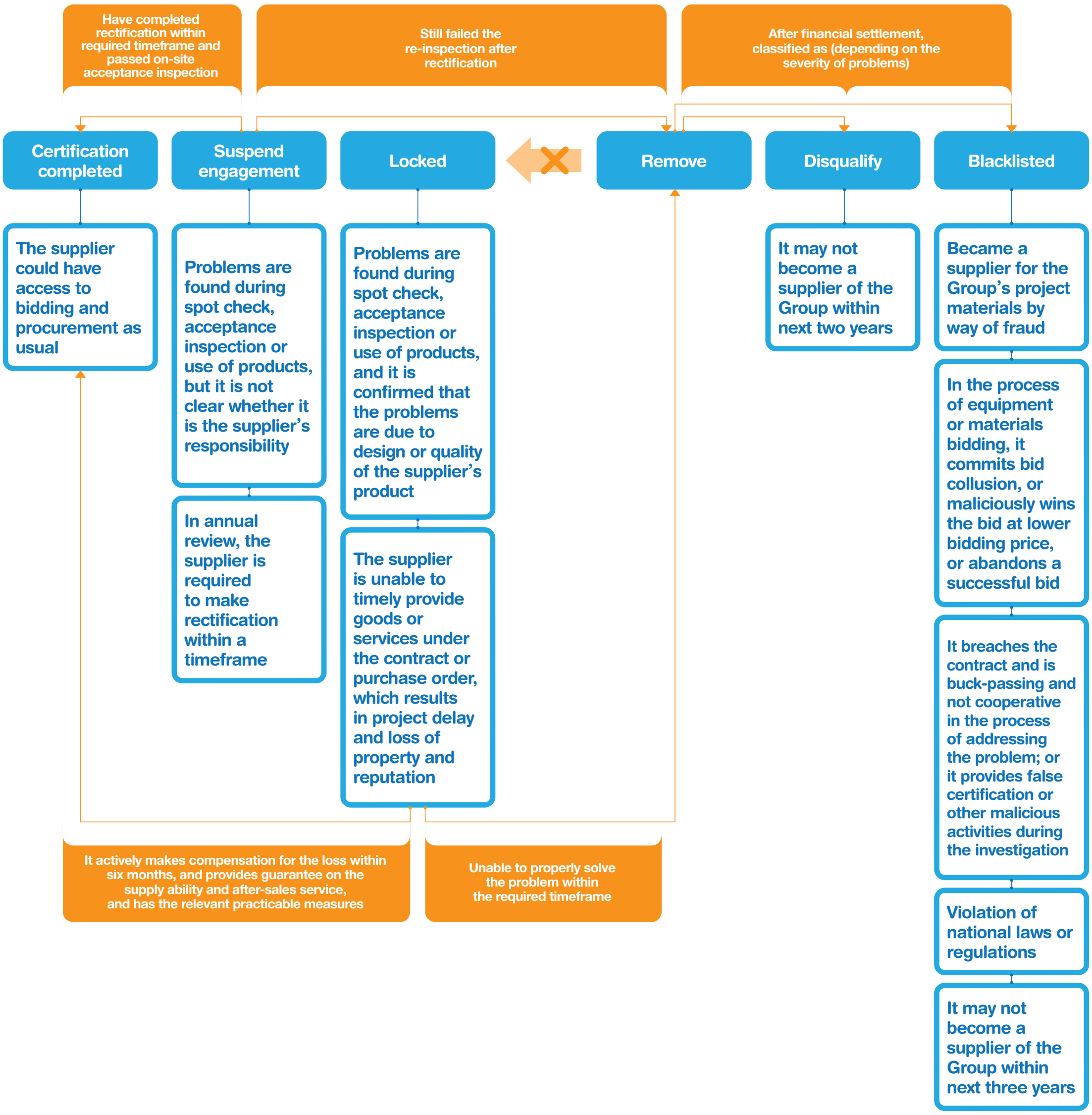
Attaching importance to manage the risks of supply chain, Beijing Gas Blue Sky promotes and enforces, in an all-round way, the systems for examining the social and environmental qualifications of suppliers, and takes into consideration the relevant risks when assessing and managing supplier's performance.

As an integrated natural gas distributor and operator focusing on the mid-to-down stream segment development of the natural gas industry chain, Beijing Gas Blue Sky relies on different supplier for its business development. To enhance the ability in securing a stable natural gas supply, the Group endeavours to select the most suitable natural gas suppliers through examining, on a prudent and fair principle, the corporate size, quality of gas source and timeliness of supply.

For construction project, the Group implements stringent procurement and bidding policies and has formulated the Bidding Management System and The Management System for Suppliers of Project Materials to set out biding requirements and evaluation procedures for admitting suppliers. A potential bidder is not able to pass the review of qualification for the bidding unless it had no violation of laws or regulations relating to environment, labour protection, occupational health and sanitation and was not subject to any complaint about employee's human rights and working conditions, in each case, in recent three years. In addition, the bidding documents are required to include the information on the bidder's use of resources, environmental and ecological protective measures, measures to deal with the "three wasters" and management and implementation systems for employee's working environment.

In addition, keeping close communication with existing suppliers, Beijing Gas Blue Sky is devoted to implementing the sustainable development philosophy in the supply chain. According to our Environmental Protection Guidelines, employees responsible for overseeing suppliers are required to be cooperative on the environmental protection work, ensuring there would be appropriate environmental provisions and requirements in the contracts, the goods and service would comply with the Company's environmental policies, and the supplier would comply with the relevant regulations. Apart from environmental compliance that is an important part in supplier evaluation, the Group also evaluates the supplier's performance and commitments in respect of social responsibility. Supplier who underperformed or failed to meet the Group's criteria may be excluded from our future bidding, or may even be subject to an early termination of contracts.

Currently, Hainan Xinyuan, Anhui Power Energy and Jilin Songyuan procure goods or services mainly from seven suppliers, while each of them has undergone our evaluation and review procedures and satisfies the Group's requirement.



Beijing Gas Blue Sky pays attention to the supervision of suppliers and fairly evaluates the performance of suppliers. According to the feedback, evaluation and sampling of the suppliers' products and services from the project companies, the Group classifies the suppliers into six different states, including "Certification completed", "Suspend engagement", "Locked", "Remove", "Disqualify" and "Blacklisted", and carries out corresponding dynamic management.

BUILD A GREEN FUTURE

With the environmental tariff becoming effective, Chinese Government is exercising a much more stringent control over environmental pollutions and vigorously promoting the shift of its energy structure toward a green and low-carbon direction. The Group pays close attention to the changes in energy structure and promotes the use of natural gas to reduce air pollution and greenhouse gas emissions in line with national policies. Meanwhile, the Group acknowledges the impact of its own operations on the environment and is committed to improving environmental efficiency during operations. In order to minimize the impact, the Group, through its Environmental Protection Committee, formulates environmental policy and reviews environmental performance on a regular basis.

The Group has put in place the Environmental Protection Management Guidelines to stipulate clear-cut policies and guidance in respect of organizational structure, project management, identification of environmental factors and evaluation. At the same time, the Group keeps improving its environmental performance through standardized emission treatment and resources saving measures and enhancing employee’s environmental awareness.

Use of Resources

In day-to-day operation, Beijing Gas Blue Sky is devoted to promoting the corporate culture encouraging efficient use of resources. To save energy and improve energy use efficiency, the Group formulates and implements the following major policies and measures:

Energy-conservation management

- Formulate energy-conservation systems, plans and measures
- Put more efforts in energy data recording and statistics, improve analysis system and report the results to superior department to be used as basis for decision-making
- Set annual energy-conservation indicators
- Conduct regular energy-conservation inspection, promptly record and follow up with any problems identified, and implement energy-conservation policies and systems
- Carry out energy-conservation education and make completion of the relevant training as one of the conditions for taking up the position of operating energy-consuming equipment
- Establish the energy management and energy-conservation mechanism involving all employees, as well as the corresponding incentive and punishment mechanism

Energy-conservation for Production

- Set up log-books for major energy-consuming equipment and make comparison on a monthly or quarterly basis, so as to formulate control measures
- Make regular inspection and maintenance of energy-consuming equipments for production to maintain their energy efficiency
- Arrange repair immediately after an unusual condition is discovered

Building energy-conservation

- Promote effective lighting management such as use of LED lights to replace the traditional incandescent lights
- Conduct air-conditioning management such as regularly cleansing the air-conditioning system to improve usage efficiency
- Try to purchase electric equipments with energy efficiency of level-2 or above

Transportation energy-conservation

- Make regular maintenance and repair to maintain an optimum energy efficiency state for vehicles
- Develop a good driving habit to avoid any fuel consumption due to abrupt acceleration or deceleration
- Encourage car-sharing practice

In addition, the Group has also implemented a number of measures aiming at reducing paper use and advocates paperless operation.

As for water conservation, Beijing Gas Blue Sky gets sufficient water through the municipal water supply system. The Group has installed water-saving equipments, while encouraging employees to increase their water-saving awareness. Jilin Songyuan has installed wastewater reuse facilities. Employees at Hainan Xinyuan also reuse 70% of the wastewater generated from cleansing activities to flush the toilet, hence significantly improve the water use efficiency.

Emissions

Greenhouse Gas Emission

Scope		Greenhouse gas emission (tCO_2e)
Scope 1: Direct greenhouse gas emission		3,597
Scope 2: Energy indirect greenhouse gas emission		450
Scope 3: Other indirect greenhouse gas emission		3
Total greenhouse gas emissions		4,050
Greenhouse gas intensity	per area, namely, "tCO_2e/square foot"	0.01
	per sales volume, namely, "tCO_2e/million cubic meters"	34.10

Notes:

Scope 1: Equipments owned or controlled by the company, namely diesel consumed by power generators, natural gas consumed by boilers, gasoline and compressed natural gas consumed by vehicles, and process release and escape emissions of natural gas transmission facilities.

Scope 2: Electricity consumed by the Company.

Scope 3: Aircraft business travel by employees of the Company.

Beijing Gas Blue Sky well understands the importance to control greenhouse gas emissions. To understand and manage the impact of its operations on climate change, in the Year, the Group reengaged an independent professional consultant to conduct carbon evaluation to quantify emission of greenhouse gases, with a view to assist the Group in monitoring and reviewing the quantity of emissions on a regular basis. The quantitative measurement was conducted based on the "Greenhouse Gas Emissions Accounting Methods and Reporting Guidelines for Petroleum and Natural Gas Production Enterprises in China (Trial)".

Total carbon emission of Beijing Gas Blue Sky during the Year was 4,050 tCO_2e, representing a significant increase from 2017. The increase was mainly due to greenhouse gas emission from process release and escape during storage and transmission of natural gas by Jilin Project, which is for the first time covered by this report, accounting for approximately 79% of total emissions. The second source is electricity purchased, representing approximately 11% of total emission.

To reduce greenhouse gas emissions, we have formulated and implemented a number of energy-conservation programs. As climate change becomes an increasing concern of the society, the Group, as a player in the energy sector, plans to conduct a comprehensive evaluation on the climate risk to identify the physical and transition risks arising from climate change and formulate appropriate countermeasures.

Exhaust Gas Emission

Exhaust gas	Emission (kg)
NO_x	396
SO_x	15
Particulate matters	25

Although, as compared with traditional fossil fuels such as coal and petroleum, the natural gas provided by the Group could effectively reduce the emission of NOx, SOx and particulate matters and improve air quality, the Group's operations still involve emission of air pollutants, mainly generated from the combustion of fossil fuels by use of vehicles, standby generators and heating boilers.

The Group sets out in our Environmental Protection Guidelines requirements on waste gas management. The exhaust gas generated from production and operations of our stations mainly includes leakage and spreading natural gas, exhaust gas from combustion in boilers and waste gas from generators. Therefore, the Group requires the managerial employees at our stations to arrange leakage inspection on equipments and pipelines on a weekly basis and take prompt actions when necessary, while for the operation of boilers and generator, it is required to formulate a monitoring plan to conduct self-monitoring of the pollutants emission. In addition, the Group also requires vehicles drivers to establish a good driving habit and strengthen maintenance of vehicles, with a view to minimize the exhaust gas emission.

Waste

The Group well knows the potential impact of waste on environment, employees and the public and therefore handles the solid waste produced from our operations in a prudent manner.

Type	Quantity (tonne)
Hazardous waste[5]	3
Non-hazardous waste	1,832.4

The day-to-day operation of Beijing Gas Blue Sky mainly produces two types of waste, namely used engine oil and lubricating oil, and employees' domestic garbage. During the Year, domestic garbage of Jilin Songyuan represented the major source of non-hazardous waste, while hazardous waste was mainly generated from the refuelling stations of Hainan Xinyuan.

It is the Group's commitment made in the corporate environmental policies to "reduce waste and advocate recycle and reuse". Therefore, the Group encourages the recycle and reuse or sale of the recyclable non-hazardous waste such as waste paper, plastics, glass and metal, while the non-recyclable non-hazardous waste would be collected and handled in a centralized way by the entity responsible for urban garbage disposal. Hazardous waste in refuelling stations shall be stored in containers labelled "hazardous", and collected and disposed of by qualified collectors.

5 Only include hazardous waste produced by Hainan Xinyuan, namely, used oil.

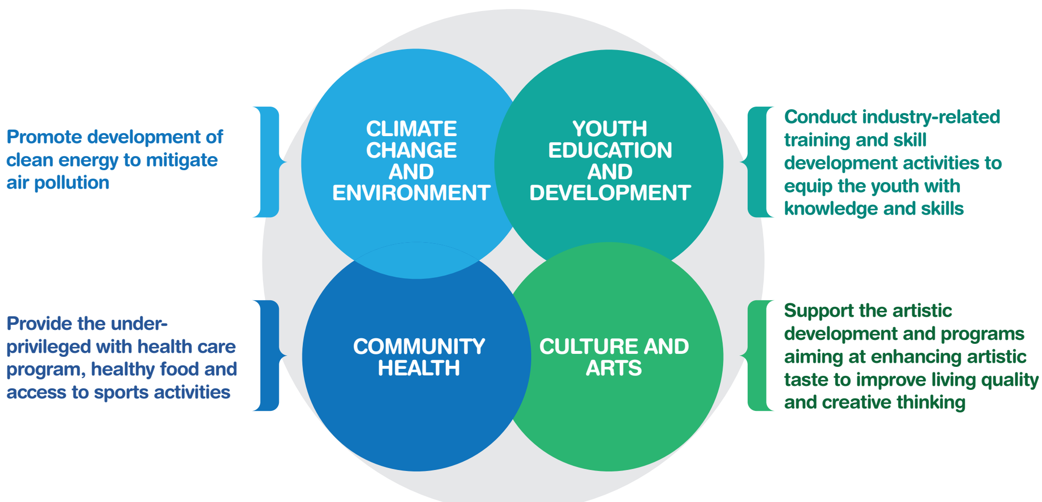
Environment and Natural Resources

Beijing Gas Blue Sky is committed to reducing the impact of our natural gas operations on environment and natural resources. To reduce the harm to natural and biological resources such as atmosphere, water, vegetation or living beings, as well as protect cultural landscape, the Group will, prior to commencing a construction project (such as laying down urban pipelines and constructing refuelling stations), conduct environmental assessment and inspection to investigate the negative impact of the project on the place of operation and propose mitigating or alternate plan. In addition, the Group makes environmental contingency plan to prevent and mitigate the impact of incidents such as chemical leakage, spilling and fire on surrounding environment.

In the course of its operation, the Group strives to establish a smooth information channel and keeps abreast of any developments in environmental laws and regulations, so that it could ensure its operations stay closely in compliance with the increasingly stringent regulatory requirements and accurately communicate the relevant information to the relevant stakeholders. Beijing Gas Blue Sky complies with the relevant laws and regulations relating to emissions including the Environmental Protection Law of the People's Republic of China. During the Year, the Group was not aware of any violation of laws or regulations relating to emissions.

BUILD A BETTER COMMUNITY

Beijing Gas Blue Sky has established the Policy on Community Investment, Sponsorship and Donation to set out a framework of guidelines regarding contribution to community. The Group is committed to establishing long-term relationship with parties relevant to its business on basis of mutual trust, respect and integrity, and supports programmes that would bring positive effect on social development. Currently, the Group has identified four focus areas as below:



As a socially responsible enterprise, Beijing Gas Blue Sky deeply understands the importance to meet expectations of various stakeholders. Looking forward, the Group will conduct community activities aiming at understanding expectations of stakeholders, and then under the guidance of the relevant policies, devote resources into the focus areas by leveraging on its own advantages.

OVERVIEW OF ESG PERFORMANCE

Environmental Performance

	Type	Emission
Exhaust gas	NO_X (kg)	396
	SO_X (kg)	15
	Particulate matters (kg)	25

	Scope	Emission
Greenhouse gas	Scope 1: Direct GHG Emissions (tCO_2e)	3,597
	Scope 2: Energy Indirect GHG Emissions (tCO_2e)	450
	Scope3[6]: Other indirect GHG emissions (tCO_2e)	3
	Total GHG emissions (tCO_2e)	4,050
GHG intensity (per area, namely "tCO_2e/square foot")		0.01
GHG intensity (per sales volume, namely, "tCO_2e/million cubic meters"		34.10

	Type	Amount produced
Hazardous and non-hazardous waste	Non-hazardous wastes (tonne)	1,832.4
	Intensity of non-hazardous wastes (per area, namely, "tonne/square foot")	0.01
	Intensity of non-hazardous wastes (per sales volume, namely, "tonne/million cubic meters"	15.43
	Hazardous wastes[7] (tonne)	3
	Intensity of hazardous wastes (by area, namely, "tonne/square foot")	0.00002
	Intensity of hazardous wastes (per sales volume, namely, "tonne/million cubic meters"	0.19

6 Only include GHG emissions produced by aircraft business travel by employees.
7 Only include hazardous waste produced by Hainan Xinyuan, namely, used oil.

	Type	Consumption
Use of energy	Direct energy (MWh)	1,798
	Indirect energy (MWh)	767
	Total energy consumption (MWh)	2,565
	Energy intensity (per area, namely "MWh/square foot")	0.01
	Intensity of hazardous wastes (per sales volume, namely, "MWh/million cubic meters")	21.59

		Consumption
Use of water	Total water consumption (m^3)	7,302
	Intensity for water consumption (per area, namely, "m^3/square foot")	0.02
	Intensity for water consumption (per sales volume, namely, "m^3/million cubic meters")	61.47

Social Performance – Labour and Employment Practice

	Place of operation	Gender	Age below 30	Age 31-40	Age 41-50	Age over 50	Total	Ratio of number of male employees to female employees
Number of employees (by region, gender and age)	Hainan Xinyuan	Male	9	19	18	11	91	1.71:1
		Female	0	14	18	2		
	Anhui Power Energy	Male	2	1	0	0	5	
		Female	2	0	0	0		
	Jilin Songyuan	Male	32	68	29	14	226	
		Female	17	33	32	1		

	Place of operation	Gender	C-level senior management	Senior management	Middle-level management	General staff	Total
Number of employees (by region, gender and post rank)	Hainan Xinyuan	Male	0	2	14	41	91
		Female	0	1	8	25	
	Anhui Power Energy	Male	0	0	0	3	5
		Female	0	0	0	2	
	Jilin Songyuan	Male	7	10	11	115	226
		Female	0	2	4	77	

	Place of operation	Gender	Age below 30	Age 31-40	Age 41-50	Age over 50	Total	Percentage of new employees
Number of new employees (by region, gender and age)	Hainan Xinyuan	Male	0	0	1	0	1	7%
		Female	0	0	0	0		
	Anhui Power Energy	Male	1	0	0	0	2	
		Female	1	0	0	0		
	Jilin Songyuan	Male	4	3	1	1	20	
		Female	8	3	0	0		

	Place of operation	Gender	Age below 30	Age 31-40	Age 41-50	Age over 50	Total	Percentage of new employees
Employee turnover (by region, gender and age)	Hainan Xinyuan	Male	1	5	2	1	18	12%
		Female	0	3	6	0		
	Anhui Power Energy	Male	0	0	0	0	1	
		Female	1	0	0	0		
	Jilin Songyuan	Male	5	4	2	1	22	
		Female	2	2	5	1		

	Gender	Number	Total	Percentage of total employees	Lost days due to work injury
Work-related fatalities and/or injuries (by gender)	Male	0	0	0%	0
	Female	0			

Training[8] (by gender and post rank)	Gender	C-level senior management	Senior management	Middle-level management	General staff	Total	Percentage of employees who received training
Number of employees who received training	Male	7	11	26	157	308	96%
	Female	0	2	5	100		
Total hours of training	Male	40	88.2	769.7	2235.7	4521	
	Female	0	9.3	86.3	1291.8		
Average hours of training per employee	Male	5.7	8.0	29.6	14.2	14.7	
	Female	0	4.7	17.3	12.9		

8 Include the training data of Hainan Xinyuan and Jilin Songyuan. As Anhui Power Energy has not set up the system for collecting training data, the relevant data will be disclosed for the next year.

ESG REPORTING GUIDE CONTENT INDEX

Subject Areas	Content	Page Index/ Remark
Aspect A1 Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to exhaust gas and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	59, 61-62
A1.1	Types of emissions and respective emissions data.	64
A1.2	Greenhouse gas emissions in total and Intensity.	64
A1.3	Total hazardous waste produced and intensity.	64
A1.4	Total non-hazardous waste produced and intensity.	64
A1.5	Description of measures to mitigate emissions and results Achieved.	61-62
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	62
A2 Use of Resources		
General Disclosure	Policies on efficient use of resources.	59-60
A2.1	Direct and/or indirect energy consumption by type in total and intensity.	65
A2.2	Water consumption in total and intensity.	65
A2.3	Description of energy use efficiency initiatives and results achieved.	60
A2.4	Description of whether there is any issue in sourcing water, water efficiency initiatives and results achieved.	60
A2.5	Total packaging material used for finished products, and with reference to per unit produced.	Our operation did not involve the use of packaging materials.

Subject Areas	Content	Page Index/ Remark
A3 The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	63
A3.1	Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them.	63
B1 Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	53-54
B1.1	Total workforce by gender, employment type, age group and geographical region.	65
B1.2	Employee turnover rate by gender, age group and geographical region.	66
B2 Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	46-51
B2.1	Number and rate of work-related fatalities	66
B2.2	Lost days due to work injury.	66
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	46-51

Subject Areas	Content	Page Index/ Remark
B3 Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	55
B3.1	The percentage of employees trained by gender and employee category.	66
B3.2	The average training hours completed per employee by gender and employee category.	66
B4 Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	54
B4.1	Description of measures to review employment practices to avoid child and forced labour.	54
B4.2	Description of steps taken to eliminate child and forced labour practices when discovered.	54
B5 Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	57-58
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	57-58

Subject Areas	Content	Page Index/ Remark
B6 Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	46-52, 56
B6.2	Number of products and service related complaints received and how they are dealt with.	52
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	52
B7 Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	56
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	56
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	56
B8 Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities takes into consideration communities' interests.	63
B8.1	Focus areas of contribution (including education, environmental issues, labour needs, health, culture, sports, etc.).	63

REPORT OF THE DIRECTORS

The directors (the "Directors") of Beijing Gas Blue Sky Holdings Limited (the "Company") present their report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018 (the "Year").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Company's subsidiaries are principally engaged in (i) natural gas refuelling station; (ii) trading and distribution of natural gas; and (iii) city gas, pipeline construction fee, value-added service and others. The Group's operations based in the People's Republic of China (the "PRC"), including Hong Kong. The principal activities of principal subsidiaries are set out in note 49 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business of the Group during the Year and a discussion on the Group's future business development are set out in Chairman's Statement as well as the Management Discussion and Analysis on pages 5 to 7 and pages 8 to 18 of this annual report. A discussion on the Group's environmental policies are set out in the Environmental, Social and Governance Report of this annual report. An analysis of the Group's performance during the Year using financial key performance indicators is set out in the Management Discussion and Analysis on pages 8 to 18 of this annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group has strived to ensure ongoing compliance with relevant rules and regulations and to maintain cordial working relationships with regulators through effective communications. During the Year, to the best of the Directors' knowledge, there is no material breach of or non-compliance with applicable laws and regulations by the Group which has a significant impact on its business and operations.

VOLUNTARY DELISTING FROM SGX-ST

In consideration of lack of liquidity of the Company's shares on the Singapore Exchange Securities Trading Limited ("SGX-ST") and the administrative overhead and costs of compliance incurred in the listing on the SGX-ST, the Board resolved to voluntarily delist the Company's shares from the SGX-ST. The delisting was effective on 23 February 2018. Details of the delisting of the Company's Shares from SGX-ST were disclosed in the Company's announcements dated 13 October 2017, 27 October 2017, 1 February 2018 and 21 February 2018.

RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group recognises that employees, suppliers and customers are crucial for the Group's sustainable development. We strive to maintain a close relationship with our employees and provide them with a competitive remuneration package and opportunities within the Group for career advancement. We commit to provide high quality products and services to our customers in order to enhance our competitiveness and strengthen the cooperation with our suppliers.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group is exposed to certain market risk such as interest rate risk, credit risk and liquidity risk. The details are set out in note 50 to the consolidated financial statements. The Group's financial condition and results of operations would be affected by a number of factors. The principal risks and uncertainties relating to the Group are set out in the corporate governance report to this annual report.

RESULTS AND DIVIDENDS

The results of the Group for the Year and the Group's financial position as at 31 December 2018 are set out in the consolidated financial statements on pages 94 to 96.

The Directors do not recommend the payment of final dividend for the Year (2017: Nil).

SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results and assets and liabilities of the Group for the last five financial years, as extracted from the consolidated financial statements, is set out on page 236 of this annual report.

FIXED ASSETS

Details of movements in the property, plant and equipment and prepaid lease payments of the Group during the year are set out in notes 18 and 17 to the consolidated financial statements respectively.

SHARE CAPITAL

Details of movements of the Company's share capital are set out in note 37 to the consolidated financial statements.

SUBSCRIPTION OF NEW SHARES UNDER GENERAL MANDATE

Subscription of 150,000,000 new Shares under General Mandate

On 24 January 2018, the Company entered into a subscription agreement with Mrs. Surangrat Chirathivat (the "Subscriber") pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, an aggregate of 150,000,000 shares at the subscription price of HK$0.57 per subscription share (the "Subscription Agreement"). The shares would be allotted and issued pursuant to the general mandate granted to the Directors in the 2017 annual general meeting held on 9 June 2017. On 17 August 2018, the Company and the Subscriber entered into a supplemental agreement to the Subscription Agreement, the Subscriber shall subscribe for all of the subscription shares in two tranches. The first tranche of 100,000,000 subscription shares were issued and allotted to the Subscriber on 20 August 2018. The subscription for the second tranche of 50,000,000 shares should be completed on or before 28 September 2018. On 27 September 2018, the Company entered into a second supplemental agreement to the Subscription Agreement with the Subscriber, the date of completion of the second tranche subscription should be postponed to a date on or before 30 November 2018. On 30 November 2018, the Subscriber and the Company have mutually agreed to unconditionally terminate the Subscription Agreement and the supplemental subscription agreements.

