



# NewOcean Energy Holdings Limited 新海能源集團有限公司

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)

Stock Code 股份代號: 342



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# Report on Review of Condensed Consolidated Financial Statements

**Deloitte.**

德勤

TO THE BOARD OF DIRECTORS OF  
NEWOCEAN ENERGY HOLDINGS LIMITED

## Introduction

We have reviewed the condensed consolidated financial statements of NewOcean Energy Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 4 to 47, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

# Report on Review of Condensed Consolidated Financial Statements

*(Continued)*

## Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that caused us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

29 August 2018

# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018

	Notes	Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Revenue	3	11,997,224	9,882,313
Cost of sales		(11,087,233)	(9,105,878)
Gross profit		909,991	776,435
Other gains and losses	4	(58,521)	96,955
Other income	5	60,832	25,428
Selling and distribution expenses		(220,280)	(208,908)
Administrative expenses		(229,227)	(172,207)
Finance costs		(125,818)	(92,977)
Share of profits of joint ventures		1,473	1,207
Share of profit (loss) of an associate		91	(559)
Profit before taxation	6	338,541	425,374
Taxation	7	(12,999)	(24,955)
Profit for the period		325,542	400,419
Other comprehensive (expense) income:			
Item that will not be reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		(49,275)	103,317
Total comprehensive income for the period		276,267	503,736

# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income *(Continued)*

For the six months ended 30 June 2018

	Note	Six months ended 30 June	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Profit (loss) for the period attributable to:			
Owners of the Company		337,651	401,738
Non-controlling interests		(12,109)	(1,319)
		325,542	400,419
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		289,353	504,393
Non-controlling interests		(13,086)	(657)
		276,267	503,736
Basic earnings per share	8	HK\$0.229	HK\$0.272



# Condensed Consolidated Statement of Financial Position

At 30 June 2018

		As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
	Notes	HK\$'000	HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	10	2,332,962	2,412,995
Land use rights	11	393,366	400,882
Prepaid lease payments for coast		5,063	5,535
Goodwill		748,498	751,948
Other intangible assets		348,811	377,939
Interest in an associate		7,186	7,188
Interests in joint ventures		28,295	26,760
Deposits paid	12	501,454	485,150
Deferred tax assets		1,268	1,953
		<b>4,366,903</b>	<b>4,470,350</b>
<b>Current assets</b>			
Inventories		1,656,766	1,399,680
Trade receivables	13	3,894,591	3,575,770
Other debtors, deposits and prepayments	13	2,192,425	1,996,941
Amount due from an associate	13	5,957	3,695
Amount due from a joint venture	13	984	1,347
Derivative financial instruments		8,332	15,012
Land use rights	11	19,899	20,008
Prepaid lease payments for coast		806	817
Properties held for sales		154,822	156,774
Properties under development for sales		655,642	653,896
Pledged bank deposits	14	250,453	253,611
Bank balances and cash		1,110,995	1,789,191
		<b>9,951,672</b>	<b>9,866,742</b>

# Condensed Consolidated Statement of Financial Position *(Continued)*

At 30 June 2018

		As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
	Notes		
<b>Current liabilities</b>			
Trade payables	15	1,472,443	1,285,526
Other creditors and accrued charges		230,483	497,638
Contracts liabilities		338,687	—
Amount due to an associate		12,410	—
Amount due to a joint venture		3,057	3,096
Derivative financial instruments		4,303	7,861
Tax liabilities		111,591	118,112
Borrowings secured by pledged bank deposits — repayable within one year	16	235,610	235,610
Borrowings secured by other assets — repayable within one year	16	23,850	18,364
Borrowings unsecured — repayable within one year	16	3,119,370	3,709,829
		5,551,804	5,876,036
<b>Net current assets</b>			
		4,399,868	3,990,706
<b>Total assets less current liabilities</b>			
		8,766,771	8,461,056
<b>Capital and reserves</b>			
Share capital	17	146,812	147,303
Share premium and other reserves		7,010,094	6,768,047
Equity attributable to owners of the Company		7,156,906	6,915,350
Non-controlling interests		56,112	69,198
Total equity		7,213,018	6,984,548
<b>Non-current liabilities</b>			
Deferred tax liabilities		86,579	92,925
Borrowings secured by other assets — repayable over one year	16	42,482	31,293
Borrowings unsecured — repayable over one year	16	1,424,692	1,352,290
		1,553,753	1,476,508
		8,766,771	8,461,056



# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Attributable to owners of the Company										Non-controlling interests	Total
	Share capital	Share premium	Special reserve	Statutory surplus reserves	Exchange reserve	Contributed surplus accounts	Other reserve	Capital redemption reserve	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000 (Note i)	HK\$'000 (Note ii)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2017 (audited)	147,303	1,423,025	122,085	59,488	14,510	1,667	(127)	737	5,146,662	6,915,350	69,198	6,984,548
Adjustments (see note 2)	—	—	—	—	—	—	—	—	(40,000)	(40,000)	—	(40,000)
At 1 January 2018 (restated)	147,303	1,423,025	122,085	59,488	14,510	1,667	(127)	737	5,106,662	6,875,350	69,198	6,944,548
Profit (loss) for the period	—	—	—	—	—	—	—	—	337,651	337,651	(12,109)	325,542
Exchange difference arising on translation to presentation currency	—	—	—	—	(48,298)	—	—	—	—	(48,298)	(977)	(49,275)
Total comprehensive (expense) income for the period	—	—	—	—	(48,298)	—	—	—	337,651	289,353	(13,086)	276,267
Appropriations	—	—	—	7,054	—	—	—	—	(7,054)	—	—	—
Repurchase of ordinary shares	(491)	(7,306)	—	—	—	—	—	491	(491)	(7,797)	—	(7,797)
At 30 June 2018 (unaudited)	146,812	1,415,719	122,085	66,542	(33,788)	1,667	(127)	1,228	5,436,768	7,156,906	56,112	7,213,018
At 1 January 2017 (audited)	148,040	1,439,717	122,085	53,692	(225,411)	1,667	(127)	—	4,317,564	5,857,227	83,718	5,940,945
Profit (loss) for the period	—	—	—	—	—	—	—	—	401,738	401,738	(1,319)	400,419
Exchange difference arising on translation to presentation currency	—	—	—	—	102,655	—	—	—	—	102,655	662	103,317
Total comprehensive (expense) income for the period	—	—	—	—	102,655	—	—	—	401,738	504,393	(657)	503,736
Appropriations	—	—	—	5,306	—	—	—	—	(5,306)	—	—	—
Repurchase of ordinary shares	(611)	(14,074)	—	—	—	—	—	611	(611)	(14,685)	—	(14,685)
At 30 June 2017 (unaudited)	147,429	1,425,643	122,085	58,998	(122,756)	1,667	(127)	611	4,713,385	6,346,935	83,061	6,429,996

## Notes:

- (i) The special reserve of the Group represents the difference between the share capital, share premium and capital redemption reserve of the Group's former ultimate holding company whose shares were exchanged for the Company's shares and the nominal amount of the share capital issued by the Company pursuant to a scheme of arrangement dated 14 April 1999.
- (ii) The statutory surplus reserves represent enterprise development and general reserve funds appropriated from the profit after taxation of subsidiaries established in the People's Republic of China (the "PRC") in accordance with the PRC laws and regulations.

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Note	Six months ended 30 June	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Net cash used in operating activities			
Operating cash flows before movements in working capital		616,990	615,909
Increase in inventories		(235,660)	(446,928)
Increase in trade receivables		(325,466)	(107,009)
Increase in other debtors, deposits and prepayments		(239,566)	(263,825)
Increase (decrease) in trade payables		183,077	(238,165)
Other operating cash flows (net)		(1,671)	(63,344)
		<b>(2,296)</b>	<b>(503,362)</b>
Net cash (used in) from investing activities			
Interest received		16,858	11,011
Purchase of property, plant and equipment	10	(29,576)	(23,299)
Withdrawal of pledged bank deposits		—	112,151
Other investing cash flows (net)		(14,201)	(98)
		<b>(26,919)</b>	<b>99,765</b>

# Condensed Consolidated Statement of Cash Flows *(Continued)*

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Net cash (used in) from financing activities		
New borrowings raised	8,363,482	7,530,414
Repayments of borrowings	(8,866,040)	(7,261,473)
Payment on repurchase of ordinary shares	(7,797)	(14,685)
Other financing cash flows (net)	(132,690)	(57,364)
	<b>(643,045)</b>	<b>196,892</b>
Net decrease in cash and cash equivalents	<b>(672,260)</b>	<b>(206,705)</b>
Cash and cash equivalents at beginning of the period	1,789,191	1,857,597
Effect of foreign exchange rate changes	(5,936)	7,797
Cash and cash equivalents at end of the period, represented by bank balances and cash	<b>1,110,995</b>	<b>1,658,689</b>

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

## 1. General Information and Basis of Preparation

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate and immediate holding company is Uniocean Investments Limited, a company incorporated in the British Virgin Islands. The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the principal place of business is 23rd Floor, The Sun's Group Centre, 200 Gloucester Road, Wanchai, Hong Kong.