Please refer to the announcements of the Company dated 24 January 2018, 17 August 2018, 27 September 2018 and 30 November 2018 for further details.

PRE-EMPTIVE RIGHT

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

PURCHASE, REDEMPTION OR SALE OF SHARES

Neither the Company, nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the Year.

EQUITY-LINKED AGREEMENTS

Save for the share option scheme of the Company set out in the section headed "Share Options" and "Share Option Scheme" on page 80 and note 38 to the consolidated financial statements respectively and the issue of convertible bonds, subscription shares and consideration shares with details set out below, no equity-linked agreements were entered into during the Year or subsisted at the end of the Year.

Convertible Bond in an aggregate principal amount of HK$180,000,000

On 5 March 2018, the Company entered into a convertible bonds agreement with Prism Energy International Pte. Ltd., ("Prism Energy") pursuant to which Prism Energy conditionally agreed to subscribe and the Company conditionally agreed to issue the convertible bonds in an aggregate principal amount of HK$180,000,000 at the conversion price of HK$0.57 per conversion share, a total of 315,789,473 conversion shares will fall to be issued. Please refer to the announcements of the Company dated 5 March 2018 and 26 June 2018 for further details.

Issue of Subscription Shares

On 24 January 2018, the Company entered into a subscription agreement with Mrs. Surangrat Chirathivat (the "Subscriber") pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, an aggregate of 150,000,000 shares at the subscription price of HK$0.57 per subscription share. The Company and the Subscriber further entered into a supplemental agreement and a second supplemental agreement on 17 August 2018 and 27 September 2018 respectively. A total of 100,000,000 subscription shares were issued and allotted to the Subscriber on 20 August 2018. Please refer to the announcements of the Company dated 24 January 2018, 17 August 2018, 27 September 2018 and 30 November 2018 for further details.

Issue of Consideration Shares

On 28 December 2017, the Company entered into an acquisition agreement with Beijing Gas Company Limited ("Beijing Gas HK") and Beijing Gas Group Company Limited ("Beijing Gas Group") pursuant to which the Company has conditionally agreed to acquire, and Beijing Gas HK has conditionally agreed to sell, all the issued share capital of Beijing Gas JingTang Company Ltd. The consideration for the acquisition was RMB1,008,000,000 (equivalent to approximately HK$1,203,854,400) which was satisfied by the issuance of 2,407,708,800 consideration shares by the Company at the issue price of HK$0.50 per consideration share. The acquisition was completed on 6 June 2018. Please refer to the announcements of the Company dated 28 December 2017 and 6 June 2018 and the circular dated 26 April 2018 for further details.

RESERVES

Share premium

Under the Bermuda Companies Act 1981, the funds in the share premium account of the Company may be distributed in the form of fully paid bonus shares.

Merger reserve

This arose from the restructuring exercise and represents the difference between the nominal value of the Company's shares issued in exchange for the then consolidated net assets of the subsidiaries acquired as at 26 March 2007.

Details of movements in the reserves of the Group and the Company are set out in consolidated statements of changes in equity and note 51 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

At 31 December 2018, the Company did not have any reserves available for distribution to equity shareholders of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 17.9% of the total sales for the Year and sales to the largest customer included therein amounted to 5.8%. Purchases from the Group's five largest suppliers accounted for 36.4% of the total purchases for the Year and purchases from the largest supplier included therein amounted to 13.1%. None of the Directors or any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers and customers.

DIRECTORS

The Directors of the Company during the Year and up to the date of this report are listed on page 2 of this annual report.

In accordance with Bye-law 86 of the Company's Bye-laws, Mr. Hung Tao, Mr. Li Weiqi and Mr. Pang Siu Yin shall retire by rotation at the forthcoming annual general meeting of the Company ("AGM"). All of the above retiring Directors, being eligible, will offer themselves for re-election at the AGM.

The Company has received annual confirmations of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors and still considers them to be independent.

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Neither at the end of nor at any time during the Year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the Directors or their respective spouses or minor children to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 19 to 21 of this annual report.

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2018, none of the Directors have entered into any service agreement with any member of the Group which is not determinable within one year without payment of compensation, other than statutory compensation.

PERMITTED INDEMNITY PROVISIONS

During the Year and up to the date of this report, the Company has in force the permitted indemnity provisions which are provided for in the Company's Bye-laws and in the directors and officers liability insurance maintained for the Group in respect of potential liability and cost associated with legal proceedings that may be brought against the Directors.

EMOLUMENT OF DIRECTORS AND EMPLOYEES

The Group's employees are selected, remunerated and promoted based on their merit, qualifications and competence. The Directors' remuneration is subject to approval by Remuneration Committee with reference to Directors' duties, responsibilities and performance and the results of the Group. Details of the Directors' remuneration are set out in note 14 to the consolidated financial statements.

HIGHEST PAID INDIVIDUALS

During the year, the five individuals with the highest remuneration in the Group are two Directors of the Company and three individuals. Details of the highest paid individuals are set out in note 14 to the consolidated financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or its subsidiaries was a party subsisting during or at the end of the Year under review.

INTERESTS OF DIRECTORS IN COMPETING BUSINESS

During the Year and up to the date of this annual report, none of the Directors has any interest in a business which competes or may compete with the business of the Group under the Listing Rules.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2018, the interests and short positions of the Directors of the Company in the Shares, warrants, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required as recorded in the register required to be kept under Section 352 of the SFO, or which were required to be notified to the Company and the SEHK pursuant to the Model Code contained in the Rules Governing the Listing of Securities on SEHK ("Listing Rules") were as follows:

(i) Interest in Shares of the Company

Name of Director/ chief executive	Nature of interest	Number of Shares (Note 1)	Approximate percentage of shareholding at 31/12/2018
Mr. Cheng Ming Kit (Note 2)	Beneficial owner	240,745,040 (L)	1.85%
	Interest of controlled corporations	950,388,256 (L)	7.32%
Mr. Sze Chun Lee	Beneficial owner	1,800,000 (L)	0.01%
Mr. Hung Tao	Beneficial owner	43,682,730 (L)	0.34%

Notes:

1. The letter "L" denotes a long position in the Shares of the Company.

2. Mr. Cheng Ming Kit ("Mr. Cheng") holds 100% interest in Grand Powerful Group Limited and is deemed to be interested in 847,436,256 Shares held by Grand Powerful Group Limited and 100% interest in China Print Power Limited and is deemed to be interested in 102,952,000 Shares held by China Print Power Limited. Mr. Cheng personally holds 240,745,040 Shares and shall purchase up to 163,750,000 Shares upon request from an option holder.

(ii) Interest in underlying shares of the Company

Name of Director/ chief executive	Nature of interest	Number of underlying Shares (Note)	Approximate percentage of shareholding at 31/12/2018
Mr. Cheng Ming Kit	Beneficial owner	9,962,690 (L)	0.08%
Mr. Lim Siang Kai	Beneficial owner	2,490,670 (L)	0.02%
Mr. Wee Piew	Beneficial owner	2,490,670 (L)	0.02%
Mr. Ma Arthur On-hing	Beneficial owner	2,490,670 (L)	0.02%

Note: The underlying shares are share options granted by the Company to the Directors. The letter "L" denotes a long position in the Shares of the Company.

(iii) Interest in associated corporations

		At 31/12/2018	
Name of Director	Name of associated corporation	Number of shares	Percentage of shareholding
Mr. Cheng Ming Kit	Grand Powerful Group Limited	1	100%
	China Print Power Limited	10,000	100%

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

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, persons/corporations (other than the Directors and the chief executive of the Company) which had interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

(i) Interest in shares of the Company

Name	**Capacity**	**Number of Shares** (Note 1)	**Approximate percentage of shareholding at 31/12/2018**
Grand Powerful Group Limited (Note 2)	Beneficial owner	847,436,256 (L)	6.53%
Beijing Gas Group Co., Ltd (Note 3)	Interest of controlled corporation	5,341,042,131 (L)	41.13%
Beijing Enterprises Group Company Limited (Note 3)	Interest of controlled corporation	5,341,042,131 (L)	41.13%
Lee Tsz Hang (Note 4)	Beneficial owner	608,837,000 (L)	4.69%
	Interest of controlled corporation	223,856,000 (L)	1.72%

Notes:

1. The letter "L" denotes a long position in the shares of the Company.

2. Grand Powerful Group Limited is wholly-owned by Mr. Cheng Ming Kit, an executive Director and Co-Chairman of the Board. The interest disclosed represented the same interest as the corporate interest of Mr. Cheng Ming Kit as disclosed under the section headed "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION" above.

3. Beijing Enterprises Group Company Limited indirectly controlled Beijing Gas Company Limited through Beijing Gas Group Co., Ltd. and is deemed to be interested in 5,341,042,131 Shares. Mr. Zhi Xiaoye, the non-executive Director and Co-Chairman of the Board, is currently vice president of Beijing Enterprises Holdings Limited and a director and general manager of Beijing Gas Group Co., Ltd.

4. Mr. Lee Tsz Hang holds 100% interest in Win Ways Investment Limited and is deemed to be interested in 223,856,000 Shares held by Win Ways Investment Limited. Mr. Lee Tsz Hang personally holds 608,837,000 Shares.

Save as disclosed above, the Company has not been notified of any persons/corporations (other than the Directors and the chief executive officer of the Company) who had interests or short positions in the Shares or underlying Shares of the Company, which would fall to be disclosed to the Company and the SEHK under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of SFO as at 31 December 2018, or who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

SHARE OPTIONS

At the special general meeting of the Company held on 26 May 2011, the terms of the share option scheme was adopted by providing incentive to eligible participants to work better for the interests of the Group, under which the Board may, at its discretion, offer to grant options to any full-time or part-time employee and Directors of the Company or any of its subsidiaries. Details of the share option scheme are set out in note 38 to the consolidated financial statements.

The following table discloses movements of the Company's share options during the year ended 31 December 2018:

Category of grantee	Exercise price per share option HK$	Date of grant	Exercisable period	Number of share options as at 1 January 2018	Number of share options granted during the Year (Note 2)	Number of share options exercised during the Year	Number of share options lapsed during the Year	Number of Share options reclassified during the Year	Number of share options as at 31 December 2018
Directors:									
Mr. Cheng Ming Kit	0.286	21 July 2014	21 July 2015 to 20 July 2024	9,962,690	–	–	–	–	9,962,690
Mr. Hu Xiaoming (Note 1)	0.395	23 July 2015	23 July 2016 to 22 July 2019	10,000,000	–	–	–	(10,000,000)	–
Mr. Hung Tao	0.395	23 July 2015	23 July 2016 to 22 July 2019	6,000,000	–	(6,000,000)	–	–	–
Mr. Lim Siang Kai	0.286	21 July 2014	21 July 2015 to 20 July 2024	2,490,670	–	–	–	–	2,490,670
Mr. Wee Piew	0.286	21 July 2014	21 July 2015 to 20 July 2024	2,490,670	–	–	–	–	2,490,670
Mr. Ma Arthur On-hing	0.395	23 July 2015	23 July 2016 to 22 July 2019	2,490,670	–	–	–	–	2,490,670
Sub-total				33,434,700	–	(6,000,000)	–	(10,000,000)	17,434,700
Employees	0.286	21 July 2014	21 July 2015 to 20 July 2024	9,962,690	–	–	–	–	9,962,690
	0.349	1 September 2014	1 September 2015 to 31 August 2018	12,421,000	–	(12,256,000)	(165,000)	–	–
	0.395	23 July 2015	23 July 2016 to 22 July 2019	50,600,000	–	(18,732,000)	(240,000)	10,000,000	41,628,000
	0.660	20 July 2016	20 July 2017 to 19 July 2020	28,340,000	–	–	(1,240,000)	–	27,100,000
Sub-total				101,323,690	–	(30,988,000)	(1,645,000)	10,000,000	78,690,690
Total				134,758,390	–	(36,988,000)	(1,645,000)	0	96,125,390
Exercisable at the end of the year									85,285,390
Weighted average exercise price				HK$0.426	N/A	HK$0.380	HK$0.590	N/A	HK$0.041
Weighted average share price at dates of exercise				N/A	N/A	HK$0.523	N/A	N/A	N/A

Notes:

(1) Mr. Hu Xiaoming resigned as executive Director and chief executive officer of the Company with effect from 19 January 2018 and was retained as a consultant of the Group thereafter.

(2) During the Year, no share options were granted under the Scheme. A total of 36,988,000 share options were exercised, 1,645,000 share options were lapsed.

RELATED PARTY TRANSACTIONS

Details of significant related party transactions of the Group are set out in note 46 to the consolidated financial statements.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2018, the Group had the following continuing connected transactions, details of which are set out below:

(i) A Master Agreement entered into between Anhui Power Energy Company Limited ("Anhui Power Energy") as supplier and Beijing Gas Lu Yuan Da Clean Fuel Company Limited ("Beijing Luyuanda") as purchaser

Date: 21 November 2016

Terms: 1 January 2017 to 31 December 2019

Subject Matter: Provision of LNG by Anhui Power Energy to Beijing Luyuanda in PRC

Basis of Pricing: The consideration is determined after arm's length negotiation based on normal commercial terms between the parties and be based on the following principles:

1. The market price of LNG in the PRC;

2. The selling price to Beijing Luyuanda shall not be lower than the selling price to the independent third parties in the market.

3. The selling price may be adjusted under the following circumstances:

   (i) the LNG producer or supplier of Anhui Power Energy adjusts its selling price;

   (ii) new governmental policy in relation to the selling price of LNG is implemented; and

   (iii) the delivery cost of the Anhui Power Energy has been increased due to the change of the fuel price.

Annual Caps: For the year ended 31 December 2018: RMB165,000,000

For the year ending 31 December 2019: RMB180,000,000

The total amount received from Beijing Luyuanda for the year ended 31 December 2018 amounted to approximately RMB25,757,000.

(ii) A LNG Supply Agreement entered into between Beijing Gas Blue Sky Energy Limited ("Beijing Blue Sky Energy") as supplier and Kunlun Energy Investment Shandong Company Limited ("Kunlun Energy Shandong") as purchaser

Date:	9 May 2018
Terms:	9 May 2018 to 8 May 2021
Subject Matter:	Provision of LNG by Beijing Blue Sky Energy to Kunlun Energy Shandong in the PRC
Basis of Pricing:	The consideration is determined after arm's length negotiation based on normal commercial terms between the parties and be based on the following principles: 1. the daily settlement price shall not be higher than the settlement price quoted by Sinopec; 2. the selling price to Kunlun Energy Shandong will be no less favourable than the selling price to the independent third parties ordering at the same time of similar order quantities; and 3. The selling price may be adjusted under the following circumstances: (i) the market price for LNG has changed drastically; or (ii) the transportation cost has changed drastically.
Annual Cap:	For the period commencing from 9 May 2018 to 31 December 2018: RMB170,000,000 For the year ending 31 December 2019: RMB255,000,000 For the year ending 31 December 2020: RMB255,000,000 For the period commencing from 1 January 2021 to 8 May 2021: RMB85,000,000

The total amount received from Kunlun Energy Shandong for the period from 9 May 2018 to 31 December 2018 amounted to approximately RMB89,672,000.

(iii) A LNG Supply Agreement entered into between Kunlun Energy Investment Shandong Company Limited ("Kunlun Energy Shandong") as supplier and Shandong Zhengweili Energy Limited ("Shandong Zhengweili") as purchaser

Date:	24 October 2018
Terms:	24 October 2018 to 23 October 2019
Subject Matter:	Provision of LNG by Kunlun Energy Shandong to Shandong Zhengweili in the PRC
Basis of Pricing:	The consideration is determined after arm's length negotiation based on normal commercial terms between the parties and be based on the following principles:

1. the market price of LNG in the PRC;
2. the purchase price from Kunlun Energy Shandong will be no less favourable than the purchase price from the independent third parties purchasing at the same time of similar order quantities; and
3. The purchase price may be adjusted under the following circumstances:
   (i) the market price for LNG has changed; or
   (ii) the transportation cost has changed.

The annual cap for the year commencing from 24 October 2018 to 23 October 2019 is RMB200,000,000.

Shandong Zhengweili has not commenced purchase of LNG from Kunlun Energy Shandong for the period from 24 October 2018 to 31 December 2018.

The independent non-executive Directors of the Company have reviewed and confirmed that the CCTs as set out above have been entered into by the Group:

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

(ii) on normal commercial terms or better; and

(iii) on terms that are fair and reasonable and in the interests of the shareholders and the Company as a whole.

The auditors of the Company were engaged to report on the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transaction under the Hong Kong Listing Rules" issued by the HKICPA. The auditors have provided a letter to the Board confirming that nothing has come to their attention that causes them to believe the CCTs:

(i) have not been approved by the Board;

(ii) were not, in all material respects, in accordance with the pricing policies of the Group;

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

(iv) have exceeded the annual caps as set by the Company.

DIVIDEND POLICY

The Company has adopted a dividend policy, pursuant to which the Company may declare and distribute dividends to the shareholders of the Company, provided that the Group is profitable and having retained adequate reserves for future growth.

In proposing any dividend payout, the Board shall take into account the following factors:

- the Group's current and future operations;
- the Group's capital requirements;
- the Group's liquidity position;
- the Group's debt to equity ratios and the debt level;
- retained earnings and distributable reserves of the Company and each of the other members of the Group;
- statutory and regulatory restrictions;
- other internal or external factors that may have an impact on the business or financial performance and positions of the Company; and
- other factors that the Board deems relevant.

ANNUAL GENERAL MEETING

The annual general meeting will be held on Wednesday, 12 June 2019. A notice convening the annual general meeting will be issued to the shareholders of the Company together with this annual report, which will also be available on the SEHK's website at www.hkexnews.hk and the Company's website at www.bgbluesky.com.

CORPORATE GOVERNANCE

The Company has adopted the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on SHEK (the "Listing Rules"). The Company has complied with the code provisions set out in the CG Code throughout the year ended 31 December 2018 except for the following deviations:

Code provision A.2.1

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Cheng Ming Kit, a co-chairman of the Company, was appointed as chief executive officer on 19 January 2018 and performed both the roles of chairman and chief executive officer of the Company which is deviated from code provision A.2.1 of the CG Code. The Company believes that Mr. Cheng Ming Kit servers as both the co-chairman and the chief executive officer of the Company is more efficient and effective for the Company to develop its long-term strategies and in the execution of its business plans.

Code provision A.6.7

Under code provision A.6.7 of the CG Code, independent non-executive directors and non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

Mr. Zhi Xiaoye, a non-executive Director, and Mr. Pang Siu Yin, an independent non-executive Director, were unable to attend the special general meeting and the annual general meeting of the Company held on 16 May 2018 and 8 June 2018, respectively due to their other business commitments.

Code provision E.1.2

Under code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting. The co-chairmen of the Board, Mr. Cheng Ming Kit and Mr. Zhi Xiaoye, were unable to attend the annual general meeting of the Company held on 8 June 2018 due to their other business commitments.

CHANGES IN DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in the information of Directors required to be disclosed pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) subsequent to the publication of the 2018 interim report are set out below:

(i) Mr. Pang has resigned as an independent non-executive director of Affluent Partners Holdings Limited (stock code: 1466), a company listed on the Main Board of the Stock Exchange, with effect from 13 September 2018.

(ii) Mr. Tam Man Kin has resigned as an executive Director of the Company with effect from 13 October 2018.

(iii) Mr. Sze Chun Lee has resigned as an executive Director of the Company with effect from 4 February 2019.

Save as disclosed above, the Company is not aware of any other changes in the directors' information which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules and it's amendments from time to time as its own code of conduct regarding securities transaction by the Directors. The Board confirms that, having made specific enquiries with all Directors, all Directors have complied with the required standards of the Model Code throughout the Year.

SUBSIDIARIES

Details of the Company's principal subsidiaries are set out in note 49 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public throughout the year ended 31 December 2018 and as at the date of this annual report.

ACCOUNTABILITY

The Board aims to ensure that the interim and annual financial statements and results announcements are presented in a manner which provides a balanced and understandable assessment of the Group's performance, position and prospect. The financial statements have been prepared in accordance with the International Financial Reporting Standards and give a true and fair view of the state of affairs of the Group at the end of the financial year. The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group for the year ended 31 December 2018.

AUDIT COMMITTEE

The Audit Committee comprises four members, namely, Mr. Lim Siang Kai, Mr. Wee Piew, Mr. Ma Arthur On-hing and Mr. Pang Siu Yin, all being independent non-executive Directors. It has reviewed the accounting principles and standards adopted by the Group, and has discussed and reviewed the risk management and internal control and reporting matters. The Audit Committee has reviewed with the management the consolidated financial statements of the Group for the year ended 31 December 2018.

The Audit Committee has recommended to the Board the re-appointment of Deloitte Touche Tohmatsu as the external auditors of the Company at the forthcoming annual general meeting.

AUDITORS

The consolidated financial statements for the year ended 31 December 2018 were audited by Deloitte Touche Tohmatsu, who will retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board of Directors

Mr. Cheng Ming Kit
Director

Mr. Hung Tao
Director

28 March 2019

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

To the Members of Beijing Gas Blue Sky Holdings Limited
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Beijing Gas Blue Sky Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 94 to 235, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, 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 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS Standards") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill and operating rights	
We identified the impairment assessment in relation to goodwill and operating rights of the Group's subsidiaries as a key audit matter due to their significance to the consolidated financial statements. In addition, estimation uncertainty is associated with determining the recoverable amounts of the goodwill and operating rights for impairment assessment. The Group engaged independent professorial valuer as management's expert for the purpose of impairment assessment. As disclosed in note 22 to the consolidated financial statements, the Group's goodwill and operating rights amounted to approximately HK$1,139,731,000 and HK$1,234,621,000, respectively as at 31 December 2018. No impairment loss has been recognised against goodwill and operating rights for the year then ended. As disclosed in note 4 to the consolidated financial statements, value in use method is used by the management to estimate recoverable amounts of respective cash generating units ("CGUs"), being different natural gas operations of the Group. Key assumptions made by the management in the impairment assessment include the overall growth rates and discount rates applied, all of which vary based on the stage of development of the Group's natural gas operations and management's expectation for the market development of natural gas business in the People's Republic of China (the "PRC").	Our audit procedures in relation to the impairment assessment of goodwill and operating rights performed by the management included: • obtaining the value in use calculations ("Cashflow Forecasts") of the CGUs to which the Group's goodwill and operating rights are allocated and understanding the key management assumptions adopted in these Cashflow Forecast through enquiries with the management; • obtaining an understanding of independent professional valuer's competence, capabilities and objectivity and evaluate how the valuer's work was relied on by management for impairment assessment; • challenging the appropriateness of the key assumptions adopted by the management in the Cashflow Forecasts, such as the forecast growth rates applied and unit prices of natural gas and comparing them with available market data and our knowledge of the current market development of natural gas industry in the PRC; • engaging our internal valuation specialist to evaluate the appropriateness of the discount rates used in the value in use calculations; • comparing the underlying cash flows against historical performance of CGUs to test the accuracy of management's projections; and • reviewing the Cashflow Forecasts by stress testing key assumptions, assessing the impact on the sensitivity analysis, and understanding the degree to which assumptions would need to move before impairment would be triggered.

Key audit matter	How our audit addressed the key audit matter
Accounting related to acquisition of an associate	
We identified the accounting for the acquisition of PetroChina Jingtang LNG Co., Ltd. ("PetroChina Jingtang") as a key audit matter because of the significant impact of the acquisition has on the consolidated financial statements and because the valuations of 29% equity interests in PetroChina Jingtang in its entirety and identifiable assets and liabilities acquired can be inherently subjective and requires significant judgment and estimation which increases the risk of error or potential management bias. As disclosed in note 23 to the consolidated financial statements, gain arising from acquisition of PetroChina Jingtang of approximately HK$197,951,000, which represented the excess of the difference between the fair values of 29% equity interests in PetroChina Jingtang in its entirety and the share consideration on completion date. Such amount is recognised in the consolidated statement of profit or loss and other comprehensive income for the year. The fair values of 29% equity interests in PetroChina Jingtang in its entirety and the identifiable assets and liabilities acquired were assessed by the management based on independent valuations prepared by independent professional valuer (the "Valuer") which required the exercise of significant judgement and estimation.	Our audit procedures in assessing accounting related to the acquisition of PetroChina Jingtang included: • inspecting the sale and purchase agreement and evaluating management's accounting treatment for the acquisition with reference to the terms set out in the sale and purchase agreement and assessing the appropriateness of the related disclosures in note 23 to the consolidated financial statements regarding the calculation of gain arising from acquisition of PetroChina Jingtang; • obtaining the valuation reports (the "Valuation") in relation to the determination of the fair values of identifiable net assets of PetroChina Jingtang at the date of acquisition and understanding the key management assumptions adopted in the Valuation through enquiries with the management and the Valuer; • evaluating the competence, capabilities, and objectivity of the Valuer and obtaining an understanding of the Valuer's scope of work and their terms of engagement; and • assessed the reasonableness of key assumptions such as revenue growth rates and gross margins applied by management by comparing them with economic and industry forecasts to access the reasonableness of management forecasts.

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 IFRS Standards 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 Section 90 of the Bermuda Companies Act, 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.

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

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

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

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

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

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

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

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
28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018** ***HK$'000***	2017 *HK$'000*
Continuing operations			
Revenue	5	**2,148,480**	1,451,140
Cost of sales		**(1,950,108)**	(1,283,566)
Gross profit		**198,372**	167,574
Other gains and losses	7	**64,125**	100,687
Other income	8	**36,258**	13,411
Impairment losses on financial assets	10	**(21,325)**	(763)
Administrative expenses		**(284,814)**	(180,071)
Other expenses		**(10,713)**	(16,993)
Finance costs	9	**(241,764)**	(165,652)
Share of profit/(loss) of associates		**251,485**	(4,833)
Share of (loss)/profit of joint ventures		**(923)**	1,883
Gain on deemed partial disposal of an associate		**1,588**	239
Gain on partial disposal of joint ventures		**2,625**	–
Gain on disposal of subsidiaries	43	**66,323**	14,627
Gain arising from acquisition of an associate	23	**197,951**	–
Gain on disposal of a joint venture		**–**	10,049
Profit/(loss) before income tax	11	**259,188**	(59,842)
Income tax credit/(expense)	12	**2,328**	(5,791)
Profit/(loss) for the year from continuing operations		**261,516**	(65,633)
Discontinued operation			
Profit for the year from discontinued operation	13	**–**	69,448
Profit for the year		**261,516**	3,815
Other comprehensive (expenses)/income			
Item that will not be reclassified to profit or loss:			
Exchange (loss)/gain arising on translation to presentation currency		**(233,397)**	21,657
Fair value gain on financial assets at fair value through other comprehensive income		**48,746**	–
Item that may be reclassified subsequently to profit or loss:			
Exchange (loss)/gain on translation of foreign operations		**(3,771)**	13,673
		(188,422)	35,330
Total comprehensive income for the year		**73,094**	39,145
Profit/(loss) for the year attributable to owners of the Company			
Continuing operations		**260,657**	(82,791)
Discontinued operation		**–**	70,302
		260,657	(12,489)
Non-controlling interests		**859**	16,304
		261,516	3,815
Total comprehensive income/(expense) for the year attributable to:			
Owners of the Company		**75,120**	18,962
Non-controlling interests		**(2,026)**	20,183
		73,094	39,145
Earnings/(loss) per share	16		
From continuing and discontinued operations			
– Basic		**HK2.27 cents**	HK(0.13) cents
– Diluted		**HK2.09 cents**	HK(0.32) cents
From continuing operations			
– Basic		**HK2.27 cents**	HK(0.84) cents
– Diluted		**HK2.09 cents**	HK(1.00) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Prepaid lease payments	17	**41,579**	51,681
Property, plant and equipment	18	**620,667**	727,905
Investment properties	19	**–**	–
Intangible assets	20	**1,234,621**	1,306,494
Goodwill	21	**1,139,731**	1,212,765
Interests in associates	23	**1,821,615**	210,320
Interests in joint ventures	24	**355,445**	374,866
Deposits for acquisition of subsidiaries		**803,080**	651,477
Deposits for acquisitions of property, plant and equipment		**82,369**	86,477
Prepayment		**15,115**	19,472
Promissory note receivable	32	**–**	7,410
Financial assets at fair value through other comprehensive income	30	**224,366**	–
Available-for-sale investments	31	**–**	134,828
Other non-current assets		**300**	300
		6,338,888	4,783,995
Current assets			
Prepaid lease payments	17	**5,408**	4,674
Inventories	25	**56,982**	22,369
Contract assets	26	**93,038**	–
Amounts due from customers for contract works	27	**–**	6,776
Trade and other receivables	28	**1,154,856**	703,296
Amounts due from non-controlling shareholders of subsidiaries	29	**–**	12,447
Amounts due from joint ventures	24	**37,589**	15,539
Amounts due from associates	23	**30,736**	18,865
Promissory note receivable	32	**8,311**	22,968
Financial assets at fair value through profit or loss	32	**220,918**	220,909
Cash and bank balances	33	**281,604**	127,725
		1,889,442	1,155,568

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 *HK$'000*	2017 *HK$'000*
Current liabilities			
Trade and other payables	34	**254,044**	462,053
Amounts due to customers for contract works	27	**–**	1,006
Contract liabilities	35	**269,733**	–
Amounts due to non-controlling shareholders of subsidiaries	29	**–**	155,703
Bank and other borrowings	36	**925,182**	253,902
Obligations under finance leases	39	**2,568**	83,214
Convertible bonds	40	**331,916**	129,160
Embedded derivatives at fair value through profit or loss	40	**6,003**	23,239
Amounts due to joint ventures	24	**–**	15,280
		1,789,446	1,123,557
Net current assets		**99,996**	32,011
Total assets less current liabilities		**6,438,884**	4,816,006
Capital and reserves			
Share capital	37	**714,236**	541,362
Reserves		**4,314,506**	2,758,023
Equity attributable to owners of the Company		**5,028,742**	3,299,385
Non-controlling interests		**84,654**	110,523
Total equity		**5,113,396**	3,409,908
Non-current liabilities			
Amounts due to joint ventures	24	**72,145**	–
Obligations under finance leases	39	**63,659**	83,638
Bank and other borrowings	36	**555,578**	478,750
Convertible bonds	40	**326,325**	517,961
Deferred tax liabilities	41	**307,781**	325,749
		1,325,488	1,406,098
		6,438,884	4,816,006

The consolidated financial statements on pages 94 to 235 were approved and authorised for issue by the Board of Directors on 28 March 2019 and are signed on its behalf by:

Mr. Cheng Ming Kit
Director

Mr. Hung Tao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company											
	Share capital *HK$'000*	**Share premium** *HK$'000*	**Share option reserve** *HK$'000*	**Convertible note equity reserve** *HK$'000*	**FVTOCI reserve** *HK$'000*	**Merger reserve** *HK$'000* (Note i)	**Other reserve** *HK$'000*	**Translation reserve** *HK$'000*	**Accumulated profits** *HK$'000*	**Sub-total** *HK$'000*	**Non-controlling interests** *HK$'000*	**Total** *HK$'000*
At 1 January 2017	529,915	2,599,633	7,788	116,059	–	(43,048)	(58,726)	(37,480)	93,730	3,207,871	67,823	3,275,694
(Loss)/profit for the year	–	–	–	–	–	–	–	–	(12,489)	(12,489)	16,304	3,815
Other comprehensive income for the year	–	–	–	–	–	–	–	31,451	–	31,451	3,879	35,330
Total comprehensive income/(expense) for the year	–	–	–	–	–	–	–	31,451	(12,489)	18,962	20,183	39,145
Issue of shares upon conversion of convertible bonds	9,006	67,843	–	(21,809)	–	–	–	–	–	55,040	–	55,040
Issue of shares upon exercise of share options	2,441	13,150	(1,223)	–	–	–	–	–	–	14,368	–	14,368
Recognition of equity-settled share-based payments	–	–	6,728	–	–	–	–	–	–	6,728	–	6,728
Transfer to accumulated profits upon forfeiture of share options	–	–	(203)	–	–	–	–	–	203	–	–	–
Disposal of subsidiaries (Note 43)	–	–	–	–	–	–	(3,584)	–	–	(3,584)	(10,887)	(14,471)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	27,388	27,388
Capital injection from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	6,016	6,016
At 31 December 2017	541,362	2,680,626	13,090	94,250	–	(43,048)	(62,310)	(6,029)	81,444	3,299,385	110,523	3,409,908
Adjustment on application of IFRS 9 (Note 2)	**–**	**–**	**–**	**–**	**20,379**	**–**	**–**	**–**	**(31,993)**	**(11,614)**	**(16,196)**	**(27,810)**
At 1 January 2018 (restated))	**541,362**	**2,680,626**	**13,090**	**94,250**	**20,379**	**(43,048)**	**(62,310)**	**(6,029)**	**49,451**	**3,287,771**	**94,327**	**3,382,098**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**260,657**	**260,657**	**859**	**261,516**
Other comprehensive income/(expense) for the year	**–**	**–**	**–**	**–**	**48,746**	**–**	**–**	**(234,283)**	**–**	**(185,537)**	**(2,885)**	**(188,422)**
Total comprehensive income/(expense) for the year	**–**	**–**	**–**	**–**	**48,746**	**–**	**–**	**(234,282)**	**260,657**	**75,120**	**(2,026)**	**73,094**
Issue of shares by way of placing	**5,500**	**51,500**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**57,000**	**–**	**57,000**
Issue of shares upon conversion of convertible bonds	**32,916**	**330,344**	**–**	**(94,250)**	**–**	**–**	**–**	**–**	**–**	**269,010**	**–**	**269,010**
Issue of shares upon exercise of share options	**2,034**	**16,325**	**(4,313)**	**–**	**–**	**–**	**–**	**–**	**–**	**14,046**	**–**	**14,046**
Recognition of equity-settled share-based payments	**–**	**–**	**1,555**	**–**	**–**	**–**	**–**	**–**	**–**	**1,555**	**–**	**1,555**
Transfer to accumulated profits upon forfeiture of share options	**–**	**–**	**(182)**	**–**	**–**	**–**	**–**	**–**	**182**	**–**	**–**	**–**
Disposal of subsidiaries (Note 43)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(10,391)**	**(10,391)**
Acquisition of an associate	**132,424**	**1,191,816**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,324,240**	**–**	**1,324,240**
Capital injection from non-controlling shareholders of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,744**	**2,744**
At 31 December 2018	**714,236**	**4,270,611**	**10,150**	**–**	**69,125**	**(43,048)**	**(62,310)**	**(240,312)**	**310,290**	**5,028,742**	**84,654**	**5,113,396**

Note:

i. This arose from the restructuring exercise and represents the difference between the nominal value of the Company's shares issued in exchange for the then consolidated net assets of the subsidiaries acquired as at 26 March 2007.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Cash flows from operating activities		
Profit for the year	**261,516**	3,815
Adjustments for:		
Amortisation of intangible assets	**71,873**	44,292
Amortisation of prepaid lease payments	**5,674**	1,527
Amortisation of other non-current assets	**–**	156
Amortisation investment properties	**–**	776
Depreciation of property, plant and equipment	**64,084**	22,858
Impairment loss		
– trade receivables	**21,325**	763
Taxation	**(2,328)**	5,791
Change in fair value of financial assets at FVTPL	**56,886**	(26,439)
Change in fair value of embedded derivatives at FVTPL	**(53,438)**	(94,798)
Interest income	**(28,494)**	(9,687)
Interest expenses	**241,764**	165,652
Share of (profit)/loss of associates	**(251,485)**	4,832
Share of loss/(profit) of joint ventures	**923**	(1,883)
Gain on partial disposal of a joint venture	**(2,625)**	–
Gain on disposal of a joint venture	**–**	(10,049)
Gain arising from acquisition of an associate	**(197,951)**	–
Gain on deemed partial disposal of an associate	**(1,588)**	(239)
Gain on disposal of subsidiaries	**(66,323)**	(87,490)
Unrealised net exchange (gain)/loss	**(54,895)**	22,937
Expenses for equity-settled share-based payment	**1,555**	6,728
Operating cash flows before movements in working capital	**66,473**	49,542
Increase in inventories	**(40,879)**	(6,277)
Increase in contract assets	**(86,262)**	–
Increase in amounts due from customers for contract works	**–**	(6,776)
Increase in contract liabilities	**100,119**	–
Increase in amounts due to customers for contract works	**–**	1,006
Increase in trade and other receivables	**(61,387)**	(237,129)
Increase/(decrease) in trade and other payables	**141,763**	(13,255)
Cash from/(used in) operations	**119,827**	(212,889)
Income taxes paid	**(19,704)**	(14,450)
Interest paid	**(98,635)**	(55,161)
Net cash generated from/(used in) operating activities	**1,488**	(282,500)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 *HK$'000*	2017 *HK$'000*
Cash flows from investing activities			
Interest received		**26,311**	6,158
Advance to loan and bond receivables		**(427,195)**	–
Repayment from consideration receivables		**86,811**	–
Advance to construction cost payables		**(55,073)**	–
Purchases of property, plant and equipment		**(34,427)**	(14,410)
Deposits paid for acquisition of subsidiaries		**(185,402)**	(303,743)
Deposits paid for acquisition of property, plant and equipment		**–**	(2,465)
Acquisition of subsidiaries	42	**–**	(194,616)
Investment in associates		**(2,447)**	–
Dividend received from associates		**144,500**	–
Repayment from non-controlling shareholders of subsidiaries		**12,447**	6,115
Advance to associates		**(11,871)**	(18,865)
Advance to joint ventures		**(22,050)**	–
Repayment from joint ventures		**–**	50,439
Purchase of financial assets at FVTPL		**(143,068)**	(25,961)
Purchase of financial assets at FVTOCI		**(20,413)**	–
Proceeds from disposal of financial assets at FVTPL		**26,173**	4,296
Proceeds from redemption of promissory note receivable		**24,250**	10,000
Proceeds from partial disposal of subsidiaries		**–**	197,457
Proceeds from partial disposal of joint ventures		**2,326**	–
Disposal of subsidiaries	43	**(1,520)**	–
Net cash used in investing activities		**(580,648)**	(285,595)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 *HK$'000*	2017 *HK$'000*
Cash flows from financing activities		
Proceeds from issue of shares by way of placing	**57,000**	–
Proceeds from issue of convertible bonds	**180,000**	348,798
Transaction cost attributable to issue of convertible bonds	**(6,797)**	(61,282)
Proceeds from exercise of share options	**14,046**	14,368
Repayment to non-controlling shareholders of subsidiaries	**(155,703)**	(144,209)
Proceeds from bank and other borrowings raised	**839,382**	439,652
Repayment of bank and other borrowings	**(91,274)**	–
Repayment of obligations under finance lease	**–**	(1,477)
Advance from joint ventures	**–**	6,282
Repayment to joint ventures	**(43,760)**	–
Capital contribution from non-controlling interests of subsidiaries	**2,744**	6,016
Net cash from financing activities	**795,638**	608,148
Net increase in cash and cash equivalents	**216,478**	40,053
Cash and cash equivalents as at 1 January	**127,725**	91,426
Effect of foreign exchange rate changes	**(62,599)**	(3,754)
Cash and cash equivalents as at 31 December represented by cash and bank balances	**281,604**	127,725

1. GENERAL INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and were voluntarily delisted on Singapore Exchange Securities Trading Limited on 23 February 2018.

The address of its registered office and the principal place of business of the Company are Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Room 1411, 14/F., New World Tower I, 16-18 Queen's Road Central, Hong Kong respectively.

The principal activity of the Company is investment holding. The Company's subsidiaries are principally engaged in sales and distribution of natural gas and other related products.

The consolidated financial statements are presented in Hong Kong dollars ("HK$") and the functional currency of the Company is Renminbi ("RMB"). As the Company is a listed entity in Hong Kong, the directors of the Company consider that it is appropriate to present the consolidated financial statements in HK$.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS Standards")

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

The Group has applied the following new and amendments to IFRS Standards issued by the International Accounting Standards Board (the "IASB") for the first time in the current year:

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

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS Standards") (Continued)

New and Amendments to IFRS Standards that are mandatorily effective for the current year (Continued)

2.1 IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 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 IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue* and IAS 11 *Construction Contracts* and the related interpretations.

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

- Natural gas refuelling station
- Trading and distribution of natural gas
- City Gas, pipeline construction fee, value-added service and others

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

2. APPLICATION OF NEW AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS Standards") (Continued)

New and Amendments to IFRS Standards that are mandatorily effective for the current year (Continued)

2.1 IFRS 15 Revenue from Contracts with Customers (Continued)

Summary of effects arising from initial application of IFRS 15

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

	Notes	Carrying amounts previously reported at 31 December 2017	Reclassification	Carrying amounts under IFRS 15 at 1 January 2018*
		HK$'000	*HK$'000*	*HK$'000*
Current Assets				
Amounts due from customers for contract works	(a)	**6,776**	**(6,776)**	**–**
Contract assets	(a)	**–**	**6,776**	**6,776**
Current Liabilities				
Trade and other payables	(b)	**462,053**	**(168,608)**	**293,445**
Amounts due to customers for contract works	(a)	**1,006**	**(1,006)**	**–**
Contract liabilities	(a, b)	**–**	**169,614**	**169,614**

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

Notes:

(a) In relation to construction contracts previously accounted under IAS 11, the Group continues to apply input method in estimating the performance obligations satisfied up to date upon initial application of IFRS 15. HK$6,776,000 and HK$1,006,000 of amounts due from/to customers for contract works were reclassified to contract assets and contract liabilities respectively.

(b) As at 1 January 2018, advances from customers of HK$168,608,000 in respect of consideration for contracts with customers previously included in trade and other payables were reclassified to contract liabilities.

The directors of the Company assessed that the application of IFRS 15 have no material impact on the timing and amounts of revenue recognised.

The following tables summarise the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and consolidated statement of cash flows for the year ended 31 December 2018. There is no impact on the Group's consolidated statement of profit or loss and other comprehensive income for the current year. Line items that were not affected by the changes have not been included.

2. APPLICATION OF NEW AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS Standards") (Continued)

New and Amendments to IFRS Standards that are mandatorily effective for the current year (Continued)

2.1 IFRS 15 Revenue from Contracts with Customers (Continued)

Impact on the consolidated statement of financial position

	As reported *HK$'000*	Adjustments *HK$'000*	Amounts without application of IFRS 15 *HK$'000*
Current Assets			
Amounts due from customers for contract works	–	93,038	93,038
Contract assets	93,038	(93,038)	–
Current Liabilities			
Trade and other payables	254,044	242,950	496,994
Amounts due to customers for contract works	–	26,783	26,783
Contract liabilities	269,733	(269,733)	–

Impact on the consolidated statement of cash flows

	As reported *HK$'000*	Adjustments *HK$'000*	Amounts without application of IFRS 15 *HK$'000*
Operating activities			
Increase in contract assets	(86,262)	86,262	–
Increase in trade and other receivables	(6,576)	(86,262)	(92,838)
Increase in contract liabilities	100,119	(100,119)	–
Increase in trade and other payables	87,871	74,342	162,213
Increase in amounts due to customers for contract works	–	25,777	25,777

Except as described above, the application of IFRS15 has had no material impact on the amount reported in the consolidated financial statements.

2. APPLICATION OF NEW AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS Standards") (Continued)

New and Amendments to IFRS Standards that are mandatorily effective for the current year (Continued)

2.2 IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRS Standards. IFRS 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 IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 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 IAS 39 *Financial Instruments: Recognition and Measurement ("IAS 39")*.

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

2. APPLICATION OF NEW AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS Standards") (Continued)

New and Amendments to IFRS Standards that are mandatorily effective for the current year (Continued)

2.2 IFRS 9 Financial Instruments (Continued)

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Notes	Financial assets designated at FVTPL	Financial assets at FVTPL required by IAS 39/ IFRS 9	Available-for-sale investments	Contract assets	Trade and other receivables	Financial assets at FVTOCI	FVTOCI reserve	Accumulated profits	Non-controlling interest
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Closing balance at 31 December 2017 – IAS 39		149,373	71,536	134,828	–	703,296	–	–	81,444	110,523
Effects arising from initial application of IFRS 15		–	–	–	6,776	–	–	–	–	–
Effects arising from initial application of IFRS 9:										
Reclassification										
From available-for-sale	(a)	–	–	(134,828)	–	–	134,828	–	–	–
From designated at FVTPL	(b)	(149,373)	149,373	–	–	–	–	–	–	–
Remeasurement										
Impairment under ECL model	(c)	–	–	–	–	(48,189)	–	–	(31,993)	(16,196)
From cost less impairment to fair value	(a)	–	–	–	–	–	20,379	(20,379)	–	–
Opening balance at 1 January 2018		–	220,909	–	6,776	655,107	155,207	(20,379)	49,451	94,327

2. APPLICATION OF NEW AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS Standards") (Continued)

New and Amendments to IFRS Standards that are mandatorily effective for the current year (Continued)

2.2 IFRS 9 Financial Instruments (Continued)

Summary of effects arising from initial application of IFRS 9 (Continued)

(a) Available-for-sale ("AFS") investments

The Group elected to present in Other Comprehensive Income ("OCI") for the fair value changes of all its equity investments previously classified as AFS 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 IFRS 9, fair value of HK$155,207,000 were reclassified from AFS investments to equity instruments at Fair Value through Other Comprehensive Income ("FVTOCI"), of which HK$134,828,000 represent the cost of unquoted equity investments previously measured at cost less impairment under IAS 39. The fair value gains of HK$20,379,000 relating to those unquoted equity investments previously carried at cost less impairment were adjusted to equity instruments at FVTOCI and FVTOCI reserve as at 1 January 2018.

(b) Financial assets at Fair Value through Profit and Loss ("FVTPL") and/or designated at FVTPL

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the convertible notes receivables. As a result, these investments of HK$149,373,000 were reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

The Group has reassessed its investments in equity securities and security funds classified as held for trading under IAS 39 as if the Group had purchased these investments at the date of initial application. Based on the facts and circumstances as at the date of initial application, HK$29,669,000 of the Group's investments were held for trading and continued to be measured at FVTPL. HK$41,867,000 of the Group's investments were no longer held for trading and the investment security funds also continued to be measured at FVTPL.

There was no impact on the amounts recognised in relation to these assets from the application of IFRS 9.

2. APPLICATION OF NEW AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS Standards") (Continued)

New and Amendments to IFRS Standards that are mandatorily effective for the current year (Continued)

2.2 IFRS 9 Financial Instruments (Continued)

Summary of effects arising from initial application of IFRS 9 (Continued)

(c) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables and contract assets. The balances are grouped based on internal credit rating and past due analysis. 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 estimated the expected loss rates for the trade receivables and the contract assets on the same basis. The Group considers that the ECL on contract assets is insignificant after the assessment by the management of the Group.

ECL for other financial assets at amortised cost including bank balances, other receivables, promissory note receivable, amounts due from non-controlling shareholders of subsidiaries, joint ventures and associates, are assessed on 12 months ("12m") ECL basis as there had been no significant increase in credit risk since initial recognition. The Group considers that the ECL on other financial assets is insignificant after the assessment by the management of the Group.

As at 1 January 2018, additional credit loss allowance of HK$48,189,000 has been recognised against accumulated profits. The additional loss allowance is charged against the respective asset.

All loss allowances as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Trade receivables
	HK$'000
At 31 December 2017	
– IAS 39	763
Amounts remeasured through opening accumulated profits	48,189
At 1 January 2018	48,952

2. APPLICATION OF NEW AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS Standards") (Continued)

New and Amendments to IFRS Standards that are mandatorily effective for the current year (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 Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited) *HK$'000*	IFRS 15 *HK$'000*	IFRS 9 *HK$'000*	1 January 2018 (Restated) *HK$'000*
Non-current Assets				
AFS investments	134,828	–	(134,828)	–
Financial assets at FVTOCI	–	–	155,207	155,207
Current Assets				
Trade and other receivables	703,296	–	(48,189)	655,107
Amounts due from customers for contract works	6,776	(6,776)	–	–
Contract assets	–	6,776	–	6,776
Current Liabilities				
Trade and other payables	462,053	(168,608)	–	293,445
Amounts due to customers for contract works	1,006	(1,006)	–	–
Contract liabilities	–	169,614	–	169,614
Capital and Reserves				
FVTOCI reserve	–	–	(20,379)	(20,379)
Accumulated profits	81,444	–	(31,993)	49,451
Non-controlling interests	110,523	–	(16,196)	94,327

2. APPLICATION OF NEW AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS Standards") (Continued)

New and amendments to IFRS Standards in issue but not yet effective

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

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

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

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

2. APPLICATION OF NEW AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS Standards") (Continued)

New and amendments to IFRS Standards in issue but not yet effective (Continued)

IFRS 16 Leases

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

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 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 while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cashflows in accordance with the nature, as appropriate.

Under IAS 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 IFRS 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 also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

2. APPLICATION OF NEW AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS Standards") (Continued)

New and amendments to IFRS Standards in issue but not yet effective (Continued)

IFRS 16 Leases (Continued)

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$22,811,000 as disclosed in note 44. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 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$6,246,000 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 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 IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 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 IAS 17 and IFRIC 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 IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening accumulated profits without restating comparative information.

Amendments to IFRS 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 1 January 2020.

2. APPLICATION OF NEW AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS Standards") (Continued)

New and amendments to IFRS Standards in issue but not yet effective (Continued)

Amendments to IAS 1 and IAS 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 IFRS Standards and will be mandatorily effective for the Group's annual period beginning on 1 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRS Standards. 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 under historical cost basis except for certain financial instruments that are measured at fair values at the end of the reporting period, as explained in the set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

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 IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A fair value measurement of a non-financial asset takes into account market participants' 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 financial instruments and 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 so that at initial recognition 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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 consolidated 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.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in 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 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 IFRS Standards). 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 IFRS 9/IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combination

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 value 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 principally 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 IAS 12 "Income taxes" and IAS 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 IFRS 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 IFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that standard.

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 reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquire 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 initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities 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 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 group 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.

A cash-generating unit (or 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 group of cash-generating units) to which goodwill has been allocated is tested for impairment before 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 group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash–generating units, the attributable amount of goodwill is included in the determination of the amount of gain or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash–generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates and joint ventures

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 associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an interest in an associate or 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 or 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 a joint venture exceeds the Group's interest in that 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.

An interest 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 interest 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 interest in an associate and joint ventures may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 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 IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates and joint ventures (Continued)

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 IFRS 9/IAS 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 or 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 or joint venture that are not related to the Group.

Foreign currencies

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are retranslated at the foreign exchange rates ruling at that date. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

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

In the consolidated financial statements, all individual financial statements of foreign operations, originally in a currency different from the Company's functional currency i.e. RMB, have been converted into RMB for consolidation. Assets and liabilities would then be translated into HK$, the Group's presentation currency, at the closing rates at the reporting date. Income and expenses have been converted into HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Exchange differences arising, if any, have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity. Exchange differences in relation to foreign operations would be reclassified to profit or loss upon disposal of the foreign operations. Exchange difference arising in translation to presentation currency would not be reclassified to profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods and services, or for administrative purposes other than construction-in-progress ("CIP"), are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent impairment losses, if any. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use.

CIP represents buildings under construction for production or supply of goods or for administrative purposes. These are carried at cost less any impairment losses and are not depreciated. Cost comprises direct costs, such as cost of materials, direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use incurred during the periods of construction. CIP is reclassified as buildings and depreciation commences when the construction work is completed and the asset is ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than CIP) less their estimated residual value over their estimated useful lives, at the following rates per annum:

On straight-line method

Leasehold buildings held for own use	$3\frac{1}{3}$%
Plant and machinery – natural gas business	10%
Gas pipelines	Over the shorter of 30 years or operation period of the relevant company
Furniture, fixtures and equipment	20%
Motor vehicles	30%
Leasehold improvements	Over the shorter of term of the lease, or 5 years

The asset's estimated residual value, depreciation method and estimated useful live are reviewed, and adjusted if appropriate, at each reporting date.

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 retirement or disposal is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and is recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties are buildings which are owned to earn rental income and/or for capital appreciation, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is provided so as to write off the cost of investment property less their estimated residual value using straight-line method over the lease term of 30 years. The asset's estimated residual value, depreciation method and estimated useful live are reviewed, and adjusted if appropriate, at each reporting date.

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 the 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.

An item of property, plant and equipment would become an investment property when its use has changed as evidenced by end of owner-occupation.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives are carried at cost less accumulated amortisation and any subsequent impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line method over their estimated useful lives. Amortisation commences when the intangible assets are available for use. The assets' amortisation method and estimated useful lives are reviewed, and adjusted if applicable, at each reporting date, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill 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 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 and 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets 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 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 individual asset, 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 of an asset is the higher of its 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 assessment of time value of money and the risk specific to the asset (or a cash-generating unit) for which the future cash flow estimates 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, 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.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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 IFRS 15 since 1 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.