The Company acts as an investment holding company. The principal activities of the Group are sales and distribution of liquefied petroleum gas ("LPG") and natural gas ("NG"), oil/chemical products business and sales of electronic products.

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The functional currency of the Company is Renminbi ("RMB"), the currency of the primary economic environment in which the Group operates. For the purpose of the condensed consolidated financial statements and convenience of the financial statements users, the results and financial position of the Group are expressed in Hong Kong dollars ("HK\$"), the presentation currency for the condensed consolidated financial statements.

## 2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRS"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2017.

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements.

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 2. Principal Accounting Policies *(Continued)*

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

In addition, the Group has applied Amendments to HKFRS 9 “Prepayment Features with Negative Compensation” in advance of the effective date, i.e. 1 January 2019.

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

### 2.1 *Impacts and changes in accounting policies of application on HKFRS 15 “Revenue from Contracts with Customers”*

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

The Group recognises revenue from the sales and distribution of LPG and NG, oil/chemical products business and sales of electronic products. Revenue from sales of goods are recognised at a point in time when control of the assets are transferred to the customers, being when the goods are delivered to the customers. Transportation and other related activities that occur before customers obtain control of the related goods are considered as fulfilment activities. Please refer to note 3 for details.

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 2. Principal Accounting Policies *(Continued)*

### 2.1 **Impacts and changes in accounting policies of application on HKFRS 15 “Revenue from Contracts with Customers”** *(Continued)*

The Group has applied HKFRS 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 retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 “Revenue” and the related interpretations.

#### 2.1.1 *Key changes in accounting policies resulting from application of HKFRS 15*

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

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

A performance obligation represents a good and 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.

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 2. Principal Accounting Policies *(Continued)*

### 2.1 *Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers"* *(Continued)*

#### 2.1.1 *Key changes in accounting policies resulting from application of HKFRS 15* *(Continued)*

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

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

#### *Principal versus agent*

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 2. Principal Accounting Policies *(Continued)*

### 2.1 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" *(Continued)*

#### 2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 *(Continued)*

##### *Principal versus agent (Continued)*

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue at a point in time when the end customer obtains control of the distinct goods or services and in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided to the end customer.

#### 2.1.2 Summary of effects arising from initial application of HKFRS 15

##### (a) Timing of revenue recognition

The Group is principally engaged in the sales and distribution of LPG, oil and chemical products and electronic products. Sales are recognised by the Group at a point in time when control of the products has transferred, being when the products are delivered to the customer.

##### (b) Principal versus agent

For several subsidiaries in Hong Kong engaged in distribution of oil products acquired by the Group towards the end of 31 December 2017, the directors of the Company considered the Group acts as agent as the Group does not have inventory risk, and hence only recognises revenue in the amount of any fee or commission to which the Group is exchange for arranging the oil products to be provided to the end customers. The directors of the Company considered that this change in accounting policy had no material impact on opening balances as at 1 January 2018.



# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 2. Principal Accounting Policies *(Continued)*

### 2.1 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" *(Continued)*

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

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

	Carrying amounts previously reported at 31 December 2017 HK\$'000	Reclassi- fication HK\$'000	Carrying amounts under HKFRS 15 at 1 January 2018 HK\$'000
<b>Current Liabilities</b>			
Other creditors and accrued charges (Note)	497,638	(133,036)	364,602
Contract liabilities (Note)	—	133,036	133,036

Note: As at 1 January 2018, advances from customers of approximately HK\$133,036,000 in respect of several contracts previously included in other creditors and accrued charges were reclassified to contract liabilities.

The following table summarises the impact of applying HKFRS 15 on the Group's condensed consolidated statement of financial position at 30 June 2018 and its condensed consolidated statement of profit or loss and other comprehensive income for the current interim for each of the line items affected. Line items that were not affected by the changes have not been included.

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 2. Principal Accounting Policies *(Continued)*

### 2.1 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" *(Continued)*

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

*Impact on the condensed consolidated statement of financial position*

		<b>As reported</b>	<b>Adjustments</b>	<b>Amounts without application of HKFRS 15</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Current Liabilities</b>				
Other creditors and accrued charges	<i>(a)</i>	—	338,687	338,687
Contract liabilities	<i>(a)</i>	338,687	(338,687)	—

*Note:*

- (a) As at 30 June 2018, the adjustments relate to advances from customers in respect of several contracts which are presented as contract liabilities upon the application of HKFRS 15.