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 asset or financial liability, 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 IFRS 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 FVTOCI:

- 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

All other financial assets are subsequently measured at 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 OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

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. 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. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

(ii) Financial assets designated as at FVTOCI

Equity investments designated at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI 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 continue to be held in the FVTOCI reserve.

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.

(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. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets (upon application IFRS 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 IFRS 9 (including trade and other receivables, promissory note receivable, amounts due from joint ventures, amounts due from associates and bank balances) and contract 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, 12m 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 debtors with significant balances and collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

(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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

(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.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

(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.

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, size 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 loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

The Group's financial assets are classified into financial assets at FVTPL, loans and receivables and AFS. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the asset is (i) held for trading or (ii) it is designated as at FVTPL.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018) (Continued)

Financial assets at FVTPL (Continued)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial instruments: recognition and measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or losses excludes any interest paid on the financial assets and is included in the other gains and losses.

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 and other receivables, amounts due from non-controlling shareholders of subsidiaries, amount due from an associate, amounts due from joint ventures, promissory note receivable and cash and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018) (Continued)

AFS financial assets
AFS financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity instruments.

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

AFS 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 the accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets, other than those at FVTPL, 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 loans and receivables, the estimated future cash flows of the loans and receivables 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 and 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of IFRS 9 on 1 January 2018) (Continued)

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 a 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 trade receivables are considered uncollectible, they are 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 impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities 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.

Convertible notes contain debt component and equity component

The component parts of compound instruments (convertible notes) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument. At the date of issue, the fair value of the debt component is estimated by measuring the fair value of similar liability that does not have an associated equity component.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Convertible notes contain debt component and equity component (Continued)

The conversion option classified as equity is determined by deducting the amount of the debt component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. The conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. When the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to accumulated profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the debt and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the debt component are included in the carrying amount of the debt component and are amortised over the lives of the convertible notes using the effective interest method.

Convertible bonds contain debt component and derivative component

A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative.

At the date of issue, both the debt and derivative components are recognised at fair value. In subsequent periods, the debt component of the convertible bonds is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative component is charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Derivative financial instruments (Continued)

Embedded derivatives (before application of IFRS 9 on 1 January 2018)

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. Generally, multiple embedded derivatives in a single instrument are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

Financial liabilities

The Group's financial liabilities included trade and other payables, bank and other borrowings, amounts due to non-controlling shareholders of subsidiaries and amounts due to joint ventures. Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. They are subsequently measured at amortised cost, using the effective interest method.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial assets when the contractual rights to receive cash flows from the financial assets expire.

On derecognition of a financial asset, the difference between the asset's carrying amount and 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 IFRS 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.

The Group derecognises financial liability when the obligation under the financial liability is discharged or cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using weighted average method, and comprises all costs of purchase, and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated cost necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the year in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the year in which the reversal occurs.

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.

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 (see the accounting policy below).

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasehold land and building

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 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.

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

Under IFRS 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 IFRS 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.

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.

Revenue recognition (prior to 1 January 2018)

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

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 net for each of the Group's activities, as described below.

Gas supply is recognised when gas is supplied to/used by the customers.

Deposits received by the Group prior to meeting the above for revenue recognition criteria are included in the consolidated statement of financial position under current liabilities as advances received from customers for sales of natural gas and pipeline construction work.

The Group's policies for the recognition of revenue from construction services and rental income are described in the accounting policies for construction contracts and leases below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

Employee benefits

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.

When share options are exercised, the amount previously recognised in 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

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 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.

Taxation

Income tax 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 (loss) before income tax as reported in the consolidated statement of profit or loss and other comprehensive expense because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

The carrying amount of deferred tax assets is reviewed at the end of the 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.

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

Current and deferred tax are recognised in profit or loss, except when they relates 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the management are required to make judgments, 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 ongoing 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.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill and operating rights of the Group's subsidiaries

Determining whether goodwill and operating rights are impaired requires an estimation of the value in use of the cash generating units to which goodwill and operating rights have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or changes in facts and circumstances which results in downward revision of future cash flows, a material impairment loss may arise. When the actual future cash flows are more than expected, a reversal of previously recognised impairment loss on operating rights (if any) may arise. As at 31 December 2018, the carrying amount of the Group's goodwill and operating rights are approximately HK$1,139,731,000 (2017: HK$1,212,765,000) and HK$1,234,621,000 (2017: HK$1,306,494,000) respectively.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Fair value of embedded derivative financial instruments of convertible bonds

The directors of the Company use their judgements in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. In determining the fair value of the embedded derivatives of the convertible bonds, assumptions are made based on quoted market rates adjusted for specific features of the instrument (see note 40 for details of the valuation technique adopted and inputs for fair value measurements).

Estimation of depreciation of property, plant and equipment

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 year. 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 31 December 2018, the carrying value of property, plant and equipment was HK$620,667,000 (2017: HK$727,905,000).

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on aging report or internal credit rating as groupings of various debtors that have similar credit patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable, supportable and available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 50 and 28 respectively.

5. REVENUE

A. For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2018		
Segments	Natural gas refuelling station *HK$'000*	Trading and distribution of natural gas *HK$'000*	City Gas, pipeline construction fee, value-added service and others *HK$'000*
Types of sale channels and nature of goods and services rendered			
Natural gas refuelling station			
Liquefied natural gas ("LNG")	**46,673**	**–**	**–**
Compressed natural gas ("CNG")	**126,332**	**–**	**–**
	173,005	**–**	**–**
Trading and distribution of natural gas			
LNG	**–**	**883,144**	**–**
CNG	**–**	**6,006**	**–**
Fuel oil and other related oil by-products	**–**	**27,980**	**–**
	–	**917,130**	**–**
City Gas, pipeline construction fee, value-added service and others			
LNG	**–**	**–**	**363,337**
CNG	**–**	**–**	**439,766**
Pipeline construction fee	**–**	**–**	**209,858**
Other related products	**–**	**–**	**45,384**
	–	**–**	**1,058,345**
Total	**173,005**	**917,130**	**1,058,345**
Timing of revenue recognition			
A point in time	**173,005**	**917,130**	**848,487**
Over time	**–**	**–**	**209,858**
Total	**173,005**	**917,130**	**1,058,345**

All the revenue from customers are derived from the PRC.

5. REVENUE (Continued)

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

(ii) Performance obligations for contracts with customers

Natural gas refuelling station/trading and distribution of natural gas

For CNG and LNG refuelling stations for vehicles and distributing and trading of CNG and LNG as a wholesaler to industrial and commercial users through direct supply facilities, revenue is recognised at a point in time when the customers obtain the control of goods which is when the gas refuelling process have completed and the gas has been delivered to the wholesaler's specific location respectively. Transportation and other related activities that incurred before customers obtain control of the related products are considered as fulfilment activities. For trading and distribution of natural gas, the Group would require advance payment before the delivery of the natural gas for certain customers, any shortage against the periodically actual delivery of natural gas will be billed by the Group accordingly. The normal credit term for trading and distribution of natural gas is 30 days to 90 days upon delivery.

For natural gas refuelling station, customers are required to purchase an oil card and top up the advance payment stored in the card for future usage of natural gas to be supplied by the Group. The Group requires advance payment before the usage of natural gas through oil card. Any shortage resulted in the oil, the group grant a normal credit term of 30 days upon the issue of monthly statement of the oil card.

City Gas, pipeline construction fee, value-added service and others

For sales of natural gas to residential, industrial and commercial users through pipelines and other related products, revenue is recognised at a point in time when the customers obtain the control of goods when the gas are supplied to and consumed by the end users. The normal credit term is 30 days to 90 days upon delivery.

For pipeline construction fee, 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 IFRS 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 services 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 90 days to its customers.

5. REVENUE (Continued)

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

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

All sales of natural gas contracts and pipeline construction contracts are for original expected duration of one year or less. As permitted under IFRS 15, the transaction prices allocated to these unsatisfied contracts are to disclosed.

An analysis of the Group's revenue for the year for continuing operations is as follows:

	2018	2017
	HK$'000	*HK$'000*
Continuing operations		
Natural gas refuelling station	**173,005**	74,783
Trading and distribution of natural gas	**917,130**	876,836
City Gas, value-added service and others	**848,487**	363,877
Pipeline construction fee	**209,858**	135,644
	2,148,480	1,451,140

6. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision makers ("CODM"), for the purpose of resources allocation and assessment of segment performance focuses on sale channel and nature of the goods being sold or services rendered. These revenue streams and the basis of the internal reports about components of the Group are regularly reviewed by the CODM in order to allocate resources to segments and to assess their performance. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's operating and reportable segments under IFRS 8 are as follows:

1. Natural gas refuelling station – operation of CNG and LNG refuelling stations for vehicles

2. Trading and distribution of natural gas – distributing and trading CNG, LNG fuel oil and other related oil by-products as a wholesaler to industrial and commercial users through direct supply facilities

3. City Gas, pipeline construction fee, value-added service and others – sales of natural gas to residential, industrial and commercial users through pipelines, other income from value-added service, such as repair and maintenance service, pipeline construction fee, and others, such as sale of electricity and transportation income. As detailed in note 23(c), the Group acquired an associate during the year ended 31 December 2018 which is engaged in provision of port facilities for vessels and re-gasification of LNG, the result of which was included in this segment.

6. SEGMENT INFORMATION (Continued)

Segment revenue and results

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

For the year ended 31 December 2018

	Natural gas refuelling station *HK$'000*	Trading and distribution of natural gas *HK$'000*	City Gas, pipeline construction fee, value-added service and others *HK$'000*	Consolidated *HK$'000*
External segment revenue	173,005	917,130	1,058,345	2,148,480
Inter-segment sales	–	211,624	72,423	284,047
	173,005	1,128,754	1,130,768	2,432,527
Segment profit	9,065	50,736	503,809	563,610
Other income and other gains and losses				100,383
Central corporate expenses				(163,041)
Finance costs				(241,764)
Profit before income tax				259,188

Inter-segment sales are charged at prevailing market rates.

Segment profit for the year ended 31 December 2018 consists of gain arising from acquisition of an associate of HK$197,951,000 as detailed in note 23, gain on disposal of subsidiaries of HK$66,323,000, gain on deemed partial disposal of an associate of HK$1,588,000 and gain on partial disposal of joint ventures of HK$2,625,000. Details in respect of gain on disposal of subsidiaries are as follows:

(i) Disposal of 60% equity interests in Focus On Group Limited ("Focus On") and a wholly owned subsidiary of the Company, Shandong Power Energy Company Limited, at a cash consideration of HK$55,000,000 (the "Shandong Disposal") to an independent third party. The Shandong Disposal results in a gain on disposal of a subsidiary of HK$8,948,000.

(ii) Disposal of 100% equity interests in Faster Success Global Limited ("Faster Success") at a cash consideration of HK$50,000,000 (the "Chiping Disposal") to an independent third party. The Chiping Disposal results in a gain on disposal of a subsidiary of HK$36,040,000.

(iii) Disposal of 60% equity interests in Waypost Limited ("Waypost"), a partially owned subsidiary, at a cash consideration of HK$22,000,000 (the "Waypost Disposal") to an independent third party. The Waypost Disposal results in a gain on disposal of a subsidiary of HK$21,335,000.

6. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 31 December 2017

Continuing operations

	Natural gas refuelling station *HK$'000*	Trading and distribution of natural gas *HK$'000*	City Gas , pipeline construction fee, value-added service and others *HK$'000*	Consolidated *HK$'000*
External segment revenue	74,783	876,836	499,521	1,451,140
Inter-segment sales	–	207,284	–	207,284
	74,783	1,084,120	499,521	1,658,424
Segment profit	5,949	6,530	93,615	106,094
Other income and other gains and losses				113,335
Central corporate expenses				(113,619)
Finance costs				(165,652)
Loss before income tax				(59,842)

Inter-segment sales are charged at prevailing market rates.

Segment profit for the year ended 31 December 2017 consists of a gain on disposal of subsidiary of HK$14,627,000 and a gain on disposal of a joint venture of HK$10,049,000:

(i) Disposal of 100% equity interests in Fan Dream Limited, a wholly owned subsidiary, at a cash consideration of HK$30,000,000 (the "Jinan Disposal") to an independent third party. The Jinan Disposal results in a gain on disposal of a subsidiary of HK$14,627,000.

(ii) Disposal of 59.38% equity interests in My Palace Trading Limited, a partially owned joint venture, at a cash consideration of HK$86,811,000 (the "My Palace Disposal") to an independent third party. The My Palace Disposal results in a gain on disposal of a joint venture of HK$10,049,000.

Segment profit represents the profit from by each segment without allocation of other income and other gains and losses, central corporate expenses (including but not limited to directors' emoluments), finance costs, and income tax credit/(expense). This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segments:

Segment assets

	2018	2017
	HK$'000	*HK$'000*
Continuing operations		
Natural gas refuelling station	**914,113**	1,051,264
Trading and distribution of natural gas	**174,324**	174,984
City Gas, pipeline construction fee, value-added service and others	**6,031,138**	3,991,143
Total segment assets	**7,119,575**	5,217,391
Prepayment	**15,115**	19,472
Financial assets at FVTOCI	**224,366**	–
AFS investments	**–**	134,828
Cash and bank balances	**281,604**	127,725
Property, plant and equipment for corporate use	**4,018**	2,469
Promissory note receivable	**8,311**	30,378
Financial assets at FVTPL	**220,918**	220,909
Other unallocated assets	**354,423**	186,391
Consolidated assets	**8,228,330**	5,939,563

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

Segment liabilities

	2018 *HK$'000*	2017 *HK$'000*
Continuing operations		
Natural gas refuelling station	**46,003**	53,283
Trading and distribution of natural gas	**32,131**	33,190
City Gas, pipeline construction service, value-added service and others	**869,504**	995,860
Total segment liabilities	**947,638**	1,082,333
Convertible bonds	**658,241**	647,121
Bank and other borrowings	**1,480,760**	732,652
Embedded derivatives at FVTPL	**6,003**	23,239
Certain obligation under finance leases	**386**	881
Other unallocated liabilities	**21,906**	43,429
Consolidated liabilities	**3,114,934**	2,529,655

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating and reportable segments (other than financial assets at FVTPL, promissory notes receivables, prepayment, financial assets at FVTOCI, AFS investments, cash and bank balances, property, plant and equipment for corporate use and other assets not attributable to segment); and

- all liabilities are allocated to operating and reportable segments (other than bank and other borrowings, convertible bonds, embedded derivatives at FVTPL, certain obligation under finance leases and other liabilities not attributable to segment).

The Group has allocated goodwill to the relevant segments as segment assets.

6. SEGMENT INFORMATION (Continued)

Other segment information

For the year ended 31 December 2018

	Natural gas refuelling station *HK$'000*	Trading and distribution of natural gas *HK$'000*	City Gas, pipeline construction fee, value-added service and others *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Amounts included in the measure of segment profit or segment assets:					
Cost for acquisition of an associate (note 23(c))	–	–	1,324,240	–	1,324,240
Gain arising from acquisition of an associate	–	–	197,951	–	197,951
Addition to non-current assets	9,546	13,740	202,223	4,053	229,562
Depreciation of property, plant and equipment	7,681	142	55,258	1,003	64,084
Amortisation of investment properties	–	–	–	–	–
Amortisation of prepaid lease payments	424	–	5,250	–	5,674
Amortisation of intangible assets	4,088	–	67,785	–	71,873
Interests in associates	186,605	–	1,635,010	–	1,821,615
Interests in joint ventures	–	–	355,445	–	355,445
Share of profit of associates	556	–	250,929	–	251,485
Share of loss of joint ventures	–	–	(923)	–	(923)
Gain recognised on disposal of subsidiaries (note 43)	14,416	21,624	30,283	–	66,323
Impairment losses on trade receivables recognised in profit or loss	–	–	21,325	–	21,325

6. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

For the year ended 31 December 2017

	Continuing operations						
	Natural gas refuelling station	Trading and distribution of natural gas	City Gas, pipeline construction fee, value-added service and others	Continuing operations total	Discontinued operation Sales of book and specialised products	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts included in the measure of segment profit or segment assets:							
Addition to non-current assets (excluding intangible assets and goodwill)	20,763	820	314,454	336,037	–	7,870	343,907
Addition to intangible assets	–	–	810,866	810,866	–	–	810,866
Addition to goodwill	–	–	355,878	355,878	–	–	355,878
Depreciation of property, plant and equipment	7,247	45	13,270	20,562	1,611	685	22,858
Amortisation of investment properties	–	–	–	–	776	–	776
Amortisation of prepaid lease payments	1,507	–	–	1,507	20	–	1,527
Amortisation of intangible assets	4,762	–	39,530	44,292	–	–	44,292
Interests in associates	188,028	–	22,292	210,320	–	–	210,320
Interests in joint ventures	–	–	374,866	374,866	–	–	374,866
Share of loss of associates	402	–	(5,235)	(4,833)	–	–	(4,833)
Share of profit of joint ventures	–	–	1,883	1,883	–	–	1,883
Gain on deemed partial disposal of an associate	–	–	–	–	–	239	239
Gain recognised on disposal of subsidiaries	14,627	–	–	14,627	72,863	–	87,490
Impairment losses on trade receivables recognised in profit or loss	–	–	763	763	–	–	763

6. SEGMENT INFORMATION (Continued)

Geographical information

The Group's operations are located in the PRC.

Information about the Group's revenue from external customers from continuing operations is presented based on customers' location of the operations.

	Revenue from external customers	
	2018	2017
	HK$'000	*HK$'000*
The PRC	**2,148,480**	1,451,140

Other than interests in an associate as at 31 December 2017, which is located and listed in Australia, the Group's non-current assets (excluding financial instruments) are mainly located in the PRC.

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group from continuing operations are as follows:

	2018	2017
	HK$'000	*HK$'000*
Customer A[1]	**–**	289,422

Note:

[1] Revenue related to trading and distribution of natural gas segment.

None of the customer contributed over 10% of the Group during the year ended 31 December 2018.

7. OTHER GAINS AND LOSSES

	2018 HK$'000	2017 HK$'000
Continuing operations		
Government grants	**12,678**	2,387
Net exchange gain/(loss)	**54,895**	(22,937)
Change in fair value of embedded derivatives at FVTPL	**53,438**	94,798
Change in fair value of financial assets designated as at FVTPL	**–**	39,524
Change in fair value of financial assets mandatorily measured at FVTPL		
– Held for trading	**(11,275)**	(13,085)
– Others	**(45,611)**	–
	64,125	100,687

8. OTHER INCOME

	2018 HK$'000	2017 HK$'000
Continuing operations		
Interest income	**28,494**	9,687
Rental income	**205**	95
Gas appliances income	**6,701**	2,054
Sundry income	**858**	1,575
	36,258	13,411

9. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Continuing operations		
Finance charges on obligations under finance leases	**7,301**	8,145
Interest on bank borrowings	**6,458**	1,391
Interest on other borrowings	**52,565**	24,730
Interest on convertible bonds	**175,440**	131,386
	241,764	165,652

10. IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	2018	2017
	HK$'000	*HK$'000*
Continuing operation		
Impairment losses recognised on:		
– Trade receivables	**21,325**	763
	21,325	763

Details of impairment assessment for the year ended 31 December 2018 are set out in note 50.

11. PROFIT/(LOSS) BEFORE INCOME TAX

	2018	2017
	HK$'000	*HK$'000*
Continuing operations		
Profit/(loss) before income tax is arrived at after charging:		
Auditor's remuneration	**3,000**	3,000
Amortisation of intangible assets (note 20)	**71,873**	44,292
Cost of inventories recognised as expense	**1,194,253**	1,165,635
Depreciation of property, plant and equipment#	**64,084**	21,247
Employee benefit expenses (including directors' emoluments)		
– Salaries and allowances	**96,656**	68,804
– Contribution to defined contribution plans	**18,541**	12,961
– Share-based payment (included in administrative expenses)	**1,555**	6,728
	116,752	88,493
Amortisation of prepaid lease payments	**5,674**	1,507
Operating lease charges on premises	**10,805**	9,189
Legal and professional fees (included in other expenses)	**9,547**	16,330

Depreciation of property, plant and equipment disclosed above included depreciation on leased assets of HK$3,113,000 (2017: HK$11,032,000).

12. INCOME TAX CREDIT/(EXPENSE)

	2018	2017
	HK$'000	*HK$'000*
Continuing operations		
Current tax – the PRC Enterprise Income Tax ("EIT")	**(15,640)**	(17,146)
Deferred tax (note 41)	**17,968**	11,355
Total income tax credit (expense)	**2,328**	(5,791)

On 21 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 28 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 of the Company 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 Hong Kong Profits Tax has been provided as the Company and its subsidiaries did not generate any assessable profits in Hong Kong for both years.

Under the Law of the PRC EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

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

	2018	2017
	HK$'000	*HK$'000*
Profit/(loss) before income tax (from continuing operations)	**259,188**	(59,842)
PRC Enterprise Income Tax at 25%	**(64,797)**	14,960
Tax effect of expenses not deductible for tax purpose	**(84,900)**	(45,306)
Tax effect of income not taxable for tax purpose	**103,445**	28,575
Tax effect of share of profit/(loss) of associates and joint ventures	**62,641**	(737)
Tax effect of tax losses not recognized	**(9,754)**	–
Effect of different tax rate of group entities operating in Hong Kong	**(4,307)**	(3,283)
Total income tax credit/(expense)	**2,328**	(5,791)

13. DISCONTINUED OPERATION

During the year ended 31 December 2017, the Company entered into the sale and purchase agreement with the same party to dispose of the remaining 75% equity interest in Legon Ventures Limited at a consideration of HK$178,000,000 of which HK$158,000,000 was settled by promissory note and HK$20,000,000 was settled by cash. The transaction was completed on 26 May 2017. The carrying amount of retained equity interest at 26 May 2017 was approximately HK$105,000,000. Accordingly, the transaction resulted in gain on disposal of a subsidiary of approximately HK$72,863,000.

The profit for the year ended 31 December 2017 from the discontinued operation in respect of the printing business was analysed as follows:

	2017 *HK$'000*
Revenue	–
Cost of sales	–
Gross profit	–
Other income	–
Other expenses	(268)
Other gains and losses	728
Selling and distribution costs	–
Administrative expenses	(3,875)
Finance costs - interest on trust receipts loans	–
Loss before tax	(3,415)
Income tax expense	–
Loss for the year from discontinued operation	(3,415)
Gain recognised on disposal of a subsidiary (note 43)	72,863
	69,448

13. DISCONTINUED OPERATION (Continued)

Loss for the year from discontinued operation has been arrived at after charging:

	2017
	HK$'000
Amortisation of investment properties	776
Amortisation of prepaid lease payments	20
Auditor's remuneration	–
Depreciation of property, plant and equipment	1,611
Employee benefit expenses	
– Salaries and allowance	1,342
– Contribution to defined contribution plans	18
Sub total	1,360

14. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Directors' and chief executive's emoluments

The remuneration paid or payable to each of the directors are as follows:

	Fee	Salaries and allowances	Discretionary bonuses#	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2018					
Executive directors					
– Mr. Sze Chun Lee (note (a))	–	–	–	–	–
– Mr. Cheng Ming Kit *(Chief executive officer)*	–	2,982	1,000	18	4,000
– Mr. Hung Tao	–	822	–	18	840
– Mr. Hu Xiaoming (note (c))	–	–	–	–	–
– Mr. Tam Man Kin (note (b))	–	1,581	330	15	1,926
– Mr. Li Weiqi (note (d))	–	819	–	149	968
Non-executive director					
– Mr. Zhi Xiaoye	–	–	–	–	–
Independent non-executive directors					
– Mr. Lim Siang Kai	296	–	–	–	296
– Mr. Wee Piew	212	–	–	–	212
– Mr. Ma Arthur On-hing	120	–	–	–	120
– Mr. Pang Siu Yin (note (e))	120	–	–	–	120
	748	6,204	1,330	200	8,482

14. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

Directors' and chief executive's emoluments (Continued)

	Fee	Salaries and allowances	Discretionary bonuses#	Retirement scheme contributions	Share-based payment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2017						
Executive directors						
– Mr. Sze Chun Lee (note (a))	–	1,147	186	18	–	1,351
– Mr. Cheng Ming Kit						
(Chief executive officer)	–	2,982	1,000	18	–	4,000
– Mr. Hung Tao	–	822	–	18	418	1,258
– Mr. Hu Xiaoming (note (c))	–	2,382	200	18	697	3,297
– Mr. Tam Man Kin (note (b))	–	2,022	117	18	–	2,157
– Mr. Li Weiqi (note (d))	–	1,000	–	–	–	1,000
Non-executive director						
– Mr. Zhi Xiaoye	–	–	–	–	–	–
Independent non-executive directors						
– Mr. Lim Siang Kai	289	–	–	–	–	289
– Mr. Wee Piew	216	–	–	–	–	216
– Mr. Ma Arthur On-hing	120	–	–	–	174	294
– Mr. Pang Siu Yin (note (e))	103	–	–	–	–	103
	728	10,355	1,503	90	1,289	13,965

Notes:

(a) resigned as executive director with effect from 4 February 2019.

(b) resigned as executive director with effect from 13 October 2018.

(c) resigned as executive director with effect from 19 January 2018.

(d) appointed as executive director with effect from 21 February 2017.

(e) appointed as independent non-executive director with effect from 21 February 2017.

\# discretionary bonus is determined by reference to several factors, including their individual performance and the performance of the Group.

The executive directors and non-executive director's remuneration shown above were for their services in connection with the management of the affairs of the Group. The independent non-executive directors' remuneration shown above were for their services as directors of the Company.

14. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

Five highest paid individuals

The five highest paid employees of the Group during the year included two directors (2017: three directors), details of whose remuneration are set out in the analysis presented above. Details of the remuneration for the year of the remaining three (2017: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018	2017
	HK$'000	*HK$'000*
Salaries and allowances	**3,039**	1,769
Performance related bonuses	**290**	272
Retirement scheme contributions	**268**	36
Share-based payment	**501**	877
	4,098	2,954

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bans is as follow:

	2018	2017
	No. of employees	No. of employees
HK$1,000,001 to HK$1,500,000	**2**	1
HK$1,500,001 to HK$2,000,000	**1**	1
	3	2

No emoluments were paid by the Group to any of the directors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office or are there any arrangement under which a director waived or agree to waive any remuneration for both years.

15. DIVIDEND

The Board did not recommend payment of dividend for both years ended 31 December 2017 and 2018.

16. EARNINGS/(LOSS) PER SHARE

From continuing and discontinued operations

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

	2018 *HK$'000*	2017 *HK$'000*
Earnings/(loss)		
Profit/(loss) for the year attributable to the owners of the Company for the purpose of basic earnings/(loss) per share	**260,657**	(12,489)
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	**16,994**	59,229
Change in fair value of embedded derivatives at fair value through profit or loss	**(34,465)**	(79,816)
Profit/(loss) for the purpose of diluted earnings/(loss) per share	**243,186**	(33,076)

	2018	2017
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	**11,465,470,587**	9,816,522,234
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**26,967,116**	N/A
Convertible bonds issued by the Company	**163,518,385**	496,422,000
	190,485,501	496,422,000
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	**11,655,956,088**	10,312,944,234

The computation of diluted earnings per share does not assume the conversion of certain Company's outstanding convertible bonds since their assumed exercise would result in an increase in earnings per share from continuing operations.

For the year ended 31 December 2017, the computation of diluted loss per share does not assume the exercise of the Company's share options since their assumed exercise would result in a decrease in loss per share.

16. EARNINGS/(LOSS) PER SHARE (Continued)

From continuing operations

The calculation of the basic and diluted earnings/(loss) per share from continuing operations attributable to the owners of the Company is based on the following data:

	2018 ***HK$'000***	2017 *HK$'000*
Earnings/(loss)		
Profit/(loss) for the year attributable to the owners of the Company	**260,657**	(12,489)
Less: Profit for the year from the discontinued operation	**N/A**	(70,302)
Profit/(loss) for the purpose of basic earnings/(loss) per share from continuing operations	**260,657**	(82,791)
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	**16,994**	59,229
Change in fair value of embedded derivatives at fair value through profit or loss	**(34,465)**	(79,816)
Earnings/(loss) for the purpose of diluted earnings/(loss) per share from continuing operations	**243,186**	(103,378)

The denominators used are the same as those detailed above for basic and diluted earnings/(loss) per share from continuing and discontinued operations.

From discontinued operation

For the year ended 31 December 2017, basic earnings per share from discontinued operation is HK0.72 cent per share and diluted earnings per share from the discontinued operation is HK0.68 cent per share, based on the profit for the year from discontinued operation of HK$70,302,000 and the denominators detailed above for both basic and diluted earnings/(loss) per share.

17. PREPAID LEASE PAYMENTS

	2018 ***HK$'000***	2017 *HK$'000*
Land use rights in the PRC	**46,987**	56,355

Analysed for reporting purposes as:

	2018 ***HK$'000***	2017 *HK$'000*
Non-current asset	**41,579**	51,681
Current asset	**5,408**	4,674
	46,987	56,355

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings *HK$'000*	Construction in progress *HK$'000*	Gas pipelines *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Leasehold improvements *HK$'000*	Total *HK$'000*
COST								
At 1 January 2017	32,839	72,952	58,186	199,362	8,513	14,500	3,349	389,701
Exchange adjustments	2,649	2,454	11,369	2,080	24	35	38	18,649
Acquisition of subsidiaries (note 42)	51,238	21,079	305,582	50,667	739	4,020	-	433,325
Additions	1,487	31,838	22,581	2,348	421	6,544	-	65,219
Disposal of subsidiaries (note 43)	-	-	-	(109,646)	(5,591)	(428)	-	(115,665)
Transfer	-	(42,797)	42,797	-	-	-	-	-
At 31 December 2017	88,213	85,526	440,515	144,811	4,106	24,671	3,387	791,229
Exchange adjustments	(5,034)	(5,399)	(22,960)	(8,186)	(178)	(1,403)	(66)	(43,226)
Additions	704	18,678	1,205	10,665	1,467	1,240	90	34,049
Disposal of subsidiaries (note 43)	(1,198)	(7,944)	–	(45,272)	(95)	–	–	(54,509)
Transfer	5,697	(21,127)	5,113	10,317	–	–	–	–
At 31 December 2018	88,382	69,734	423,873	112,335	5,300	24,508	3,411	727,543
ACCUMULATED DEPRECIATION								
At 1 January 2017	7,752	-	5,229	120,558	6,720	7,590	1,376	149,225
Exchange adjustments	394	-	671	1,699	146	754	42	3,706
Provided for the year	2,705	-	6,209	12,074	499	1,346	25	22,858
Disposal of subsidiaries (note 43)	-	-	-	(106,530)	(5,590)	(345)	-	(112,465)
At 31 December 2017	10,851	-	12,109	27,801	1,775	9,345	1,443	63,324
Exchange adjustments	(832)	-	(1,991)	(2,940)	(120)	(420)	(33)	(6,336)
Provided for the year	6,843	-	33,845	17,649	1,162	3,954	631	64,084
Disposal of subsidiaries (note 43)	(142)	-	–	(13,974)	(80)	–	–	(14,196)
At 31 December 2018	16,720	-	43,963	28,536	2,737	12,879	2,041	106,876
CARRYING VALUES								
At 31 December 2018	71,662	69,734	379,910	83,799	2,563	11,629	1,370	620,667
At 31 December 2017	77,362	85,526	428,406	117,010	2,331	15,326	1,944	727,905

The leasehold buildings of the Group are situated in the PRC.

The carrying values of plant and machinery and motor vehicles of HK$83,799,000 and HK$11,629,000, included amounts of HK$39,850,000 (2017: HK$41,073,000) and HK$2,980,000 (2017: HK$3,017,000) in respect of assets held under finance leases respectively.

19. INVESTMENT PROPERTIES

	HK$'000
COST	
At 1 January 2017	110,415
Disposal of subsidiary (note 43)	(119,467)
Exchange adjustments	9,052
At 31 December 2017 and 2018	–
ACCUMULATED AMORTISATION	
At 1 January 2017	6,968
Charged for the year	776
Exchange adjustments	1,382
Disposal of subsidiary (note 43)	(9,126)
At 31 December 2017 and 2018	–
CARRYING VALUE	
At 31 December 2018	–
At 31 December 2017	–

The Group's investment properties are located in the PRC.

20. INTANGIBLE ASSETS

	Operating rights
	HK$'000
COST	
At 1 January 2017	598,024
Acquisition of subsidiaries (note 42)	810,866
Disposal of subsidiaries (note 43)	(10,241)
At 31 December 2017 and 2018	1,398,649
ACCUMULATED AMORTISATION	
At 1 January 2017	48,728
Charged for the year	44,292
Disposal of subsidiaries (note 43)	(865)
At 31 December 2017	92,155
Charged for the year	71,873
At 31 December 2018	164,028
CARRYING VALUES	
At 31 December 2018	1,234,621
At 31 December 2017	1,306,494

The operating rights of natural gas refuelling station, trading and distribution of natural gas and city gas operations in the PRC are amortised on a straight-line method over the period of 10 to 30 years pursuant to the terms of the rights granted. Particulars regarding impairment testing on intangible assets of the Group's subsidiaries are disclosed in note 22.

21. GOODWILL

	HK$'000
COST AND CARRYING VALUES	
At 1 January 2017	856,887
Acquisition of subsidiaries (note 42)	355,878
At 31 December 2017	1,212,765
Disposal of subsidiaries (note 43)	(73,034)
At 31 December 2018	1,139,731

The Group tests for impairment of goodwill annually and in the financial year in which the acquisition takes place, or more frequently if there are indications that goodwill might be impaired. Particulars regarding impairment testing on goodwill are disclosed in note 22.

22. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS

The management considers each subsidiary represents a separate CGU for the purpose of goodwill and intangible assets impairment testing. The carrying amounts of goodwill and operating rights of subsidiaries engaged in natural gas operations as at 31 December 2018 and 2017 are allocated as follows:

	As at 31 December 2018	
	Goodwill	**Operating rights**
	HK$'000	***HK$'000***
Subsidiaries engaged in natural gas refuelling station, trading and distribution of natural gas and city gas operations		
Smart Union Holdings Limited ("Smart Union")	**–**	**3,500**
Cloud Decade Limited ("Cloud Decade")	**268,362**	**369,351**
Shine Great Investments Limited ("Shine Great")	**3,549**	**98,679**
Energy Shell Limited ("Energy Shell")	**157,329**	**–**
Haikou Xinyuan Natural Gas Technology Co., Ltd. ("Haikou Xinyuan")	**113,594**	**–**
Diamond Maple Limited ("Diamond Maple")	**100,204**	**21,364**
Day Zone Limited ("Day Zone")	**140,815**	**–**
OctoNet Limited and August Zone Limited ("OctoNet and August Zone Group")	**224,154**	**415,280**
Top Grand Global Limited ("Top Grand")	**131,724**	**326,447**
	1,139,731	**1,234,621**

22. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS (Continued)

	As at 31 December 2017	
	Goodwill	Operating rights
	HK$'000	*HK$'000*
Subsidiaries engaged in natural gas operations		
Smart Union	–	3,500
Focus On	49,181	–
Cloud Decade	268,362	385,240
Shine Great	3,549	102,767
Energy Shell	157,329	–
Faster Success	23,853	–
Haikou Xinyuan	113,594	–
Diamond Maple	100,204	24,877
Day Zone	140,815	–
OctoNet and August Zone Group	224,154	442,945
Top Grand	131,724	347,165
	1,212,765	1,306,494

The recoverable amounts of these CGUs have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering 5-year period, and discount rate ranging from 11% to 19% (2017: 13% to 24%). The cash flows for the financial budgets are using an average growth rate ranging from 3% to 20% (2017: 3% to 15%) for a 5-year period depending on the stage of development of the respective natural gas operations. The cash flows beyond this 5-year period are extrapolated using a 3% growth rate. Other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which included budget sales and gross margin, such estimation based on the unit's past performance and management's expectations for the market development.

In view of the recoverable amounts exceed the carrying amounts of the above CGUs, the management is of the opinion that there is no impairment of goodwill and operating rights allocated to the above CGUs during the years ended 31 December 2018 and 2017.

In the opinion of directors, any reasonably possible change in any of these assumption would not cause the aggregate carrying amount of these CGUs to exceed the recoverable amounts.

23. INTERESTS IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES

	2018 HK$'000	2017 HK$'000
Cost of investment in associates		
Listed	–	24,431
Unlisted	1,570,130	190,722
Share of profit/(loss) and other comprehensive income	251,485	(4,833)
	1,821,615	210,320
Fair value of listed investment	–	11,719

As at 31 December 2018 and 2017, the Group had interests in the following associates:

Name of entities	Place of incorporation/ registration and operation	Proportion of nominal value of issued capital and voting rights held by the Group 2018	2017	Principal activities
Triple Energy Limited ("Triple")	Australia	– (Note a)	46.61% (Note a)	Operating a coal bel methane gas project in the PRC
海南大眾天然氣開發利用有限公司 Hainan Dazhong Natural Gas Development Co., Ltd. ("Hainan Dazhong")	The PRC	26%	26%	Sales and distribution of LNG through gas refuelling station for vehicles
六盤水中石油昆侖燃氣有限公司 Liu Pan Shui Zhong Shi You Kunlun Natural Gas Co., Ltd. ("Liu Pan Shui")	The PRC	40%	40%	Sales and distribution of LNG through gas refuelling station for vehicles
Hainan Zhongyou Jiarun	The PRC	40%	40%	Sales and distribution of LNG through gas refuelling station for vehicles
Hefei Kulun Energy Company Limited ("Hefei Kulun")	The PRC	30%	30%	Sales and distribution of LNG through gas refuelling station for vehicles
寧夏北藍基金管理有限公司	The PRC	35% (Note b)	–	Equity investment and asset management
寧夏明創基金管理有限公司	The PRC	39% (Note b)	–	Equity investment and asset management
霍爾果斯北燃星潤藍天基金管理有限公司	The PRC	35% (Note b)	–	Equity investment and asset management
PetroChina Jingtang LNG Co., Ltd. ("PetroChina Jingtang")	The PRC	29% (Note c)	–	Provision of port facilities for vessels, receiving, storage and re-gasification of liquefied natural gas

23. INTERESTS IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES (Continued)

Notes:

(a) On 5 April 2017, Triple issued 80,000,000 ordinary shares at a price of Australian Dollar ("A$") 0.006 per shares by way of placing, the Group shares of interest decreased to 46.61%, and the Group recognise a gain on deemed disposal of A$40,000 (equivalent to HK$239,000) in the consolidated statement of profit or loss and other comprehensive income.

The financial year end date for Triple is 31 March. For the purpose of applying the equity method of accounting, the condensed consolidated financial statements of Triple for the six months ended 30 September 2018 and 2017 have been used as the Group considers that it is impracticable for Triple with its shares listed on the ASX to provide a separate and complete set of financial statements as of 31 December. Adjustments in accordance with the Group's accounting policy made for the Group's share of the results of the associate for the effects of significant transactions between these dates and 31 December 2018 and 2017 respectively.

On 4 October 2018, Triple issued 28,798,422 ordinary shares by way of rights issue. The Group's share of interest decreased to 26.67% and the Group recognise a gain on deemed partial disposal of A$287,000 (equivalent to HK$1,588,000) in the consolidated statement of profit or loss and other comprehensive income.

On 31 December 2018, Triple was disposed at a consideration of HK$22,000,000 through the disposal of equity interest in Waypost Limited, a wholly owned subsidiary of the Group. The details of the disposal of Waypost Limited are set out in note 43.

(b) On 6 September 2018, 3 February 2018 and 20 August 2018, the Group invested in three associates, 寧夏北藍基金管理有限公司, 寧夏明創基金管理有限公司 and 霍爾果斯北燃星潤藍天基金管理有限公司 respectively with the interest in associates of HK$512,000, HK$342,000 and HK$1,594,000 recognised in the statement of financial position accordingly.

(c) On 28 December 2017, the Company entered into a sale and purchase agreement with Beijing Gas Company Limited ("Beijing Gas HK") and Beijing Gas Group Company Limited, pursuant to which the Company has conditionally agreed to acquire and Beijing Gas HK has conditionally agreed to sell all of the issued share capital of Beijing Gas JingTang Company Ltd which indirectly owns 29% equity interests in PetroChina Jingtang (the "JingTang Acquisition"). In accordance with the terms and conditions thereof, the consideration for the JingTang Acquisition was satisfied by issuance of 2,407,708,800 new ordinary shares to Beijing Gas HK or its designated wholly-owned subsidiary on the completion date. The JingTang Acquisition was duly passed at the special general meeting of the Company on 16 May 2018 and completed on 6 June 2018 (the "Completion Date of JingTang Acquisition").

23. INTERESTS IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES (Continued)

Notes: (Continued)

(c) (Continued)

On the Completion Date of JingTang Acquisition, the fair value of the 2,407,708,800 new ordinary shares issued was approximately HK$1,324,240,000 by reference to the quoted price of HK$0.55 per share and the fair value of 29% equity interests in PetroChina Jingtang was approximately HK$1,522,191,000 by reference to the valuation report issued by an independent professional valuer. Therefore, the Group recognised gain of approximately HK$197,951,000 in respect of the acquisition of 29% interests in PetroChina Jingtang, representing the excess between the fair values of 29% equity interests in PetroChina JingTang in its entirety and the share consideration on Completion Date. Such amount is recognised in the consolidated statement of profit or loss and other comprehensive income for the year and is analysed as follows:

	HK$'000
Cost of share consideration paid	1,203,855
Add: loss arising from change in share price on Completion Date of JingTang Acquisition	120,385
Fair value of share consideration	1,324,240
Fair value of interests in PetroChina Jingtang	(1,522,191)
Gain arising from acquisition of an associate	(197,951)

Summarised financial information of associates

The summarised financial information below represents amounts shown in the associates' financial statements prepared in accordance with IFRS Standards.

23. INTERESTS IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES (Continued)

Summarised financial information of associates (Continued)

Triple

Summarised financial information in respect of Triple as at 31 December 2017 and for the year ended 30 September 2017 is set out below.

	2017 *HK$'000*
Current assets	3,879
Non-current assets	51,070
Current liabilities	(5,033)
Non-current liabilities	–
Revenue	–
Loss and total comprehensive expense for the year	(4,586)

	2017 *HK$000*
Net assets of Triple	49,916
Proportion of the Group's Ownership in Triple	46.61%
Other adjustment	–
Carrying amount of the Group's interest in Triple	23,266

23. INTERESTS IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES (Continued)

Summarised financial information of associates (Continued)

PetroChina Jingtang

	2018 *HK$'000*
Current assets	**1,054,199**
Non-current assets	**5,841,827**
Current liabilities	**(1,265,181)**
Non-current liabilities	**–**
Revenue for the period (since the Completion Date of Jingtang Acquisition)	**1,566,846**
Profit and total comprehensive income for the period (since the Completion Date of Jingtang Acquisition)	**880,188**

	2018 *HK$'000*
Net assets of Jingtang	**5,630,845**
Proportion of the Group's Ownership in PetroChina Jingtang	**29%**
Carrying amount of the Group's interest in PetroChina Jingtang	**1,632,945**

23. INTERESTS IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES (Continued)

Summarised financial information of associates (Continued)

Hainan Zhongyou Jiarun

	2018 HK$'000	2017 HK$'000
Current assets	**17,471**	10,099
Non-current assets	**38,796**	30,257
Current liabilities	**(40,194)**	(6,215)
Non-current liabilities	**(22,770)**	(12,008)
Revenue for the year	**186,005**	31,401
Loss and total comprehensive expense for the year	**(1,425)**	(2,060)

	2018 HK$'000	2017 HK$'000
Net (liabilities)/assets of Hainan Zhongyou Jiarun	**(6,697)**	22,133
Proportion of the Group's Ownership in Hainan Zhongyou Jiarun	**40%**	40%
Goodwill	**77,472**	74,299
Carrying amount of the Group's interest in Hainan Zhongyou Jiarun	**74,793**	83,152

Hefei Kulun

	2018 HK$'000	2017 HK$'000
Current assets	**10,631**	17,921
Non-current assets	**19,899**	23,980
Current liabilities	**(21,548)**	(39,304)
Non-current liabilities	**(12,524)**	–
Revenue for the year	**149,667**	115,828
Loss and total comprehensive expense for the year	**(6,003)**	(2,334)

23. INTERESTS IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES (Continued)

Summarised financial information of associates (Continued)

Hefei Kulun (Continued)

	2018	2017
	HK$'000	*HK$000*
Net (liabilities)/assets of Hefei Kulun	**(3,542)**	2,597
Proportion of the Group's Ownership in Hefei Kulun	**30%**	30%
Goodwill	**56,468**	56,511
Carrying amount of the Group's interest in Hefei Kulun	**55,405**	57,290

Aggregate information of associates that are not individually material

	2018	2017
	HK$000	*HK$000*
The Group's share of profit/(loss) for the period from the respective dates of acquisition to 31 December 2018	**568**	(1,171)
Aggregate carrying amount of the Group's interests in these associates	**58,472**	46,612

Amounts due from associates

The amounts due from associates is unsecured, interest-free and repayable on demand.

24. INTERESTS IN JOINT VENTURES AND AMOUNTS DUE FROM/(TO) JOINT VENTURES

Investments in joint ventures

Details of the Group's investments in joint ventures are as follows:

	2018	2017
	HK$'000	*HK$'000*
Cost of investments in joint ventures		
Unlisted	**356,368**	372,983
Share of (loss)/profit and other comprehensive (expense)/income	**(923)**	1,883
	355,445	374,866

Details of the Group's joint ventures at the end of the reporting period are as follow:

Name of entities	Form of entity	Place of registration	Principal place of operation	Proportion of interest held by the Group		Voting rights held by the Group		Principal activities
				2018	2017	**2018**	2017	
Brightjet Global Limited ("Brightjet")	Incorporated	British Virgin Islands ("BVI")	PRC	**55%**	55%	**33%**	33%	Sales and distribution of LNG
Wuhan Zheng Weili Co. Ltd ("Wuhan Zheng Weili")	Sino-foreign equity joint venture	PRC	PRC	**50%**	50%	**33%**	33%	Sales and distribution of LNG
New Phoenix Global Limited ("New Phoenix") (Note a)	Incorporated	BVI	PRC	**52%**	57%	**33%**	33%	Sales and distribution of LNG
Qian Tang Finance Lease Co. Ltd ("Qian Tang")	Sino-foreign equity joint venture	PRC	PRC	**65%**	65%	**50%**	50%	Finance leasing

Note:

(a) On 24 December 2018, upon the completion of the disposal, the Group holds 52% equity interest in New Phoenix with a gain on deemed disposal of HK$2,625,000, and the remaining 28% and 20% equity interests are held by two other shareholders respectively. Pursuant to the shareholders' agreement entered into among the Group and the two other shareholders of New Phoenix, each of the parties can reserve the rights to appoint or remove one director out of the three directors at the board of directors of New Phoenix respectively. The shareholders of New Phoenix has also contractually agreed sharing control over New Phoenix, as key decisions about the relevant activities, including but not limited to business, financial and operational matters of New Phoenix, require unanimous consents from all of the directors of New Phoenix. Accordingly, the Group has joint control over New Phoenix and the Group's in equity interest in New Phoenix is accounted for as investment in joint venture.

24. INTERESTS IN JOINT VENTURES AND AMOUNTS DUE FROM/(TO) JOINT VENTURES (Continued)

Summarised financial information of material joint ventures

Summarised financial information in respect of the Group's material joint ventures is set out below. The summarised financial information below represents amounts shown in the joint ventures' financial statements prepared in accordance with IFRS Standards.

The joint ventures are accounted for using the equity method in these consolidated financial statements.

Brightjet	**2018**	2017
	HK$'000	*HK$'000*
Current assets	**16,123**	12,232
Non-current assets	**43,767**	39,909
Current liabilities	**(60,702)**	(51,410)
Non-current liabilities	**(2,325)**	(2,959)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**3,806**	989
Current financial liabilities (excluding trade and other payables and provisions)	**(2,277)**	–
For the year ended 31 December		
Revenue	**15,589**	5,831
Loss and total comprehensive expense for the year	**(934)**	(677)

	2018	2017
	HK$000	*HK$000*
Net liabilities of Brightjet	**(3,137)**	(2,228)
Proportion of the Group's Ownership in Brightjet	**55%**	55%
Goodwill	**38,857**	43,418
Carrying amount of the Group's interest in Brightjet	**37,132**	42,192

24. INTERESTS IN JOINT VENTURES AND AMOUNTS DUE FROM/(TO) JOINT VENTURES (Continued)

Summarised financial information of material joint ventures (Continued)

Qian Tang	**2018**	2017
	HK$'000	*HK$'000*
Current assets	**164,177**	90,420
Non-current assets	**102,255**	169,812
Current liabilities	**(38,312)**	(21,371)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**1,473**	5,681
For the year ended 31 December		
Revenue	**5,414**	9,069
Profit and total comprehensive income for the year	**165**	5,669

	2018	2017
	HK$'000	*HK$'000*
Net assets of Qing Tang	**228,120**	238,861
Proportion of the Group's Ownership in Qing Tang	**65%**	65%
Goodwill	**7,090**	–
Carrying amount of the Group's interest in Qing Tang	**155,368**	155,260

24. INTERESTS IN JOINT VENTURES AND AMOUNTS DUE FROM/(TO) JOINT VENTURES (Continued)

Summarised financial information of material joint ventures (Continued)

New Phoenix	**2018** ***HK$'000***	2017 *HK$'000*
Current assets	**1,623**	1,798
Non-current assets	**22,713**	22,027
Current liabilities	**(4,765)**	–
Non-current liabilities	**(5,290)**	(5,302)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**375**	10
For the year ended 31 December		
Revenue	**10,235**	–
Loss and total comprehensive expense for the year	**(988)**	(1,314)

	2018 ***HK$'000***	2017 *HK$'000*
Net assets of New Phoenix	**14,281**	18,523
Proportion of the Group's Ownership in New Phoenix	**52%**	57%
Goodwill	**137,671**	149,191
Carrying amount of the Group's interest in New Phoenix	**145,097**	159,564

	2018 ***HK$'000***	2017 *HK$'000*
Aggregate information of joint ventures that are not individually material		
The Group's share of loss	**–**	–
Aggregate carrying amount of the Group's interest in these joint ventures	**17,848**	17,850

Amounts due from joint ventures

The amounts due from joint ventures are unsecured, interest-free and repayable on demand.

Amounts due to joint ventures

The amounts due to joint ventures are unsecured, interest-free and repayable on demand.

25. INVENTORIES

	2018 HK$'000	2017 HK$'000
Construction materials	**43,121**	7,202
LNG and other consumables	**13,861**	15,167
	56,982	22,369

26. CONTRACT ASSETS

	Note	31/12/2018 HK$'000	1/1/2018* HK$'000
Pipeline construction contracts	a	**93,038**	6,776
Current		**93,038**	6,776
Non-current		**–**	–
		93,038	6,776

* The amounts in this column are after the adjustments from the application of IFRS15.

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

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

– Pipeline construction contracts

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. The Group typically transfer the contract assets to trade receivables within 12 months.

Note:

(a) The significant increase in the current year is the result of the increase in market demand in the PRC which result in increase in ongoing installation of pipeline at the end of the year.

Details of impairment assessment of contract assets for the year ended 31 December 2018 are set out in note 50.

27. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORKS

	2017 *HK$'000*
Contracts in progress at the end of the reporting period:	
Contract costs incurred plus recognised profits	41,856
Less: Progress billings	(36,086)
	5,770
Analysed for reporting purposes as:	
Amounts due from customers for contract works	6,776
Amounts due to customers for contract works	(1,006)
	5,770

As at 31 December 2017, advances received from customers before the contract work is performed amounted to HK$84,271,000 and were included in trade and other payables in note 34.

28. TRADE AND OTHER RECEIVABLES

	2018 ***HK$'000***	2017 *HK$'000*
Trade receivables	**208,003**	254,983
Less: Loss allowance	**(69,514)**	(763)
Trade receivables – net	**138,489**	254,220
Prepayments	**246,787**	255,088
Consideration receivables	**145,797**	86,811
Loan receivables	**530,187**	97,338
Other receivables	**93,596**	9,839
	1,154,856	703,296

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to HK$138,489,000 and HK$206,031,000 respectively.

28. TRADE AND OTHER RECEIVABLES (Continued)

The followings is an aged analysis of trade receivables (net of allowance of credit losses) presented based on invoice dates, which approximate the respective revenue recognitions dates for sales of gas and the billing dates for work performed for construction contracts. The Group generally allows average credit period of 30 to 120 days to its customers.

	2018 ***HK$'000***	2017 *HK$'000*
0 – 90 days	**99,596**	212,017
91 – 120 days	**14,984**	888
121 – 180 days	**20,995**	37,345
181 – 365 days	**2,914**	3,970
	138,489	254,220

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$61,486,000 which are past due as at the reporting date. Out of the past due balances, HK$25,754,000 has been past due 90 days or more and is not considered as in default. The Group does not hold any collateral over these balances.