*Impact on the condensed consolidated statement of profit and loss and other comprehensive income*

		<b>As reported</b>	<b>Adjustments</b>	<b>Amounts without application of HKFRS 15</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	<i>(b)</i>	11,997,224	313,300	12,310,524
Cost of sales	<i>(b)</i>	(11,087,233)	(313,300)	(11,400,533)

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 2. Principal Accounting Policies *(Continued)*

### 2.1 *Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers"* *(Continued)*

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

*Impact on the condensed consolidated statement of profit and loss and other comprehensive income (Continued)*

*Note:*

- (b) Under HKAS 18, several subsidiaries in Hong Kong recognised distribution of oil products on a gross basis, i.e. the Group was considered as a principal, due to its significant exposure to credit risk of customers. Upon application of HKFRS 15, the Group is considered as an agent and recognise revenue in net basis. This change in accounting policies resulted in a reduction of revenue and cost of sales by HK\$313,300,000 for the six months period ended 30 June 2018.

Except as described above, the application of HKFRS 15 has had no material impact on the amounts reported set out in these condensed consolidated financial statements.

### 2.2 *Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" and the related amendments*

In the current period, the Group has applied HKFRS 9 "Financial Instruments", Amendments to HKFRS 9 "Prepayment Features with Negative Compensation" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities and 2) expected credit losses ("ECL") for financial assets.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) 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 retained profits and other components of equity, without restating comparative information.

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 2. Principal Accounting Policies *(Continued)*

### 2.2 **Impacts and changes in accounting policies of application on HKFRS 9 “Financial Instruments” and the related amendments** *(Continued)*

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

#### 2.2.1 *Key changes in accounting policies resulting from application of HKFRS 9*

##### *Classification and measurement of financial assets*

Trade receivables arising from contracts with customers, including trade relates amount due from a joint venture, are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The directors of the Company reviewed and assessed the Group’s financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Except for the impairment under ECL model, the application of HKFRS 9 has had no material effect on classification and measurement of financial assets in these condensed consolidated financial statements.

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 2. Principal Accounting Policies *(Continued)*

### 2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" and the related amendments *(Continued)*

#### 2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

##### *Impairment under ECL model*

The Group assesses for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, other debtors, amounts due from an associate and a joint venture, pledged bank deposits and bank deposits). The assessment is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for trade receivables. The ECL on trade receivables are assessed individually for debtors with significant balances and collectively using a provision matrix for the remaining balance based on its historical observed default rates which is adjusted for forward-looking estimates.

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

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 2. Principal Accounting Policies *(Continued)*

### 2.2 **Impacts and changes in accounting policies of application on HKFRS 9 “Financial Instruments” and the related amendments** *(Continued)*

#### 2.2.1 *Key changes in accounting policies resulting from application of HKFRS 9 (Continued)*

##### *Impairment under ECL model (Continued)*

##### *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.

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 2. Principal Accounting Policies *(Continued)*

### 2.2 **Impacts and changes in accounting policies of application on HKFRS 9 “Financial Instruments” and the related amendments** *(Continued)*

#### 2.2.1 *Key changes in accounting policies resulting from application of HKFRS 9 (Continued)*

*Impairment under ECL model (Continued)*

*Significant increase in credit risk (Continued)*

The Group considers that default has occurred when the instrument 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.

Despite the foregoing, the Group assumes that the credit risk on bank deposits has not increased significantly since initial recognition if the bank deposits is determined to have low credit risk at the reporting date. A bank deposit is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a bank deposit to have low credit risk when it has an internal or external credit rating of ‘investment grade’ as per globally understood definitions.

*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.

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

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

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

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 2. Principal Accounting Policies *(Continued)*

### 2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" and the related amendments *(Continued)*

#### 2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

*Impairment under ECL model (Continued)*

*Measurement and recognition of ECL (Continued)*

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed as below.

#### 2.2.2 Summary of effects arising from initial application of HKFRS 9

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

	<b>Amortised cost (previously classified as loans and receivables)</b> <i>HK\$'000</i>
<b>Closing balance at 31 December 2017</b> <b>— HKAS 39</b>	5,972,809
Remeasurement Impairment under ECL model (Note)	(40,000)
<b>Opening balance at 1 January 2018</b>	<b>5,932,809</b>

*Note: Impairment under ECL model*

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, trade receivables are assessed individually for debtors with significant balances and collectively using a provision matrix for the remaining balances, which is grouped based on shared credit risk characteristics and the historical observed default rates adjusted for forward-looking estimates that is available without undue costs or effort.