As at 31 December 2017, 60% of the trade receivables that were neither past due nor impaired had the best credit scoring attributable under the internal credit scoring system used by the Group. These customers had a satisfactory trustworthy credit history and had long term business relationship with the Group.

As at 31 December 2017, included in the Group's trade receivable balance were debtors with aggregate carrying amount of HK$100,798,000 which were past due as at the reporting date for which the Group had not provided for impairment loss. The Group did not hold any collateral over these balances.

Aging analysis of trade receivables that were not impaired, based on due date, is as follows:

	2017 *HK$'000*
Neither past due nor impaired	153,422
0 – 90 days past due	58,598
91 – 180 days past due	38,230
Over 181 days	3,970
	254,220

Trade receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

28. TRADE AND OTHER RECEIVABLES (Continued)

Trade receivables that were past due but not impaired related a large number of diversified customers that had a good track record of credit with the Group. Based on past credit history, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable. The Group did not hold any collateral over these balances.

Movements in the Group's impairment losses on trade receivables are as follows:

	2017 *HK$'000*
At 1 January	4,063
Disposal of a subsidiary	(4,063)
Impairment losses recognised	763
At 31 December	763

As at 31 December 2017, the Group determined trade receivables of HK$763,000 as individually impaired. Based on this assessment, HK$763,000 were recognised during the year then ended. The impaired trade receivables were due from customers experiencing financial difficulties that were in default or delinquency of payments or had been past due for more than one year and had not responded to repayment demands.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 50.

Prepayments mainly included prepayment of purchase of natural gas and related products of HK$196,319,000 (31 December 2017: HK$206,656,000).

Consideration receivables included the proceeds from the disposal of Focus On of HK$55,000,000, proceeds from the disposal of Faster Success of HK$50,000,000, proceeds from the disposal of the Waypost of HK$22,000,000, proceeds from the disposal of Brightjet of HK$2,797,000 and New Phoenix of HK$16,000,000 (31 December 2017: the proceeds from the My Palace Disposal of HK$86,811,000). Details of disposal of subsidiaries are set out in note 43.

Loan and bond receivables mainly included (i) four loan receivables of HK$28,284,000 (31 December 2017: HK$26,034,000), HK$132,906,000 (31 December 2017: HK$54,560,000), HK$144,391,000 (31 December 2017: Nil) and HK$138,958,000 (31 December 2017: Nil) respectively. These loan receivables are short term loan advances to independent third parties, which are unsecured, interest bearing and repayable within one year; (ii) three bond receivables of HK$13,017,000 (31 December 2017: HK$12,104,000), HK$30,000,000 (31 December 2017: Nil) and HK$30,000,000 (31 December 2017: Nil) respectively. These bond receivables are redeemable within one year by independent third parties, which are unsecured and interest bearing. The Group reviewed the recoverable amount of the loan receivables and bond receivables at the end of the reporting period and considered no impairment losses are recommended.

29. AMOUNTS DUE FROM/(TO) NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

Other receivables mainly included a security deposits paid to government of HK$45,540,000 (31 December 2017: Nil).

The amounts are unsecured, interest-free and repayable on demand.

30. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The financial assets at fair value through other comprehensive income are unlisted equity securities issued by four private entities incorporated in the PRC. The investments mainly consist of 10% equity interest of 海南中油深南能源有限公司 Hainan China Petroleum Shennan Energy Co., Limited ("Shennan Energy") through acquisition of the entire equity interest in Smart Rainbow Investments Limited ("Smart Rainbow"). The investment in Shennan Energy represent investment in unlisted equity securities issued by a private entity incorporated in the PRC. Shennan Energy owns and operates a LNG receiving terminal in Haikou, Hainan Province, the PRC.

The directors of the Company have elected to designate these investments in financial assets as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

In determining the fair value of the unlisted equity securities, the Group engages third party qualified valuers to perform the valuation. The management of the Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The fair value gains and losses resulting from the valuation will be recognised in OCI and accumulated in the FVTOCI reserve.

31. AVAILABLE FOR SALE INVESTMENTS

The AFS investments were unlisted equity securities issued by three private entities incorporated in the PRC. The available-for-sales investments mainly consisted of 10% equity interest of 海南中油深南能源有限公司 Hainan China Petroleum Shennan Energy Co., Limited ("Shennan Energy") through acquisition of the entire equity interest in Smart Rainbow Investments Limited ("Smart Rainbow"). The investment in Shennan Energy represented investment in unlisted equity securities issued by a private entity incorporated in the PRC. Shennan Energy owns and operates a LNG receiving terminal in Haikou, Hainan Province, the PRC.

As at 31 December 2017, the investments were measured at cost less impairment because the range of reasonable fair value estimates was so significant that the directors of the Company were of the opinion that their fair values cannot be reliably measured.

32. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND PROMISSORY NOTE RECEIVABLE

Financial assets at FVTPL comprise of:

	2018 HK$'000	2017 HK$'000
Financial assets mandatorily measured at FVTPL:		
Convertible note receivables (note a)	17,848	–
Others (note b)	183,569	–
Financial assets classified as held for trading		
– Equity securities listed in Hong Kong	19,501	29,669
– Investment security funds (note b)	–	41,867
Financial assets designated as at FVTPL:		
Convertible note receivables (note a)	–	149,373
	220,918	220,909
Less: Convertible note receivables shown under non-current assets	–	–
Amount shown under current assets	220,918	220,909

Note (a): As at 31 December 2018, the convertible note receivables comprises of one convertible note subscribed by the Company during the year ended 31 December 2017.

The convertible note is issued by a private entity with a principal amount of US$2,300,000, unsecured and non-interest bearing, and will mature on 17 June 2019 with conversion price of HK$0.4 per conversion share and have an early redemption option by the issuer.

As at 31 December 2017, the convertible note receivables comprises of one convertible note subscribed by the Company during the year ended 31 December 2017, namely "Convertible Note A", and comprises of three convertible notes subscribed by the Company during the year ended 31 December 2016, namely "Convertible Note B", "Convertible Note C", and "Convertible Note D".

Convertible Note A is issued by a private entity with a principal amount of US$2,100,000, unsecured and non-interest bearing, and matured on 21 February 2018 with conversion price of HK$0.4 per conversion share and have an early redemption option by the issuer.

Convertible Note B is issued by a company listed in Hong Kong with principal amount of HK$30,000,000, unsecured and non-interest bearing, and matured on 2 June 2018 with conversion price of HK$0.4 per conversion share and have an early redemption option by the issuer.

Convertible Note C is issued by a private entity with a principal amount of HK$55,000,000, unsecured and non-interest bearing, and matured on 18 April 2018 representing approximately 29.9% of the enlarged issued share of the issuer and have an early redemption option by the issuer.

Convertible Note D is issued by a company listed in Hong Kong with principal amount of HK$30,000,000, unsecured and non-interest bearing, and matured on 3 December 2018 with conversion price of HK$0.4 per conversion share and have an early redemption option by the issuer.

Note (b): Others represent investment security funds which hold equity securities listed in Hong Kong.

32. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND PROMISSORY NOTE RECEIVABLE (Continued)

Promissory note receivable

As at 31 December 2018, the Group has one promissory note receivable "Promissory Note A". Promissory Note A is part of the consideration receivable in relation to the disposal of a subsidiary with principal amount of HK$33,000,000, unsecured and non-interest bearing, of which HK$24,250,000 was fully redeemed during the year, and HK$8,750,000 will fall due on 28 June 2019 with present value of HK$8,311,000 as at 31 December 2018. The effective interest rate for the promissory note receivable is 27.22%.

33. CASH AND BANK BALANCES

Bank balances carry interest at market rates which range from 0.01% to 0.35% (2017: 0.01% to 0.35%) per annum.

34. TRADE AND OTHER PAYABLES

	Notes	**2018** **HK$'000**	2017 HK$'000
Trade payables	(a)	**192,096**	143,262
Accrued charges and other creditors	(b)	**44,803**	77,965
Construction cost payables		**17,145**	72,218
Advances received from customers for sales of natural gas		**–**	84,337
Advances received from customers for contract work		**–**	84,271
		254,044	462,053

Notes:

(a) The Group was granted by its suppliers credit periods ranging from 30 to 90 days (2017: 30 to 120 days). Based on invoice dates, ageing analysis of trade payables was as follows:

	2018 **HK$'000**	2017 HK$'000
0 – 90 days	**161,734**	135,375
91 – 180 days	**13,625**	2,614
181 – 365 days	**11,467**	2,136
Over 365 days	**5,270**	3,137
	192,096	143,262

(b) The balance as at 31 December 2018 included commission payable of HK$7,892,000 (31 December 2017: HK$16,550,000) in relation to the issue of convertible bonds for the year 2017.

35. CONTRACT LIABILITIES

	Notes	31/12/2018 HK$'000	1/1/2018* HK$'000
Pipeline construction contracts	a	**26,783**	1,006
Sales of natural gas contracts	b	**242,950**	168,608
		269,733	169,614
Current		**269,733**	169,614
Non-current		**–**	–
		269,733	169,614

* The amounts in this column are after the adjustments from the application of IFRS 15.

Notes:

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

(a) Pipeline construction contracts

When the Group receives a deposit on acceptance and before the commencement of pipeline construction contract, this will give rise to contract liabilities at the start of pipeline construction contracts, until the revenue recognised on the relevant contract exceeds the amount of the deposit. The construction is expected to complete within 12 months.

(b) Sales of natural gas contracts

The Group would require advance payment before the delivery of the natural gas, for certain customer, any shortage against the periodically. The actual delivery of natural gas will be billed by the Group accordingly. The advance payment will give rise to contract liabilities at the start of sales of natural gas contracts, until the revenue recognised on the relevant contract exceeds the amount of the advance payment.

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

	Pipeline construction HK$'000	Sales of contracts natural gas contracts HK$'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	**1,006**	168,608

36. BANK AND OTHER BORROWINGS

	2018 *HK$'000*	2017 *HK$'000*
Unsecured bank borrowings	**229,760**	106,024
Unsecured corporate bonds (note a)	**1,210,000**	539,500
Unsecured other borrowing (note b)	**41,000**	87,128
	1,480,760	732,652
Carrying amount repayable*:		
Within one year**	**925,182**	253,902
More than one year, but not exceeding two years	**355,578**	202,738
More than two years, but not exceeding five years	**195,000**	225,012
More than five years	**5,000**	51,000
	1,480,760	732,652
Less: Amounts due within one year or contain a repayment on demand clause shown under current liabilities	**925,182**	253,902
Amounts shown under non-current liabilities	**555,578**	478,750

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

** The amounts also contain a repayable on demand clause.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's unsecured bank borrowings are as follows:

	2018	2017
Effective interest rate:		
Fixed-rate bank borrowings	**6.33%**	7%
Variable-rate bank borrowings	**2.39% – 4.29%**	3.0% – 3.58%

As at 31 December 2018, HK$170,000,000 (2017: HK$70,000,000) out of the total unsecured bank borrowing balances of approximately HK$229,760,000 (2017: HK$106,024,000) are denominated in HK$.

Notes:

(a) The unsecured corporate bonds issued by the Company during the year ended 31 December 2018 amounted to HK$895,000,000 (2017: HK$246,500,000). The unsecured bonds have maturity of one to eight years (2017: one to eight years) until 2024 (2017: 2024) and carry interest at 2% to 8% (2017: 2% to 8%) per annum. Transaction costs of approximately HK$45,825,000 (2017: HK$7,359,000) have been incurred and the corporate bonds carry effective interest at 5.70% (2017: 6.77%) per annum.

(b) The unsecured other borrowing has maturity of more than one year and carry interest at 8% per annum.

37. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.055 each		
Authorised share capital		
At 1 January 2017, 31 December 2017 and 2018	91,000,000,000	5,005,000
Issued and fully paid share capital		
At 1 January 2017	9,634,825,844	529,915
Issue of shares upon conversion of convertible notes and convertible bonds (note i)	163,750,000	9,006
Issue of shares upon exercise of share options (note ii)	44,369,850	2,441
At 31 December 2017	9,842,945,694	541,362
Issue of shares upon conversion of convertible bonds (note iii)	598,472,221	32,916
Issue of shares upon exercise of share options (note iv)	36,988,000	2,034
Issue of shares through placing (note v)	100,000,000	5,500
Issue of shares for acquisition of an associate (note vi)	2,407,708,800	132,424
At 31 December 2018	12,986,114,715	714,236

Notes:

(i) During the year ended 31 December 2017, a total of 163,750,000 new ordinary shares of HK$0.055 each were issued upon conversion of convertible bonds of the Company.

(ii) During the year ended 31 December 2017, a total of 44,369,850 new ordinary shares of HK$0.055 each were issued upon exercises of the share options of the Company.

(iii) During the year ended 31 December 2018, a total of 598,472,221 new ordinary shares of HK$0.055 each were issued upon the conversion of the convertible bonds of the Company.

(iv) During the year ended 31 December 2018, a total of 36,988,000 new ordinary shares of HK$0.055 each were issued upon exercises of the share options of the Company.

(v) On 20 August 2018, the Company issued, by way of placing, 100,000,000 new ordinary shares of HK$0.055 each at the issue price of HK$0.57 and the proceeds from such issues amounted to HK$57,000,000. An amount of HK$51,500,000 in excess of par value were credited to share premium.

(vi) On 6 June 2018, the Company issued 2,407,708,800 new ordinary shares of HK$0.055 each at the issue price of HK$0.50 per share, as consideration for the acquisition of an associate. The closing market price of the Company's shares as at 6 June 2018 as quoted on the Stock Exchange was HK$0.55. An amount of HK$1,191,816,000 in excess of per value were credited to share premium. Details are set out in note 23(c).

All shares issued rank pari passu with the existing shares of the Company in all respects.

38. SHARE OPTION SCHEME

Equity-settled share option schemes

At the special general meeting of the Company held on 26 May 2011, the terms of the share option scheme was adopted by providing incentive to eligible participants to work better for the interests of the Group, under which the Board of directors (the "Board") may, at its discretion, offer to grant an option to any full-time or part-time employee and directors of the Company or any of its subsidiaries (collectively the "Grantee").

The maximum number of shares in respect of which options may be granted under the share option scheme of the Company must not in aggregate exceed 10% of the total number of shares in issue from time to time. The total number of shares which may fall to be issued upon exercise of the share option granted under the share option scheme to each Grantee in any 12m period up to the date of grant shall not exceed 1% of the shares in issue as at the date of grant.

Any grant of options to a director of the Company, the chief executive officer or substantial shareholder of the Company or any of their respective associates is required to be approved by the independent non-executive Directors. If the Board proposed to grant options to a substantial shareholder or any independent non-executive Director or their respective associates which will result in the number of shares to be issued upon exercise of the option granted and to be granted to such person in the 12m period up to and including the date of such grant, representing in aggregate over 0.1% of the shares in issue on the date of grant and having an aggregate value in excess of HK$5 million, based on the closing price of the shares at the date of each grant, such further grant of option will be subjected to the shareholders' approval in general meeting.

The offer of a grant of share options may be accepted within 28 days from the offer date or within such other period of time as may be determined by the Board. Upon acceptance of the option, the Grantee shall pay S$1.00 (or the equivalent Hong Kong dollars) to the Company by way of consideration for the grant.

The subscription price of a share in respect of any option granted under the share option scheme shall be priced by the Board in its absolute discretion shall determine, but must be (i) at least the higher of the closing price of the Company's shares as quoted on the Stock Exchange on the date of grant; (ii) the average closing price of the Company's shares as quoted on the Stock Exchange for the five consecutive business days immediately preceding the date of grant and (iii) the nominal value of a share of the Company.

The period during which an option may be exercised will be determined by the Board in its absolute direction, and option may be exercised in accordance with the terms of the share option scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The shares to be allotted upon the exercise of an option will not carry voting rights until the completion of the registration of the Grantee.

At 31 December 2018, the number of shares in respect of which options had been granted and remained outstanding under the share option scheme was 96,125,390 (31 December 2017: 134,758,390), representing 0.7% (31 December 2017: 1.4%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

38. SHARE OPTION SCHEME (Continued)

Equity-settled share option schemes (Continued)

The following table discloses movements of the Company's share options during the year ended 31 December 2018:

Category of grantee	Exercise price per share option *HK$* (Note i)	Date of grant	Exercisable period	Number of share options as at 1 January 2018	Number of share options granted during the year	Number of share options exercised during the year	Number of share options forfeited during the year	Number of share options reclassified during the year	Number of share options as at 31 December 2018
Directors:									
Mr. Cheng Ming Kit	0.286	21 July 2014	21 July 2015 to 20 July 2024	9,962,690	–	–	–	–	9,962,690
Mr. Hung Tao	0.395	23 July 2015	23 July 2016 to 22 July 2019	6,000,000	–	(6,000,000)	–	–	–
Mr. Lim Siang Kai	0.286	21 July 2014	21 July 2015 to 20 July 2024	2,490,670	–	–	–	–	2,490,670
Mr. Wee Piew	0.286	21 July 2014	21 July 2015 to 20 July 2024	2,490,670	–	–	–	–	2,490,670
Mr. Hu Xiaoming (Note ii)	0.395	23 July 2015	23 July 2016 to 22 July 2019	10,000,000	–	–	–	(10,000,000)	–
Mr. Ma Arthur On-hing	0.395	23 July 2015	23 July 2016 to 22 July 2019	2,490,670	–	–	–	–	2,490,670
				33,434,700	–	(6,000,000)	–	(10,000,000)	17,434,700
Employees	0.286	21 July 2014	21 July 2015 to 20 July 2024	9,962,690	–	–	–	–	9,962,690
	0.349	1 September 2014	1 September 2015 to 31 August 2018	12,421,000	–	(12,256,000)	(165,000)	–	–
	0.395	23 July 2015	23 July 2016 to 22 July 2019	50,600,000	–	(18,732,000)	(240,000)	10,000,000	41,628,000
	0.660	20 July 2016	20 July 2017 to 19 July 2020	28,340,000	–	–	(1,240,000)	–	27,100,000
				101,323,690	–	(30,988,000)	(1,645,000)	10,000,000	78,690,690
Total				134,758,390	–	(36,988,000)	(1,645,000)	–	96,125,390
Exercisable at the end of the year									85,285,300
Weighted average exercise price				HK$0.426	N/A	HK$0.380	HK$0.590	N/A	HK$0.041
Weighted average share price at dates of exercise				N/A	N/A	0.523	N/A	N/A	N/A

Notes:

(i) The exercise price per share were adjusted upon the Share Subdivision of the Company's share effective on 15 October 2014 (the "Share Subdivision").

(ii) Mr. Hu Xiaoming resigned as executive director and chief executive officer of the Company with effect from 19 January 2018.

38. SHARE OPTION SCHEME (Continued)

Equity-settled share option schemes (Continued)

The following table discloses movements of the Company's share options during the year ended 31 December 2017:

Category of grantee	Exercise price per share option *HK$* (Note i)	Date of grant	Exercisable period	Number of share options as at 1 January 2017	Number of share options granted during the year	Number of share options exercised during the year	Number of share options forfeited during the year	Number of share options as at 31 December 2017
Directors:								
Mr. Cheng Ming Kit	0.286	21 July 2014	21 July 2015 to 20 July 2024	9,962,690	–	–	–	9,962,690
Mr. Hung Tao	0.286	21 July 2014	21 July 2015 to 20 July 2024	24,906,730	–	(24,906,730)	–	–
	0.395	23 July 2015	23 July 2016 to 22 July 2019	15,000,000	–	(9,000,000)	–	6,000,000
Mr. Lim Siang Kai	0.286	21 July 2014	21 July 2015 to 20 July 2024	2,490,670	–	–	–	2,490,670
Mr. Wee Piew	0.286	21 July 2014	21 July 2015 to 20 July 2024	2,490,670	–	–	–	2,490,670
Mr. Hu Xiaoming (Note ii)	0.395	23 July 2015	23 July 2016 to 22 July 2019	10,000,000	–	–	–	10,000,000
Mr. Ma Arthur On-hing	0.395	23 July 2015	23 July 2016 to 22 July 2019	2,490,670	–	–	–	2,490,670
				67,341,430	–	(33,906,730)	–	33,434,700
Employees:	0.286	21 July 2014	21 July 2015 to 20 July 2024	12,562,690	–	(2,600,000)	–	9,962,690
	0.349	1 September 2014	1 September 2015 to 31 August 2018	17,410,120	–	(3,549,120)	(1,440,000)	12,421,000
	0.395	23 July 2015	23 July 2016 to 22 July 2019	57,062,000	–	(4,314,000)	(2,148,000)	50,600,000
	0.660	20 July 2016	20 July 2017 to 19 July 2020	30,675,000	–	–	(2,335,000)	28,340,000
				117,709,810	–	(10,463,120)	(5,923,000)	101,323,690
Total				185,051,240	N/A	(44,369,850)	(5,923,000)	134,758,390
Exercisable at the end of the year								78,368,122
Weighted average exercise price				HK$0.402	N/A	HK$0.324	HK$0.488	HK$0.426
Weighted average share price at date of exercise				N/A	N/A	HK$0.556	N/A	N/A

Notes:

(i) The exercise prices per share were adjusted upon the Share Subdivision.

(ii) Mr. Hu Xiaoming resigned as executive director and chief executive officer of the Company with effect from 19 January 2018.

38. SHARE OPTION SCHEME (Continued)

Equity-settled share option schemes (Continued)

During the year ended 31 December 2018, an amount of share-based payment expenses in respect of its share options of HK$1,555,000 (2017: HK$6,728,000) has been recognised in the consolidated statement of profit or loss and other comprehensive income with a corresponding adjustment recognised in the Group's share option reserve.

39. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its plant and machinery and motor vehicles under finance leases. The average lease term was four years. Interest rates underlying all obligations under finance leases are fixed at 3.6% per annum.

	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	**9,397**	94,212	**2,568**	83,214
In more than one year but not more than two years	**64,233**	59,015	**63,659**	55,925
In more than two years but not more than five years	**–**	27,878	**–**	27,713
	73,630	181,105	**66,227**	166,852
Less: Future finance charges	**(7,403)**	(14,253)	**–**	–
Present value of lease obligations	**66,227**	166,852	**66,227**	166,852
Less: Amount due for settlement within one year (shown under current liabilities)			**(2,568)**	(83,214)
Amount due for settlement after one year			**63,659**	83,638

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets (note 18).

40. CONVERTIBLE BONDS

		Liability component	
		2018	2017
	Notes	***HK$'000***	*HK$'000*
Convertible Bonds I	a	**–**	53,736
Convertible Bonds II	b	**–**	58,992
Convertible Bonds III	c	**–**	16,432
Convertible Bonds IV	d	**–**	100,054
Convertible Bonds V	e	**195,119**	159,170
Convertible Bonds VI	f	**136,797**	108,617
Convertible Bonds VII	g	**174,144**	150,120
Convertible Bonds VIII	h	**152,181**	–
		658,241	647,121
Carrying amount repayable:			
Within one year		**331,916**	129,160
More than one year, but not exceeding two years		**326,325**	367,841
More than two years, but not exceeding five years		**–**	150,120
		658,241	647,121
Less: Amounts due within one year shown under current liabilities		**(331,916)**	(129,160)
Amounts due after one year shown under non-current liabilities		**326,325**	517,961

40. CONVERTIBLE BONDS (Continued)

(a) Convertible Bonds I

On 9 September 2015, the Company issued unsecured convertible bonds of HK$116,000,000 ("Convertible Bonds I").The Convertible Bonds I will mature on the date falling on the third anniversary of the date of issuance of the Convertible Bonds I at a conversion price of HK$0.4 per convertible share subject to anti-dilutive adjustment. The principal amount of the Convertible Bond I which remains outstanding on their maturity date shall be automatically redeemed by the Company at 124% of its outstanding principal amount. The bondholders are entitled to early redeem whole or part of the outstanding principal amount of the Convertible Bond I at 120% of the principal amount when the Group fails to meet certain requirements in relation to financial performance of the Group, subject further to the condition relating to price and trading volume of the Company's shares being met, as set out in the Convertible Bonds I agreement dated 13 August 2015. In the opinion of the directors of the Company, taking into accounts the conditions to be met for exercisability of the holders' put options, the fair value of the early redemption option of the Convertible Bonds I is insignificant.

The Convertible Bonds I contain liability and equity components. The equity component is presented in consolidated statement of changes in equity under the heading "Convertible note equity reserve". The effective interest rate of the liability component of the Convertible Bonds I is 26.7%.

The movement of the liability component of the Convertible Note I for the year is set out below:

	HK$'000
As at 1 January 2017	96,379
Converted during the year	(55,040)
Interest charged	12,397
As at 31 December 2017	53,736
Converted during the year	(62,620)
Interest charged	8,884
As at 31 December 2018	–

40. CONVERTIBLE BONDS (Continued)

(b) Convertible Bonds II

On 11 December 2015, the Company issued 5% unsecured convertible bonds of HK$200,000,000 ("Convertible Bond II").The Convertible Bond II will mature on the interest payment date falling on or nearest to 9 December 2018 at a conversion price of HK$0.48 per convertible share subject to anti-dilutive adjustment. The principal amount of the Convertible Bond II which remains outstanding on their maturity date shall be automatically redeemed by the Company on their maturity date at a redemption amount in accordance with the following formula:

Redemption amount = outstanding principal amount of such Convertible Bond II being redeemed $\times$ $(1.095)^N - AI$

Where:

"N" = a fraction the numerator of which is the number of calendar days between the issue date and the applicable date of redemption and the denominator of which is 365; and

"AI" = Interest accrued and paid in respect of such Convertible Bond II (excluding any default interest payable), prior to the applicable date of redemption.

The Convertible Bond II contains two components, liability and equity components. The equity component is presented in consolidated statement of changes in equity under the heading "Convertible note equity reserve". The effective interest rate of the liability component is 15.9%.

The movement of the liability component of the Convertible Bonds II for the year is set out as below:

	HK$'000
As at 1 January 2017	48,951
Interest charged	13,541
Interest paid	(3,500)
As at 31 December 2017	58,992
Converted during the year	(73,440)
Interest charged	15,193
Interest paid	(745)
As at 31 December 2018	–

40. CONVERTIBLE BONDS (Continued)

(c) Convertible Bonds III

On 7 January 2016, the Company issued unsecured convertible bonds of HK$15,000,000 ("Convertible Bonds III").The Convertible Bonds III will mature on the date falling on the third anniversary of the date of issuance of the Convertible Bonds III at a conversion price of HK$0.4 per convertible share subject to anti-dilutive adjustment. The principal amount of the Convertible Bond III which remains outstanding on their maturity date shall be automatically redeemed by the Company at 124% of its outstanding principal amount. The bondholders are entitled to early redeem whole or part of the outstanding principal amount of the Convertible Bond III at 120% of the principal amount when the Group fails to meet certain requirements in relation to financial performance of the Group, subject further to the condition relating to price and trading volume of the Company's shares being met, as set out in the Convertible Bonds III agreement dated 30 November 2015. In the opinion of the directors of the Company, taking into accounts the conditions to be met for exercisability of the holders' put options, the fair value of the early redemption option of the Convertible Bonds III is insignificant.

The Convertible Bonds III contain liability and equity components. The equity component is presented in consolidated statement of changes in equity under the heading "Convertible note equity reserve". The effective interest rate of the liability component of the Convertible Bonds III is 21.39%.

The movement of the liability component of the Convertible Bonds III for the year is set out as below:

	HK$'000
As at 1 January 2017	12,305
Interest charged	4,127
As at 31 December 2017	16,432
Converted during the year	(18,600)
Interest charged	2,168
As at 31 December 2018	–

(d) Convertible Bonds IV

On 11 May 2016, the Company issued 4.5% unsecured convertible bonds of HK$350,000,000 ("Convertible Bond IV").The Convertible Bond IV will mature on the interest payment date falling on or nearest to 11 May 2019 at a conversion price of HK$0.45 per convertible share subject to anti-dilutive adjustment. The principal amount of the Convertible Bond IV which remains outstanding on their maturity date shall be automatically redeemed by the Company on their maturity date at the outstanding amount of Convertible Bond IV at the time of redemption plus the interest accrued at the compounded rate of 3% per annum for the period from the issue date to the date of redemption.

40. CONVERTIBLE BONDS (Continued)

(d) Convertible Bonds IV (Continued)

The Convertible Bond IV contains two components, liability and equity components. The equity component is presented in consolidated statement of changes in equity under the heading "Convertible note equity reserve". The effective interest rate of the liability component is 25.5% per annum.

The movement of the liability component of the Convertible Bonds IV for the year is set out as below:

	HK$'000
As at 1 January 2017	82,482
Interest charged	23,422
Interest paid	(5,850)
As at 31 December 2017	100,054
Converted during the year	(114,350)
Interest charged	18,175
Interest paid	(3,879)
As at 31 December 2018	–

(e) Convertible Bonds V

On 29 December 2016, the Company issued HK$200,000,000, 4.8% convertible bonds (the "Convertible Bonds V"). The Convertible Bonds V will mature on the date falling on the third anniversary of the date of Convertible Bonds V at a conversion price of HK$0.67 per convertible share, subject to adjustment and resets in accordance with the terms and conditions of the Convertible Bonds V. If the Convertible Bonds V have not been converted, they will be redeemed on the maturity date at 118% of the principal amount.

The Convertible Bonds V contain debt component and conversion option. The Company changed its functional currency from HK$ to RMB on 28 October 2016, which is different from the issue currency of Convertible Bonds V. Therefore the conversion option of Convertible Bonds V is not closely related to the debt component and is classified as a derivative because the conversion will not result in the Company issuing a fixed number of shares in settlement of a fixed amount of debt component. Conversion option is measured at fair value with change in fair value recognised in profit or loss.

40. CONVERTIBLE BONDS (Continued)

(e) Convertible Bonds V (Continued)

The movement of the debt component and embedded derivatives of the Convertible Bonds V for the year is set out as below:

	Debt component *HK$'000*	Embedded derivatives *HK$'000*	Total *HK$'000*
As at 1 January 2017	129,344	60,875	190,219
Gain arising on change in fair value	–	(56,244)	(56,244)
Interest charge	39,426	–	39,426
Interest paid	(9,600)	–	(9,600)
As at 31 December 2017	159,170	4,631	163,801
Gain arising on change in fair value	–	(3,517)	(3,517)
Interest charged	46,338	–	46,338
Interest paid	(10,389)	–	(10,389)
As at 31 December 2018	195,119	1,114	196,233

The methods and assumptions applied for the valuation of the Convertible Bonds V are as follows:

(1) Valuation of debt component

At the date of issue, the debt component was recognised at fair value. The fair value of debt component was calculated based on the present value of the contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the average yield of notes with similar credit rating and remaining time to maturity. In subsequent periods, the debt component is carried at amortised cost using the effective interest method. The effective interest rate of the debt component of the Convertible Bonds V is 18.7%.

40. CONVERTIBLE BONDS (Continued)

(e) Convertible Bonds V (Continued)

(2) Valuation of conversion option and issuer and bondholders early redemption options for Convertible Bonds V

Binomial model is used for valuation of conversion option of the Convertible Bonds V. The inputs into the model were as follows:

	31 December 2018	**31 December 2017**
Stock price	**HK$0.225**	HK$0.510
Exercise price (adjusted for Share Subdivision)	**HK$0.670**	HK$0.670
Volatility	**66.67%**	35.98%
Option life	**12 months**	24 months
Risk-free interest rate	**1.73%**	1.30%

(f) Convertible Bonds VI

On 24 April 2017, the Company issued HK$150,000,000, 3.8% convertible bonds (the "Convertible Bonds VI") The Convertible Bonds VI will initial mature on the date falling thirty-two months from the issue date at a conversion price of HK$0.67 per convertible share. Bondholder may, with prior consent by the Company, extend the initial maturity date, which fall on or after 4 months but not more than 12 months from the initial maturity date. The Company will redeem the Convertible Bonds VI at the redemption amount which shall be calculated in accordance to the following formula:

Redemption amount = Principal amount of the Convertible Bonds VI x (4.7% x (N/365) +1) x 100% + (any accrued but unpaid interest)

N = Number of days from the issue date of the bonds to the maturity date

The Convertible Bonds VI contain debt component and conversion option. The Company's functional currency is RMB, which is different from the issue currency of Convertible Bonds VI. Therefore, the conversion option of Convertible Bonds VI is not closely related to the debt component and is classified as a derivative because the conversion will not result in the Company issuing a fixed number of shares in settlement of a fixed amount of debt component. Conversion option is measured at fair value with change in fair value recognised in profit or loss.

40. CONVERTIBLE BONDS (Continued)

(f) Convertible Bonds VI (Continued)

The movement of the debt component and embedded derivatives of the Convertible Bonds VI for the year is set out as below:

	Debt component *HK$'000*	Embedded derivatives *HK$'000*	Total *HK$'000*
As at 1 January 2017	–	–	–
Issued during the year	120,611	30,386	150,997
Transaction costs attributable to the issue of convertible bonds	(26,730)	–	(26,730)
Gain arising on change in fair value	–	(14,982)	(14,982)
Interest charged	18,671	–	18,671
Interest paid	(3,935)	–	(3,935)
As at 31 December 2017	108,617	15,404	124,021
Gain arising on change in fair value	–	(14,488)	(14,488)
Interest charged	33,880	–	33,880
Interest paid	(5,700)	–	(5,700)
As at 31 December 2018	136,797	916	137,713

The methods and assumptions applied for the valuation of the Convertible Bonds VI are as follows:

(1) Valuation of debt component

At the date of issue, the debt component was recognised at fair value. The fair value of debt component was calculated based on the present value of the contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the average yield of notes with similar credit rating and remaining time to maturity. In subsequent periods, the debt component is carried at amortised cost using the effective interest method. The effective interest rate of the debt component of the Convertible Bonds VI is 27%.

40. CONVERTIBLE BONDS (Continued)

(f) Convertible Bonds VI (Continued)

(2) Valuation of conversion option and issuer and bondholders early redemption options for Convertible Bonds VI

Binomial model is used for valuation of conversion option of the Convertible Bonds VI. The inputs into the model were as follows:

	31 December 2018	31 December 2017
Stock price	**HK$0.225**	HK$0.510
Exercise price (adjusted for Share Subdivision)	**HK$0.670**	HK$0.670
Volatility	**67.13%**	52.17%
Option life	**12 months**	24 months
Risk-free interest rate	**1.73%**	1.30%

(g) Convertible Bonds VII

On 4 May 2017, the Company issued HK$200,000,000, 4.8% convertible bonds (the "Convertible Bonds VII"). The Convertible Bonds VII will mature on the date falling on the third anniversary of the date of Convertible Bonds VII at a conversion price of HK$0.67 per convertible share, subject to adjustment and resets in accordance with the terms and conditions of the Convertible Bonds VII. If the Convertible Bonds VII have not been converted, they will be redeemed on the maturity date at 106% of the principal amount.

The Convertible Bonds VII contain debt component and conversion option. The Company changed its functional currency from HK$ to RMB on 28 October 2016, which is different from the issue currency of Convertible Bonds VII. Therefore, the conversion option of Convertible Bonds VII is not closely related to the debt component and is classified as a derivative because the conversion will not result in the Company issuing a fixed number of shares in settlement of a fixed amount of debt component. Conversion option is measured at fair value with change in fair value recognised in profit or loss.

40. CONVERTIBLE BONDS (Continued)

(g) Convertible Bonds VII (Continued)

The movement of the debt component and embedded derivatives of the Convertible Bonds VII for the year is set out as below:

	Debt component *HK$'000*	Embedded derivatives *HK$'000*	Total *HK$'000*
As at 1 January 2017	–	–	–
Issued during the year	168,826	28,975	197,801
Transaction costs attributable to the issue of convertible bonds	(32,353)	(2,199)	(34,552)
Gain arising on change in fair value	–	(23,572)	(23,572)
Interest charged	19,802	–	19,802
Interest paid	(6,155)	–	(6,155)
As at 31 December 2017	150,120	3,204	153,324
Gain arising on change in fair value	–	(968)	(968)
Interest charged	33,808	–	33,808
Interest paid	(9,784)	–	(9,784)
As at 31 December 2018	174,144	2,236	176,380

The methods and assumptions applied for the valuation of the Convertible Bonds VII are as follows:

(1) Valuation of debt component

At the date of issue, the debt component was recognised at fair value. The fair value of debt component was calculated based on the present value of the contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the average yield of notes with similar credit rating and remaining time to maturity. In subsequent periods, the debt component is carried at amortised cost using the effective interest method. The effective interest rate of the debt component of the Convertible Bonds VII is 21.2%.

40. CONVERTIBLE BONDS (Continued)

(g) Convertible Bonds VII (Continued)

(2) Valuation of conversion option and issuer and bondholders early redemption options for Convertible Bonds VII

Binomial model is used for valuation of conversion option of the Convertible Bonds VII. The inputs into the model were as follows:

	31 December 2018	31 December 2017
Stock price	**HK$0.225**	HK$0.510
Exercise price (adjusted for Share Subdivision)	**HK$0.670**	HK$0.670
Volatility	**59.01%**	49.62%
Option life	**16 months**	28 months
Risk-free interest rate	**1.73%**	1.30%

(h) Convertible Bonds VIII

On 26 June 2018, the Company issued HK$180,000,000, 2% convertible bond (the "Convertible Bond VIII"). The Convertible Bond VIII will mature on the date falling on the second anniversary of the issue date of Convertible Bond VIII at a conversion price of HK$0.57 per convertible share, subject to adjustment and resets in accordance with the terms and conditions of the Convertible Bond VIII. The Company shall have the right to convert all of the convertible bonds held by the bondholder into share, if during any three-month period within the conversion period the average closing price per share reaches HK$0.684 per share. If the Convertible Bond VIII have not been converted, they will be redeemed on the maturity date at the rate of 5.5% per annum of the outstanding amount at the time of the redemption plus any interest accrued.

The Convertible Bond VIII contain debt component and conversion option. The functional currency of the Company is RMB, which is different from the issue currency of Convertible Bond VIII. Therefore, the conversion option of Convertible Bond VIII is not closely related to the debt component and is classified as a derivative because the conversion will not result in the Company issuing a fixed number of shares in settlement of a fixed amount of debt component. Conversion option is measured at fair value with change in fair value recognised in profit or loss.

40. CONVERTIBLE BONDS (Continued)

(h) Convertible Bonds VIII (Continued)

The movement of the debt component and embedded derivatives of the Convertible Bonds VIII for the year is set out as below:

	Debt component *HK$'000*	**Embedded derivatives** *HK$'000*	**Total** *HK$'000*
As at 1 January 2018	–	–	–
Issued during the year	143,798	36,202	180,000
Transaction costs attributable to the issue of convertible bonds	(6,797)	–	(6,797)
Gain arising on change in fair value	–	(34,465)	(34,465)
Interest charged	16,994	–	16,994
Interest paid	(1,814)	–	(1,814)
As at 31 December 2018	152,181	1,737	153,918

The methods and assumptions applied for the valuation of the Convertible Bonds VIII are as follows:

(1) Valuation of debt component

At the date of issue, the debt component was recognised at fair value. The fair value of debt component was calculated based on the present value of the contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the average yield of notes with similar credit rating and remaining time to maturity. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The effective interest rate of the debt component of the Convertible Bonds VIII is 23.1%.

(2) Valuation of conversion option and issuer and bondholders early redemption options for Convertible Bonds VIII

Binomial model is used for valuation of conversion option of the Convertible Bonds VIII. The inputs into the model were as follows:

	31 December 2018	**26 June 2018**
Stock price	**HK$0.225**	HK$0.490
Exercise price (adjusted for Share Subdivision)	**HK$0.570**	HK$0.570
Volatility	**56.76%**	47.51%
Option life	**18 months**	24 months
Risk-free interest rate	**1.73%**	1.87%

41. DEFERRED TAX LIABILITIES

Deferred tax liabilities in current year represent deferred tax arise from fair value adjustments of intangible assets. Movements in the deferred tax liabilities during the year are as follows:

	2018	2017
	HK$'000	*HK$'000*
At 1 January	**325,749**	136,452
Acquisition of subsidiaries (note 42)	**–**	203,038
Disposal of subsidiaries (note 43)	**–**	(2,386)
Credited to profit or loss (note 12)	**(17,968)**	(11,355)
At 31 December	**307,781**	325,749

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 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 31 December 2018, the Group had tax losses arising in Hong Kong of approximately HK$64,816,000 (2017: HK$25,798,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these tax losses due to the uncertainty of future taxable profits against which the tax losses can be utilised. The tax losses arising in Hong Kong can be carried forward against future taxable profits. Under the current tax legislation, these tax losses can be carried forward indefinitely.

42. ACQUISITION OF SUBSIDIARIES

(a) Acquisitions accounted for business combinations

For the year ended 31 December 2017

During the year ended 31 December 2017, the Group acquired the following subsidiaries which are principally engaged in the sales and distribution of natural gas and other related products in the PRC. The primary reason for the acquisition was for the expansion of the Group's business and to increase returns to its shareholders.

	Date of acquisition	Percentage of registered capital acquired	Purchase consideration
			HK$'000
Business combination:			
OctoNet and August Zone Group	12 May 2017	100%	415,908
Top Grand	31 October 2017	100%	408,322

The acquisition-related costs of HK$4,886,000 were recognised as expenses in the year, then ended, within other expenses.

Details of fair value of net identifiable assets acquired and goodwill are as follows:

	OctoNet and August Zone Group	Top Grand	Total
	HK$'000	*HK$'000*	*HK$'000*
Fair value of the purchase consideration:			
– settled by cash	415,908	408,322	824,230
Non-controlling interests	–	27,388	27,388
Acquiree's provisional fair value of net identifiable assets acquired (see below)	(191,754)	(303,986)	(495,740)
Goodwill	224,154	131,724	355,878

42. ACQUISITION OF SUBSIDIARIES (Continued)

(a) Acquisitions accounted for business combinations (Continued)

For the year ended 31 December 2017 (Continued)

The net identifiable assets/(liabilities) acquired in the transactions are as follows:

Acquirees' fair values at respective acquisition dates:

	OctoNet and August Zone Group	Top Grand	Total
	HK$'000	*HK$'000*	*HK$'000*
Net assets/(liabilities) acquired:			
Intangible assets	460,681	350,185	810,866
Prepaid lease payments	4,856	35,931	40,787
Property, plant and equipment	102,734	330,591	433,325
Inventories	123	7,474	7,597
Trade and other receivables	17,567	98,364	115,931
Cash and bank balances	2,419	30,681	33,100
Trade and other payables	(183,465)	(161,460)	(344,925)
Amounts due to non-controlling interests of subsidiaries	–	(299,912)	(299,912)
Obligations under finance leases	(97,991)	–	(97,991)
Deferred tax liabilities	(115,170)	(87,868)	(203,038)
	191,754	303,986	495,740

The fair value as well as the gross contractual amounts of trade and other receivables acquired amounted to HK$115,931,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected was nil.

42. ACQUISITION OF SUBSIDIARIES (Continued)

(a) Acquisitions accounted for business combinations (Continued)

For the year ended 31 December 2017 (Continued)

Net cash outflow arising on acquisitions:

	OctoNet and August Zone Group	Top Grand	Total
	HK$'000	*HK$'000*	*HK$'000*
Purchase cash consideration	415,908	408,322	824,230
Cash and bank balances acquired	(2,419)	(30,681)	(33,100)
Deposit paid for acquisition of subsidiaries	(304,899)	(291,615)	(596,514)
	108,590	86,026	194,616

Goodwill arose from the above acquisition because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the business.

None of the goodwill arising on these acquisition is expected to be deductible for tax purposes.

The acquired subsidiaries contributed HK$280,782,000 to the Group's turnover and generated profit of HK$104,840,000 for the period between the respective dates of acquisition and the end of the reporting period.

Had the above acquisition been effected at the beginning of the reporting period, the total amount of revenue of the Group from continuing operations for the year ended 31 December 2017 would have been approximately HK$2,266,787,000 and the amount of the profit for the year from continuing operations would have been approximately HK$135,158,000. 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 at the beginning of the reporting period, nor is it intended to be a projection of future results.

43. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2018

On 30 June 2018, the Group disposed of 100% equity interest in Faster Success at a consideration of HK$50,000,000 which is included in other receivables as at 31 December, 2018. The net assets of Faster Success at the date of disposal was as follows:

Net assets of Faster Success disposed of	*HK$'000*
Prepaid lease payments	2,601
Property, plant and equipment	4,381
Goodwill	23,853
Trade and other receivables	1,947
Inventories	87
Cash and bank balances	176
Trade and other payables	(19,085)
	13,960
Gain on disposal of Faster Success	
Consideration	50,000
Less: Net assets disposed of	(13,960)
	36,040
Net cash outflow arising on disposal:	
Cash consideration	–
Less: cash and bank balances disposed of	(176)
	(176)

43. DISPOSAL OF SUBSIDIARIES (Continued)

For the year ended 31 December 2018 (Continued)

On 31 October 2018, the Group disposed of 100% equity interest in Focus On at a consideration of HK$55,000,000 which is included in other receivables as at 31 December, 2018. The net assets of Focus On at the date of disposal was as follows:

Net assets of Focus On disposed of	*HK$'000*
Property, plant and equipment	35,932
Goodwill	49,181
Inventories	6,179
Trade and other receivables	43,967
Cash and bank balances	1,344
Trade and other payables	(80,606)
	55,997
Gain on disposal of Focus On	
Consideration	55,000
Non-controlling interests	9,945
Less: Net assets disposed of	(55,997)
	8,948
Net cash outflow arising on disposal:	
Cash consideration	–
Less: cash and bank balances disposed of	(1,344)
	(1,344)

43. DISPOSAL OF SUBSIDIARIES (Continued)

For the year ended 31 December 2018 (Continued)

On 31 December 2018, the Group disposed of 100% equity interest in Waypost Limited at a consideration of HK$22,000,000 which is included in other receivables as at 31 December, 2018. The net assets of Waypost Limited at the date of disposal was as follows:

Net assets of Waypost Limited disposed of	*HK$'000*
Investment in an associate	21,916
Other receivables	2,712
Other payables	(23,517)
	1,111
Gain on disposal of Waypost Limited	
Consideration	22,000
Non-controlling interests	446
Less: Net assets disposed of	(1,111)
	21,335

For the year ended 31 December 2017

On 26 May 2017, the Group disposed of 75% equity interest in Legon Ventures Limited at a cash consideration of HK$178,000,000 of which HK$158,000,000 was settled by promissory note and HK$20,000,000 was settled by cash. The promissory note was redeemed in current year. The net assets of Legon Ventures Limited at the date of disposal was as follows:

Net assets of Legon Ventures Limited disposed of	*HK$'000*
Prepaid lease payments	4,620
Investment properties	110,341
Trade and other receivables	1,600
Cash and bank balances	8,909
Trade and other payables	(11,031)
	114,439
Gain on disposal of Legon Ventures Limited	
Cash consideration	178,000
Non-controlling interests	9,302
Less: Net assets disposed of	(114,439)
	72,863

43. DISPOSAL OF SUBSIDIARIES (Continued)

For the year ended 31 December 2017 (Continued)

On 30 June 2017, the Group disposed of 100% equity interest in Fan Dream at a cash consideration of HK$30,000,000. The net assets of Fan Dream at the date of disposal was as follows:

Net assets of Fan Dream disposed of	*HK$'000*
Property, plant and equipment	3,200
Intangible assets	9,376
Inventories	147
Trade and other receivables	8,897
Cash and bank balances	1,634
Trade and other payables	(3,912)
Deferred tax liabilities	(2,386)
	16,956
Gain on disposal of Fan Dream	
Cash consideration	30,000
Non-controlling interests	1,583
Less: Net assets disposed of	(16,956)
	14,627

44. COMMITMENTS

Capital commitments

At the end of the reporting period, commitments in respect of capital expenditure are as follows:

	2018	2017
	HK$'000	*HK$'000*
Contracted for but not provided:		
– property, plant and equipment	**26,565**	24,857
– acquisition of subsidiaries/associates	**152,000**	1,355,854
	178,565	1,380,711

44. COMMITMENTS (Continued)

Operating lease commitments as lessee

At the end of the reporting period, the total future minimum lease payments in respect of land and buildings under non-cancellable operating leases are as follows:

	2018	2017
	HK$'000	HK$'000
Within one year	6,268	3,261
In the second to fifth year inclusive	12,154	2,876
More than five years	4,389	2,864
	22,811	9,001

The Group leases its office premises under operating lease. The leases run for an initial period ranging from one to three years, with an option to renew the lease and renegotiated the terms at the expiry date or at dates as mutually agreed between the Group and the landlord. The leases do not include contingent rentals.

Operating lease commitments as lessor

At the end of the reporting period, the total future minimum lease receipts in respect of equipments under non-cancellable operating leases are as follows:

	2018	2017
	HK$'000	HK$'000
Within one year	–	347
In the second to fifth year inclusive	–	–
	–	347

The Group leases its equipments under operating leases for the year ended 31 December 2017.

45. 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.

46. RELATED PARTY TRANSACTIONS

In addition to the transactions or information disclosed elsewhere in these financial statements, the Group entered into the following material transactions with related parties:

	2018	2017
	HK$'000	*HK$'000*
Finance cost related to finance lease obligation with a joint venture (note a)	**7,275**	8,126
Purchases of goods (note b)	**5,022**	2,540
Acquisition of an associate (note 23(c)) (note c)	**1,324,240**	–
Key management personnel remuneration		
Short-term employee benefits	**13,036**	16,447
Post-employment benefits	**486**	403
Share-based payments	**639**	3,807
	14,161	20,657
	1,350,698	31,323

Note a: During the year ended 31 December 2018, the Group entered into finance lease agreement with one of the joint ventures.

Note b: The amount represents purchases of goods from a shareholder of a subsidiary which has significant influence in that subsidiary.

Note c: The vendor of the associate is also the substantial shareholder of the Company.

47. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2018, 2,407,708,800 ordinary shares was issued at fair value of approximately HK$1,324,240,000 by reference to the quoted price of HK$0.55 per share for the acquisition of an associate. Details are set out in the note 23(c).

During the year ended 31 December 2018, two convertible notes were matured with principal amount of HK$30,000,000 and HK$30,000,000 respectively. The Group has signed agreement with two issuer of the convertible notes to transfer the convertible notes to interest bearing loans with a total amount of HK$60,000,000 that included in loan and bond receivables.

During the year ended 31 December 2018, convertible bonds with aggregate principal amounts of approximately HK$265,500,000 (2017: HK$65,500,000) have been converted into 598,472,221 (2017: 163,750,000) ordinary shares of the Company (note 37).

The disposal of subsidiaries that occurred during the year comprise of consideration receivables. Further details of the disposal are set out in note 43.

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.

	Amounts due to joint ventures	Amounts due to non-controlling shareholders of subsidiaries	Bank and other borrowings	Obligations under finance leases	Convertible bonds	Embedded derivative at FVTPL	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 24	Note 29	Note 36	Note 39	Note 40	Note 40	
At 1 January 2018	15,280	155,703	732,652	166,852	647,121	23,239	1,740,847
Financing cash flows (note)	56,865	(155,703)	748,108	(100,625)	137,001	36,202	721,848
Interest expenses	–	–	–	–	175,440	–	175,440
Interest paid (operating cash flows)	–	–	–	–	(32,311)	–	(32,311)
Conversion of convertible bonds	–	–	–	–	(269,010)	–	(269,010)
Change in fair value of embedded derivatives	–	–	–	–	–	(53,438)	(53,438)
At 31 December 2018	72,145	–	1,480,760	66,227	658,241	6,003	2,283,376

Note: The financing cash flows represented the net amount of proceeds from bank and other borrowings, proceed from issue of convertible bonds, transaction cost attributable to issue of convertible bonds, payment to obligations under finance leases, advance from joint ventures and repayment to non-controlling shareholders of subsidiaries.