Loss allowances for other financial assets at amortised cost mainly comprise of other receivables, are measured on 12-month ECL basis and there had been no significant increase in credit risk since initial recognition.



# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 2. Principal Accounting Policies *(Continued)*

### 2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" and the related amendments *(Continued)*

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

*Note: Impairment under ECL model (Continued)*

As at 1 January 2018, the additional credit loss allowance of HK\$40,000,000 has been recognised against retained profits. The additional loss allowance is charged against the respective trade debtors and other financial assets.

All loss allowances for financial assets including trade receivables and other financial assets at amortised cost as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

#### **Trade receivables and other financial assets at amortised cost** HK\$'000

As at 31 December 2017	
— HKAS 39	(27,000)
Amounts remeasured through opening retained profits	(40,000)
As at 1 January 2018	(67,000)

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 3. Revenue and Segment Information

### A. Disaggregation of revenue

Six months ended 30 June 2018 (unaudited)

Type of goods and services	Sales and distribution of LPG HK\$'000	Oil/chemical products business HK\$'000	Sales of electronic products HK\$'000
Sales and distribution of LPG	4,026,909	—	—
Oil/chemical products business			
Oil products	—	5,211,584	—
Chemical products	—	2,403,158	—
	—	7,614,742	—
Sales of electronic products	—	—	341,270
Provision of agency services	—	14,303	—
<b>Total</b>	<b>4,026,909</b>	<b>7,629,045</b>	<b>341,270</b>
<b>Geographical markets, based on shipment destination</b>			
Mainland China	1,991,268	3,855,920	67,770
Hong Kong	14,621	1,499,547	—
Singapore	—	1,031,398	—
Others (Note)	2,021,020	1,242,180	273,500
<b>Total</b>	<b>4,026,909</b>	<b>7,629,045</b>	<b>341,270</b>

Note: Other countries represented mainly countries in the Asia Pacific, United States and Australia.

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 3. Revenue and Segment Information *(Continued)*

### B. Segment information

Information reported to the Chairman of the Company, being the chief operating decision maker (“CODM”), for the purpose of resources allocation and assessment of segment performance focuses on nature and location of the goods being sold. 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.

The Group currently organised into the following major operating segments, each of which represents an operating and reportable segment of the Group:

1. Sales and distribution of LPG — This segment derives its revenue from selling of LPG to various customers including industrial customers, auto-gas operators, overseas wholesaler customers, bottled LPG end-users, auto-gas end-users etc. The operation is carried out in Hong Kong, the PRC and Macau for both onshore and offshore customers.
2. Oil/chemical products business — This segment derives its revenue from selling of oil/chemical products to both wholesale and retail customers, including revenue from oil products in which the Group acts as an agent.
3. Sales of electronic products — This segment derives its revenue from trading of electronic products such as integrated circuit and mobile phones.
4. Sales and distribution of NG — In prior years, the Group began to venture into sales and distribution of NG industry, but still in preliminary stage, the segment information reported below includes assets related to the sales and distribution of NG business. The NG business is still in development stage and no revenue is contributed during the period. The segment information reported below only includes assets and liabilities related to the sales and distribution of NG industry.
5. Manufacturing and distribution of charcoals — In December 2016, the Group acquired a technical know-how for production of charcoals through acquisition of two companies incorporated and operated in the PRC. The Group started trial of production in year 2017 and expected to commence manufacturing and distribution of charcoals operation in year 2018. Hence, the segment information reported below only includes assets and liabilities related to the manufacturing and distribution of charcoals.

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 3. Revenue and Segment Information *(Continued)*

### B. Segment information *(Continued)*

Information regarding the above segments is presented below.