	Amounts due to joint ventures	Amounts due to non-controlling shareholders of subsidiaries	Bank and other borrowings	Obligations under finance leases	Convertible bonds	Embedded derivative at FVTPL	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 24	Note 29	Note 36	Note 39	Note 40	Note 40	
At 1 January 2017	8,998	–	293,000	3,963	369,461	60,875	736,297
Financing cash flows (note)	6,282	(144,209)	439,652	(1,477)	230,354	57,162	587,764
Acquisition of subsidiaries	–	299,912	–	97,991	–	–	397,903
New finance leases	–	–	–	58,230	–	–	58,230
Interest expenses	–	–	–	8,145	131,386	–	139,531
Interest paid (operating cash flows)	–	–	–	–	(29,040)	–	(29,040)
Conversion of convertible bonds	–	–	–	–	(55,040)	–	(55,040)
Change in fair value of embedded derivatives	–	–	–	–	–	(94,798)	(94,798)
At 31 December 2017	15,280	155,703	732,652	166,852	647,121	23,239	1,740,847

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

As at 31 December 2018 and 2017

Name of subsidiaries	Place/country of incorporation/ registration/operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of issued capital/ registered capital held indirectly by the Company 2018 %	2017 %	Principal activities
Smart Union	Hong Kong	Incorporated	1 ordinary share of HK$1 each	**100**	100	Investment holding
Focus On	BVI/Hong Kong	Incorporated	10,000 ordinary shares of US$1 each	**– (note 43)**	60	Investment holding
Cloud Decade	BVI/Hong Kong	Incorporated	1,000 ordinary shares of US$1 each	**100**	100	Investment holding
Waypost	BVI/Hong Kong	Incorporated	100 ordinary shares of US$1 each	**– (note 43)**	60	Investment holding
Shine Great	BVI/Hong Kong	Incorporated	10,000,000 ordinary shares of US$1 each	**100**	100	Investment holding
Well Organising	BVI/Hong Kong	Incorporated	1 ordinary share of US$1 each	**100**	100	Investment holding
Energy Shell	BVI/Hong Kong	Incorporated	1 ordinary share of US$1 each	**100**	100	Investment holding
Faster Success	BVI/Hong Kong	Incorporated	1 ordinary share of US$1 each	**– (note 43)**	100	Investment holding
Smart Rainbow	BVI/Hong Kong	Incorporated	1 ordinary share of US$1 each	**100**	100	Investment holding
Diamond Maple	BVI/Hong Kong	Incorporated	100 ordinary share of US$1 each	**100**	100	Investment holding
Day Zone	BVI/Hong Kong	Incorporated	1 ordinary share of US$1 each	**100**	100	Investment holding
OctoNet Limited	BVI/Hong Kong	Incorporated	1,000 ordinary shares of US$1 each	**100**	100 (note 42)	Investment holding
August Zone Limited	BVI/Hong Kong	Incorporated	100 ordinary shares of US$1 each	**100**	100 (note 42)	Investment holding
Top Grand Global Limited	BVI/Hong Kong	Incorporated	1 ordinary share of US$1 each	**100**	100 (note 42)	Investment holding
貴州坤煜經貿有限公司	PRC	Wholly-foreign owned enterprise	Registered capital RMB68,000,000	**100**	100	Sales and distribution of natural gas and other related products
湖州博臣天然氣有限公司	PRC	Wholly-foreign owned enterprise	Registered capital RMB68,000,000	**100**	100	Sales and distribution of natural gas and other related products
寧波北侖博臣能源貿易有限公司	PRC	Wholly-foreign owned enterprise	Registered capital RMB68,000,000	**100**	100	Sales and distribution of natural gas and other related products

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

As at 31 December 2018 and 2017 (Continued)

Name of subsidiaries	Place/country of incorporation/ registration/operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of issued capital/ registered capital held indirectly by the Company		Principal activities
				2018 **%**	2017 %	
海口鑫元天然氣技術股份有限公司 ("Haikou Xinyuan")	PRC	Sino-foreign owned enterprise	Registered capital RMB68,000,000	**48** (Note a)	48 (Note a)	Sales and distribution of natural gas and other related products
德州華鑫天然氣有限公司 ("Dezhou")	PRC	Sino-foreign owned enterprise	Registered capital US$5,705,000	**–**	36 (Note b)	Sales and distribution of natural gas and other related products
本溪遼油新時代燃氣有限公司	PRC	Sino-foreign owned enterprise	Registered capital RMB90,000,000	**90**	90	Sales and distribution of natural gas and other related products
吉林松原燃氣有限公司	PRC	Wholly-foreign owned enterprise	Registered capital RMB50,000,000	**100**	100 (note 42)	Sales and distribution of natural gas and other related products
山西民生天燃氣有限公司	PRC	Sino-foreign owned enterprise	Registered capital RMB80,000,000	**51**	51 (note 42)	Sales and distribution of natural gas and other related products
永濟市民生天燃氣有限公司	PRC	Sino-foreign owned enterprise	Registered capital RMB60,000,000	**51**	51 (note 42)	Sales and distribution of natural gas and other related products
深圳正威力能源有限公司	PRC	Wholly-foreign owned enterprise	Registered capital RMB3,000,000	**100**	100	Investment holding
深圳中港新時代能源有限公司	PRC	Wholly-foreign owned enterprise	Registered capital HK$10,000	**100**	100	Consultancy service on natural gas business

(Note a) Haikou Xinyuan is a subsidiary of the Group although the Group has only 48% ownership interest and voting rights in Haikou Xinyuan. The Group can exercise control over Haikou Xinyuan by way of securing the majority in boardseats of Haikou Xinyuan. According to the article of Haikou Xinyuan, 4 out of 7 directors are appointed by the Group and the resolution is passed by simple majority.

(Note b) Dezhou was a subsidiary of the Group although the Group had only 36% ownership interest and voting rights in Dezhou. 36% ownership interests in Dezhou represents effective interest indirectly held by the Company. The Group held 60% ownership interests in Focus On Group Limited, which in turn owned 100% of Joy Trade Limited, the immediate holding company of Dezhou, and then accordingly holding 60% of Dezhou. According to the article of Dezhou, Joy Trade Limited was entitled to appoint 3 out of 5 directors of Dezhou, and the resolution was passed by simple majority.

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

The above list includes the subsidiaries of the Company which, in the opinion of the directors, principally affect the results of the Group for the year or form a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of both years.

In the opinion of the directors, the Group has no material non-controlling interests and the summarised financial information about these subsidiaries is not disclosed.

50. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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 years.

The capital structure of the Group consists of debt, which include bank and other borrowings, amounts due to joint ventures, obligations under finance leases, and convertible bonds and equity attributable to owners of the Company, comprising issued share capital, share premium, reserves and accumulated profits.

The directors of the Company review the capital structure on a continuous basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of cash dividends, new share issues, as well as the issue of new debts or the redemption of existing debts.

50. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(a) Categories of financial instruments

The carrying amounts presented in the consolidated statement of financial position relate to the following categories of financial assets and financial liabilities:

	2018	2017
	HK$'000	*HK$'000*
Financial assets		
Financial assets at amortised cost	**1,266,309**	–
Loans and receivables (including cash and cash equivalents)	**–**	653,580
Financial assets at FVTOCI	**224,366**	–
AFS investments	**–**	134,828
Fair value through profit or loss (FVTPL)		
Mandatorily measured at FVTPL		
– Held for trading	**19,501**	71,536
– Others	**201,417**	–
Designated as at FVTPL	**–**	149,373
Financial liabilities		
Amortised cost	**2,531,417**	2,011,053
Financial liabilities at FVTPL	**6,003**	23,239

(b) Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, amounts due from non-controlling shareholders of subsidiaries, amounts due from associates, financial assets at FVTPL, financial assets at FVTOCI, AFS investments, amounts due from joint ventures, promissory note receivable, cash and bank balances, trade and other payables, bank and other borrowings, amounts due to joint ventures, amounts due to non-controlling shareholders of subsidiaries, convertible bonds and embedded derivatives at FVTPL, obligations under finance leases. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and 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.

50. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. 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.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities excluding intra-group balances at the reporting date are as follows:

	Assets		Liabilities	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
United States Dollars ("US$")	**33,913**	17,117	**–**	–
HK$	**413,060**	410,874	**738,151**	1,256,621

Sensitivity analysis

The directors considered that, the currency risk is mainly arising from exchange rate of RMB against HK$ and US$.

5% is the sensitivity rate used by directors in the assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis below demonstrated the effect of the foreign exchange differences by 5% change in exchange rate of the functional currency of the Company and respective subsidiaries against the relevant foreign currencies, assuming all other variables were held constant. A positive number below indicates a decrease in post-tax profit where the functional currency of the Company and respective subsidiaries weaken 5% against the relevant foreign currencies. For a 5% strengthening of the functional currency of the Company and respective subsidiaries, there would be an equal and opposite impact on the profit for the year.

	2018	2017
	HK$'000	*HK$'000*
Decrease in profit for the year	**12,137**	34,595

50. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from bank and other borrowings, obligations under finance leases, convertible bonds and loan and bond receivables. Bank and other borrowings, obligations under finance leases, convertible bonds and loan and bond receivables bearing fixed rates expose the Group to fair value interest rate risk. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 36 for details) and other borrowings.

a) Total interest income from financial assets that are measured at amortised cost is as follows:

	Year ended 31/12/2018 *HK$'000*
Other income	
Financial assets at amortised cost	28,494
Total interest income	28,494

b) Total interest income from financial assets that are measured at amortised cost is as follows:

	Year ended 31/12/2017 *HK$'000*
Other income	
Loans and receivables (including bank balances and cash)	9,687
Total interest income	9,687

The Group manages interest rate risk by monitoring its interest rate profile on an ongoing basis. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk. The policies to manage interest rate risk have been followed by the Group since prior years and are considered to be effective.

50. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

Price risk on financial assets at fair value through profit or loss

The Group is exposed to equity price risk through its investments in equity securities measured at FVTPL and FVTOCI (2017: held-for-trading investments and AFS investments). For equity securities and investment security funds measured at FVTPL (2017: held-for-trading) quoted in the Stock Exchange and derived from inputs other than quoted prices but as fair value of the portfolio included in the fund respectively, the management manages this exposure by maintaining a portfolio of investments with different risk. The Group also invested in convertible note receivables measured at FVTPL. In addition, the Group also invested in certain unquoted equity securities for investees for long term strategic purposes which had been designated as FVTOCI (2017: AFS investments measured at cost less impairment). The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should arise.

Sensitivity analysis

The sensitivity analyses have been determined based on the exposure to equity price risk at the reporting date, excluding AFS investments measured at cost less impairment for the year ended 31 December 2017. Sensitivity analyses for unquoted equity securities with fair value measurement categorised within Level 3 were disclosed in note 50(c).

If the prices of the respective equity instruments had been 10% (2017: 10%) higher/lower, the post-tax profit for the year ended 31 December 2018 would increase/decrease by HK$1,628,000 (2017: increase/decrease by HK$2,477,000) as a result of the changes in fair value of financial assets at FVTPL (2017: held-for-trading investments).

50. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

Price risk on embedded conversion option

The Group is required to estimate the fair value of the conversion option embedded in the convertible bonds at the end of the reporting period with changes in fair value to be recognised in the profit or loss as long as the convertible bonds are outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in market interest rate, the Company's share market price and share price volatility.

Sensitivity analysis
The sensitivity analysis below have been determined based on the exposure to the Company's share price risk at the reporting date only. If the Company's share price at the reporting date had been 10% higher/lower and assuming all other variables were held constant, the impact to the Group's post-tax profit for the year (as a result of changes in fair value of conversion and other embedded derivatives of convertible bonds) would be:

	2018	2017
	HK$'000	*HK$'000*
10% higher in Company's share price		
Decrease in post tax profit for the year	**2,427**	20,562
10% lower in Company's share price		
Increase in post tax profit for the year	**2,349**	15,242

In the opinion of the directors of the Company, the sensitivity analysis above is unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the convertible bonds with embedded derivatives involves multiple variables and certain variables are interdependent.

50. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

Trade receivables and contract assets

As part of the Group's credit risk management, the Group uses debtors' aging and internal credit rating to assess the impairment for its customers in relation to its City Gas operation and natural gas refuelling station operation, respectively. City Gas operation consists of a large number of customers with common risk characteristics. Based on the Group's assessment of historical credit loss experience and all available forward-looking information, including but not limited to the expected economic conditions in the PRC, 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 and 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.

For trading and distribution of natural gas, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality by customer. Scoring attributed to customers are reviewed annually. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. The Group performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on significant trade balances individually or based on provision matrix by internal credit rating.

The Group has concentration of credit risk as 20% (31 December 2017: 16%) and 59% (31 December 2017: 55%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the trading and distribution of natural gas segment.

50. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Other receivables, amounts due from joint ventures and associates

Regarding other receivables, amounts due from joint ventures and associates, the ECL on these assets are assessed individually for debtors with significant balance on the recoverability based on historical settlement records, past experience, and also available, reasonable and supportive forward-looking information. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balance of other receivables, amounts due from joint ventures and associates.

Cash and bank balances

The credit risk on cash and bank balances of the Group is limited because the counterparties are banks and financial institutions with high credit ratings assigned by international credit-rating agencies and no history of default in the past. No loss allowance provision for cash and bank balances was recognised upon application of IFRS 9.

a) 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	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – non credit-impaired	Lifetime ECL – non credit-impaired

50. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

The tables below detail the credit risk exposures of the Group's financial assets and contract assets, which are subject to ECL assessment:

Financial assets at amortised costs

2018	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount	
					HK$'000	*HK$'000*
Trade receivables	28	N/A	(Note 2)	lifetime ECL (provision matrix internal credit rating)	36,526	
			Low risk	lifetime ECL	27,667	
			Watch list	lifetime ECL	6,863	
			(Note 2)	lifetime ECL (provision matrix debtors' aging)	136,947	208,003
Other receivables	28	N/A	(Note 1)	12m ECL		769,580
Amounts due from joint ventures	24	N/A	(Note 1)	12m ECL		37,589
Amounts due from associates	23	N/A	(Note 1)	12m ECL		30,736
Promissory note receivable	32	N/A	(Note 1)	12m ECL		8,311
Cash and bank balance	33	AA- to BBB+	N/A	12m ECL		281,604

Other item

Contract assets	26	N/A	(Note 2)	Lifetime ECL (provision matrix debtors' aging)		93,038

Notes:

1. At the end of the reporting period, the directors of the Company have performed impairment assessment, and concluded that there has been no significant increase in credit risk for other receivables, amounts due from joint ventures, amounts due from associates and promissory note receivable since initial recognition. Accordingly, the loss allowance for other receivables, amounts due from joint ventures, amounts due from associates, and promissory note receivable is measured at an amount equal to 12m ECL. For the purpose of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Past due	Not past due/ No fixed repayment term	Total
	HK$'000	*HK$'000*	*HK$'000*
Other receivables	–	769,580	769,580
Amounts due from joint ventures	–	37,589	37,589
Amounts due from associates	–	30,736	30,736
Promissory note receivable	–	8,311	8,311

2. For trade receivables and contract assets, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating and debtors' aging.

50. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Provision matrix – internal credit rating (Trading and distribution of natural gas)

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relation to its trading and distribution of natural gas operation because these customers consist of a large number of medium-sized industrial customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit-impaired). Debtors with significant outstanding balance with gross carrying amounts of HK$34,530,000 as at 31 December 2018 were assessed individually.

Gross carrying amount

Internal credit rating	**Trade receivables**
	HK$'000
Low risk	25,432
Watch list	11,094
	36,526

Provision matrix – debtors' aging (City Gas operation and natural gas refuelling station)

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its natural gas for transportation and city gas and other product 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. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit-impaired).

Gross carrying amount

	Trade receivables
	HK$'000
Current (not past due)	38,907
1-30 days past due	27,173
31-120 days past due	28,165
120-180 days past due	1,457
More than 180 days past due	41,245
	136,947

50. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Provision matrix – debtors' aging (Continued)

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 31 December 2018, the Group provided HK$21,325,000 impairment allowance for trade receivables, based on the provision matrix.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL
	HK$'000
As at 31 December 2017	
under IAS 39	763
Adjustment upon application of HKFRS 9	48,189
As at 1 January 2018 – As restated	48,952
Changes due to financial instruments recognised as at 1 January:	
– Impairment losses recognised	21,325
– Write-offs	(763)
As at 31 December 2018	69,514

50. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by cash or other financial assets.

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 flow.

The Group is exposed to liquidity risk in respect of settlement of trade and other payables and its financing obligations, and also in respect of its cash flow management. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants by reviewing each operating entity's cash flow forecast, to ensure that the Group maintains an appropriate level of liquid assets and committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term. The liquidity policies have been followed by the Group since prior years and are considered to have been effective in managing liquidity risks.

Analysed below is the Group's remaining contractual maturities for its financial liabilities as at 31 December 2018 and 2017. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date which the Group can be required to pay. Bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choose to exercise their rights within one year after the reporting date.

The maturity analysis for the financial liabilities is prepared based on the scheduled repayment dates.

50. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The contractual maturity analysis below is based on the undiscounted cash flows of the financial liabilities. The amounts for variable interest rate instrument are subject to change if changes in variable interest rates different from those of estimates determined at the end of the reporting period.

	Weighted average interest rate *%*	On demand or within 1 year *HK$'000*	Between 1 and 2 years *HK$'000*	Between 2 and 5 years *HK$'000*	More than 5 years *HK$'000*	Total undiscounted cash flow *HK$'000*	Carrying amount at 31 December 2018 *HK$'000*
At 31 December 2018							
Trade and other payables	–	254,044	–	–	–	254,044	254,044
Convertible bonds*	3.9	331,916	345,620	–	–	677,536	658,241
Amounts due to joint ventures	5	–	77,623	–	–	77,623	72,145
Obligation under finance leases	3.6	9,397	64,233	–	–	73,630	66,227
Bank and other borrowings	5.8	925,182	383,391	230,282	6,597	1,545,452	1,480,760
		1,520,539	870,867	230,282	6,597	2,628,285	2,531,417

	Weighted average interest rate *%*	On demand or within 1 year *HK$'000*	Between 1 and 2 years *HK$'000*	Between 2 and 5 years *HK$'000*	More than 5 years *HK$'000*	Total undiscounted cash flow *HK$'000*	Carrying amount at 31 December 2017 *HK$'000*
At 31 December 2017							
Trade and other payables	–	293,445	–	–	–	293,445	293,445
Convertible bonds*	4.2	129,160	391,240	177,842	–	698,242	647,121
Amounts due to joint ventures	–	15,280	–	–	–	15,280	15,280
Amounts due to non-controlling shareholders of subsidiaries	–	155,703	–	–	–	155,703	155,703
Obligation under finance leases	8.5	94,212	59,015	27,878	–	181,105	166,852
Bank and other borrowings	6.7	253,902	219,970	272,961	70,765	817,598	732,652
		941,702	670,225	478,681	70,765	2,161,373	2,011,053

* The contractual maturity analysis on the convertible bonds are prepared with the assumption that the early redemption options are not exercised by either the bond holders or the Company.

50. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurement

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 and Level 2 inputs are not available, the Group engages independent qualified valuers to perform the valuation. The chief financial officer works closely with the independent qualified valuers to establish the appropriate valuation techniques and inputs to the model. The chief financial officer reports the findings to the board of directors of the Company every quarter to explain the cause of fluctuations in the fair value of the assets and liabilities.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to Level 3 based on the degree to which the fair value 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).
- 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).

	31 December 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Financial assets at FVTPL	**19,501**	**183,569**	**17,848**	**220,918**
Financial assets at FVTOCI	**–**	**–**	**224,366**	**224,366**
Embedded derivatives at FVTPL	**–**	**–**	**6,003**	**6,003**

	31 December 2017			
	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial asset of fair value through profit or loss	29,669	41,867	149,373	220,909
Embedded derivatives at FVTPL	–	–	23,239	23,239

There were no transfer between Level 1 and 2 in both years.

50. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurement (Continued)

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).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s)
	31.12.2018 ***HK$'000***	31.12.2017 *HK$'000*		
Investment in listed equity securities held-for-trading	**19,501**	29,669	Level 1	Quoted bid prices in an active market
Unlisted investment security fund classified as financial assets at FVTPL	**183,569**	41,867	Level 2	Net asset value of fund (i.e. fair value of the portfolio included in the fund)
Convertible note receivables	**17,848**	149,373	Level 3	Binomial option pricing model Key unobservable inputs: 1. Expected volatility (Note 1) 2. Discount rate (Note 2)
Financial assets at FVTOCI	**224,366**	–	Level 3	Market based approach Key unobservable inputs: 1. Price-to-book ("P/B") ratio was adopted using median P/B multiple of various comparable companies. 2. Discount for lack of marketability (Note 3)
Financial liabilities				
Embedded derivatives at FVTPL	**(6,003)**	(23,239)	Level 3	Binomial option pricing model Key unobservable inputs: 1. Expected volatility (Note 1) 2. Discount rate (Note 2)

Note 1: The higher the expected volatility, the higher the fair value.
Note 2: The higher the discount rate, the lower the fair value.
Note 3: The higher the discount for lack of marketability the lower the fair value.

There were no transfers between Level 1, 2 and 3 during both years.

50. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurement (Continued)

Reconciliation of Level 3 fair value measurements of financial assets and financial liabilities

	Financial assets at FVTPL	Embedded derivatives at FVTPL	Financial assets at FVTOCI
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2017	109,849	(60,875)	–
Addition	–	(57,162)	–
Fair value change to profit or loss	39,524	94,798	–
At 31 December 2017	149,373	(23,239)	–
Reclassification upon application of IFRS 9	–	–	134,828
Remeasurement from amortised cost to fair value upon application of IFRS 9	–	–	20,379
Addition	–	(36,202)	20,413
Disposal/settlement	(85,914)	–	–
Fair value change to profit or loss	(45,611)	53,438	–
Fair value change to other comprehensive income	–	–	48,746
At 31 December 2018	17,848	(6,003)	224,366

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

The management of the Group estimates the fair value of its financial assets and financial liabilities measured at amortised cost using the discounted cash flows analysis.

The management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their fair values.

51. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018 HK$'000	2017 HK$'000
Non-current assets		
Property, plant and equipment	**10**	19
Prepayment	**15,115**	19,472
Investments in subsidiaries	**5,475,178**	3,381,344
Financial assets at FVTOCI	**16,020**	–
	5,506,323	3,400,835
Current assets		
Other receivables	**303,570**	112,796
Amounts due from subsidiaries	**766,506**	861,410
Amounts due from joint ventures	**16,164**	13,756
Financial assets at FVTPL	**219,427**	140,791
Cash and bank balances	**35,033**	1,802
	1,340,700	1,130,555
Current liabilities		
Other payables	**14,839**	27,095
Amounts due to subsidiaries	**39,953**	33,805
Convertible bonds	**331,916**	129,160
Other borrowings	**883,380**	251,500
Embedded derivative at FVTPL	**6,003**	23,239
	1,276,091	464,799
Net current assets	**64,609**	665,756
Total assets less current liabilities	**5,570,932**	4,066,591
Capital and reserves		
Share capital (note 37)	**714,236**	541,362
Reserves	**3,991,871**	2,562,140
Total equity	**4,706,107**	3,103,502
Non-current liabilities		
Other borrowings	**538,500**	445,128
Convertible bonds	**326,325**	517,961
	864,825	963,089
	5,570,932	4,066,591

51. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Movement in the Company's reserves

	Attributable to owners of the Company							
	Share premium	Share option reserve	Convertible note equity reserve	FVOCI reserve	Merger reserve	Translation reserve	Accumulated loss	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At January 2017	2,599,633	7,788	116,059	–	(43,048)	(47,950)	(224,009)	2,408,473
Profit for the year	–	–	–	–	–	–	80,178	80,178
Other comprehensive income for the year	–	–	–	–	–	8,800	–	8,800
Total comprehensive income for the year	–	–	–	–	–	8,800	80,178	88,978
Issue of shares upon conversion of convertible bonds	67,843	–	(21,809)	–	–	–	–	46,034
Issue of shares upon conversion of share options	13,150	(1,223)	–	–	–	–	–	11,927
Recognition of equity-settled share-based payments	–	6,728	–	–	–	–	–	6,728
Transfer to accumulated loss upon forfeiture of share options	–	(203)	–	–	–	–	203	–
At 31 December 2017	2,680,626	13,090	94,250	–	(43,048)	(39,150)	(143,628)	2,562,140
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(50,013)**	**(50,013)**
Other comprehensive loss for the year	**–**	**–**	**–**	**(4,411)**	**–**	**(8,822)**	**–**	**(13,233)**
Total comprehensive loss for the year	**–**	**–**	**–**	**(4,411)**	**–**	**(8,822)**	**(50,013)**	**(63,246)**
Issue of shares by way of placing	**51,500**	**–**	**–**	**–**	**–**	**–**	**–**	**51,500**
Issue of shares upon conversion of convertible bonds	**330,344**	**–**	**(94,250)**	**–**	**–**	**–**	**–**	**236,094**
Issue of shares upon conversion of share options	**16,325**	**(4,313)**	**–**	**–**	**–**	**–**	**–**	**12,012**
Recognition of equity-settled share-based payments	**–**	**1,555**	**–**	**–**	**–**	**–**	**–**	**1,555**
Acquisition of an associate	**1,191,816**	**–**	**–**	**–**	**–**	**–**	**–**	**1,191,816**
Transfer to accumulated loss upon forfeiture of share options	**–**	**(182)**	**–**	**–**	**–**	**–**	**182**	**–**
At 31 December 2018	**4,270,611**	**10,150**	**–**	**(4,411)**	**(43,048)**	**(47,972)**	**(193,459)**	**3,991,871**

Note:

The Directors of the Company considered that the application of the new and amendments to IFRSs that are effective for the Company's financial year beginning on 1 January 2018 have no material impact on the Company's results and financial position.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS (From continuing and discontinued operations)

	For the year ended 31 December				
	2014	2015	2016	2017	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue	200,430	213,123	633,776	1,451,140	**2,148,480**
(Loss)/profit before income tax	(70,480)	1,904	85,673	9,606	**259,188**
Income tax credit/(charge)	457	4,999	(378)	(5,791)	**2,328**
(Loss)/profit for the year	(70,023)	6,903	85,295	3,815	**261,516**
Attributable to:					
Owners of the Company	(70,763)	17,160	99,876	(12,489)	**260,657**
Non-controlling interests	740	(10,257)	(14,581)	16,304	**859**
	(70,023)	6,903	85,295	3,815	**261,516**
(Loss)/earnings per share					
Basic (in HK cents)	(2.21)	0.33	1.28	(0.13)	**2.27**
Diluted (in HK cents)	(2.21)	0.33	1.27	(0.32)	**2.09**

ASSETS AND LIABILITIES

	At 31 December				
	2014	2015	2016	2017	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	1,238,010	2,411,253	4,289,079	5,939,563	**8,228,330**
Total liabilities	(317,654)	(681,508)	(1,013,385)	(2,529,655)	**(3,114,934)**
	920,356	1,729,745	3,275,694	3,409,908	**5,113,396**
Equity attributable to owners of the Company	851,220	1,536,322	3,207,871	3,299,385	**5,028,742**
Non-controlling interests	69,136	193,423	67,823	110,523	**84,654**
	920,356	1,729,745	3,275,694	3,409,908	**5,113,396**

Note:

In the current year, the Group has applied new and amendments to IFRS standards including IFRS 9 which are effective for the year ended 31 December 2018. (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 31 December 2014, 2015, 2016 and 2017 may not be comparable to the year ended 31 December 2018 as such comparative information was prepared under IAS 39. Accounting policies resulting from application of IFRS 9 are disclosed in the "Significant Accounting Policies" Section.