#### Six months ended 30 June 2018 *(Unaudited)*

	Sales and distribution of LPG	Oil/chemical products business	Sales of electronic products	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	4,026,909	7,629,045	341,270	11,997,224
Segment profit	340,542	141,398	19,016	500,956
Share of profit of an associate	91	—	—	91
Share of profits of joint ventures	1,473	—	—	1,473
	<u>342,106</u>	<u>141,398</u>	<u>19,016</u>	<u>502,520</u>
Other income				31,276
Central administration costs				(20,424)
Directors' emoluments				(5,749)
Changes in fair values of derivative financial instruments				(43,264)
Finance costs				(125,818)
Profit before taxation				<u>338,541</u>

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 3. Revenue and Segment Information *(Continued)*

### B. Segment information *(Continued)*

Six months ended 30 June 2017 (Unaudited)

	Sales and distribution of LPG HK\$'000	Oil/chemical products business HK\$'000	Sales of electronic products HK\$'000	Consolidated HK\$'000
Segment revenue	3,552,285	6,164,585	165,443	9,882,313
Segment profit	401,772	111,913	15,754	529,439
Share of loss of an associate	(559)	—	—	(559)
Share of profits of joint ventures	1,207	—	—	1,207
	402,420	111,913	15,754	530,087
Other income				17,845
Central administration costs				(31,466)
Directors' emoluments				(3,886)
Changes in fair values of derivative financial instruments				5,771
Finance costs				(92,977)
Profit before taxation				425,374

All of the segment revenue reported above is from external customers or joint ventures. Segment profit represents the profit earned by each segment without allocation of certain other income, central administration costs, directors' emoluments, changes in fair values of derivative financial instruments and finance costs.

The Group has a subsidiary engages in the property investment and development in the PRC which is considered as ordinary course of business. There was no property sold for the six months ended 30 June 2018 and 2017. The operating results and other financial information of this subsidiary are not reviewed by the CODM for the purpose of resources allocation and performance assessments.

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 3. Revenue and Segment Information *(Continued)*

### B. Segment information *(Continued)*

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

#### Segment assets

	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
Sales and distribution of LPG	4,124,091	4,031,090
Sales and distribution of NG	47,461	53,342
Oil/chemical products business	6,648,918	6,083,089
Sales of electronic products	482,100	475,700
Manufacturing and distribution of charcoals	104,585	109,537
<b>Total segment assets</b>	<b>11,407,155</b>	<b>10,752,758</b>
Deferred tax assets	1,268	1,953
Pledged bank deposits	250,453	253,611
Bank balances and cash	1,110,995	1,789,191
Derivative financial instruments	8,332	15,012
Properties held for sales	154,822	156,774
Properties under development for sales	655,642	653,896
Other unallocated assets	729,908	713,897
<b>Consolidated assets</b>	<b>14,318,575</b>	<b>14,337,092</b>

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 3. Revenue and Segment Information *(Continued)*

### B. Segment information *(Continued)*

#### Segment liabilities

	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
Sales and distribution of LPG	604,380	748,104
Sales and distribution of NG	—	—
Oil/chemical products business	1,429,746	1,004,013
Sales of electronic products	114	114
Manufacturing and distribution of charcoals	1,778	963
<b>Total segment liabilities</b>	<b>2,036,018</b>	<b>1,753,194</b>
Derivative financial instruments	4,303	7,861
Tax liabilities	111,591	118,112
Deferred tax liabilities	86,579	92,925
Borrowings	4,846,004	5,347,386
Other unallocated liabilities	21,062	33,066
<b>Consolidated liabilities</b>	<b>7,105,557</b>	<b>7,352,544</b>

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 4. Other Gains and Losses

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Changes in fair values of derivative financial instruments <i>(Note a)</i>	(43,264)	5,771
Compensation from the PRC government <i>(Note b)</i>	—	66,707
Net exchange (loss) gain	(15,257)	24,477
	(58,521)	96,955

Notes:

- (a) At as 30 June 2018, derivative financial instruments comprise cross currency swaps, commodities swaps, foreign exchange option, and interest rate swaps, which are measured at fair value at the end of the reporting period. The resulting gains or losses are recognised in profit or loss.
- (b) During the six months ended 30 June 2017, the PRC government paid approximately RMB58,086,000 (equivalent to approximately HK\$66,707,000) to a wholly owned PRC subsidiary of the Group as an one off compensation for early termination of the lease contract of an auto-gas station. Due to the construction of an urban underground railway, an auto-gas station located above the proposed underground railway is required to be shut down. After negotiation with the relevant government authority, an unconditional compensation was paid in May 2017 upon the demolition of the auto-gas station. The leasehold land is handed over back to the relevant government authority. The related loss on written off of the property, plant and equipment of the auto-gas station amounted to approximately HK\$10,780,000.



# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 5. Other Income

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Interest income on pledged RMB bank deposits	6,040	4,066
Other interest income	28,753	15,793
Income from provision of transportation services	9,753	—
Others	16,286	5,569
	<b>60,832</b>	<b>25,428</b>



# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 6. Profit Before Taxation

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Profit before taxation has been arrived at after charging:		
Amortisation of land use rights (included in administrative expenses)	5,619	5,239
Amortisation of prepaid lease payments for coast (included in cost of sales)	419	388
Amortisation of other intangible assets (included in selling and distribution expenses)	25,660	24,537
Depreciation of property, plant and equipment	72,428	64,938
<b>Total depreciation and amortisation</b>	<b>104,126</b>	<b>95,102</b>
Impairment loss recognised in respect of trade receivables and other financial assets	35,000	—
Gross rental income from leasing of oil vessels, office premises, leasehold land and warehouses	7,743	2,550
Less: Direct operating expenses	(1,765)	(455)
	<b>5,978</b>	<b>2,095</b>

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 7. Taxation

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Current tax		
Hong Kong	5,616	5,989
Other regions in the PRC	12,730	28,001
	18,346	33,990
Deferred tax		
Current period	(5,347)	(9,035)
	12,999	24,955

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both periods.

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

No deferred tax liability has been recognised in respect of temporary differences associated with undistributed earnings of subsidiaries operating in the PRC because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 8. Basic Earnings per Share

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

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
<b>Earnings</b>		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to the owners of the Company)	337,651	401,738

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,472,488,117	1,477,502,647

No diluted earnings per share is presented as there are no potential ordinary shares in issue during the six months ended 30 June 2018 and 30 June 2017.

## 9. Dividend

No dividend was paid or proposed for ordinary shareholders of the Company during 2017, nor any dividend been proposed or paid since the end of the financial years ended 31 December 2017.

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

## 10. Movements in Property, Plant and Equipment

During the six months ended 30 June 2018, the Group paid approximately HK\$29,576,000 (six months ended 30 June 2017: HK\$23,299,000) to acquire property, plant and equipment.

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 11. Land Use Rights

	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
The Group's land use rights comprise:		
Land use rights in Hong Kong	24,304	24,702
Land use rights outside Hong Kong, in the PRC	388,961	396,188
	<b>413,265</b>	<b>420,890</b>
Analysed for reporting purpose as:		
Non-current asset	393,366	400,882
Current asset	19,899	20,008
	<b>413,265</b>	<b>420,890</b>

## 12. Deposits Paid

The amount included refundable deposits of approximately RMB204,845,000 (equivalent of approximately HK\$240,864,000) (31 December 2017: RMB205,145,000) (equivalent of approximately HK\$244,258,000) paid for several potential acquisition of investment projects. The Group has not entered into any formal sale and purchase agreement as at 30 June 2018 and 31 December 2017. The remaining amount mainly represent the deposits paid for purchase of property, plant and equipment.

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 13. Trade Receivables, Other Debtors, Deposits, Prepayments and Amounts Due from an Associate and a Joint Venture

Bills amounting to HK\$45,401,000 (31 December 2017: HK\$46,917,000) are held by the Group for future settlement of trade balances.

The Group allows an average credit period of 30 to 180 days to its trade receivables. The following is an aged analysis of trade debtors and bills receivable at the end of the reporting period presented based on the invoice date, which approximated the respective revenue recognition dates:

	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
0 to 30 days	1,902,496	1,745,451
31 to 60 days	846,803	742,273
61 to 90 days	719,791	847,797
91 to 180 days	386,671	175,063
Over 180 days	38,830	65,186
	<b>3,894,591</b>	<b>3,575,770</b>

The Group assessed credit impaired balances individually. In addition, for non-credit impaired balances, the Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL, trade receivables are assessed individually for debtors with significant balances and collectively using a provision matrix for the remaining balances, which is grouped based on shared credit risk characteristics and the historical observed default rates adjusted for forward-looking estimates that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 13. Trade Receivables, Other Debtors, Deposits, Prepayments and Amounts Due from an Associate and a Joint Venture *(Continued)*

### **Allowance for impairment**

The movement in the allowance for impairment in respect of trade receivables and other financial assets during the six months ended 30 June 2018 was as follows:

	<i>HK\$'000</i>
As at 1 January 2018 <i>(Note)</i>	67,000
Net remeasurement of loss allowance	35,000
As at 30 June 2018	102,000

*Note:* The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated.

Included in deposits, there are trade deposits paid to suppliers of approximately HK\$1,750,765,000 (31 December 2017: HK\$1,595,746,000) in relation to the purchase of LPG and oil products which will be delivered within one year commencing from the date of the signed purchase contract.

As at 30 June 2018, the other debtors included loan advances to independent third parties of approximately HK\$75,188,000 (31 December 2017: HK\$133,386,000). The loan advances are carried at fixed interest rates ranged from 4% to 13% per annum and repayable within one year. The Group applies 12-month ECL basis to measure the ECL of these balances and there had been no significant increase in credit risk since initial recognition.

Amount due from a joint venture is in trade nature aged within 90 days based on invoice date at 30 June 2018 and 31 December 2017. A credit period of 30 days is granted to a joint venture. The balances are neither past due nor impaired at the end of the reporting period. Amount due from an associate is non-trade nature, unsecured, interest-free and repayable on demand.

## 14. Pledged Bank Deposits

The amounts represent deposits pledged to banks to secure banking facilities granted to the Group.

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 15. Trade Payables

The aged analysis of trade payables presented based on invoice date is as follows:

	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
0 to 30 days	747,026	923,192
31 to 60 days	310,217	177,207
61 to 90 days	355,539	154,857
91 to 180 days	24,283	8,555
Over 180 days	35,378	21,715
	<b>1,472,443</b>	<b>1,285,526</b>

The credit period of trade payables is ranging from 90 to 180 days.





# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 16. Borrowings

	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
Bank trust receipts loans	1,645,649	2,112,133
Other loans (pledged with RMB bank deposits)	235,610	235,610
Other loans (pledged with other assets)	66,332	49,657
Other loans	2,898,413	2,949,986
	<b>4,846,004</b>	<b>5,347,386</b>
Repayable within one year shown under current liabilities		
Borrowings secured by pledged bank deposits	235,610	235,610
Borrowings secured by other assets	23,850	18,364
Borrowings unsecured	3,119,370	3,709,829
	<b>3,378,830</b>	<b>3,963,803</b>
Repayable over one year shown under non-current liabilities		
Borrowings secured – more than one year, but not exceeding two years	14,962	15,090
Borrowings unsecured – more than one year, but not exceeding two years	280,900	418,690
Borrowings secured – more than two years, but not exceeding five years	27,520	16,203
Borrowings unsecured – more than two years, but not exceeding five years	1,143,792	933,600
	<b>1,467,174</b>	<b>1,383,583</b>
	<b>4,846,004</b>	<b>5,347,386</b>

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 16. Borrowings *(Continued)*

Bank borrowings of approximately HK\$439,850,000 (31 December 2017: HK\$418,192,000) carry at fixed-rate. They carry interest rates ranging from 2.92% to 5.66% (31 December 2017: ranging from 2.17% to 3.35%) per annum. The remaining bank borrowings are variable-rate borrowings which carry interest at 1 month to 3 months London Interbank Offered Rate plus certain basis points and Hong Kong Interbank Offered Rate plus certain basis points per annum ranging from 1.35% to 5.74% (31 December 2017: 0.88% to 5.07%) per annum. Included in total borrowings of the Group, approximately HK\$4,766,608,000 (31 December 2017: HK\$5,155,739,000) is guaranteed by the Company and/or its subsidiaries. As at 30 June 2018, other loans of approximately HK\$66,332,000 (31 December 2017: HK\$49,657,000) are secured by six (31 December 2017: four) oil vessels owned by the Group and guaranteed by the Company.

## 17. Share Capital

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised share capital:		
As at 1 January 2017, 31 December 2017 and 30 June 2018	20,000,000,000	2,000,000
Issued and fully paid share capital:		
As at 1 January 2017	1,480,398,216	148,040
Repurchase of shares <i>(Note)</i>	(6,114,000)	(611)
As at 30 June 2017	1,474,284,216	147,429
As at 1 January 2018	1,473,030,216	147,303
Repurchase of shares <i>(Note)</i>	(4,906,000)	(491)
As at 30 June 2018	1,468,124,216	146,812

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 17. Share Capital *(Continued)*

Note: During the six months ended 30 June 2017 and 2018, the Company repurchased its own shares through the Stock Exchange as follows:

### Six months ended 30 June 2018

Month of repurchase	No. of ordinary share of HK\$0.10 each	Price per share		Aggregate consideration paid (excluding transaction cost) HK\$'000
		Highest HK\$	Lowest HK\$	
June 2018	4,906,000	1.59	1.59	7,756

The above shares were cancelled upon repurchase.

### Six months ended 30 June 2017

Month of repurchase	No. of ordinary share of HK\$0.10 each	Price per share		Aggregate consideration paid (excluding transaction cost) HK\$'000
		Highest HK\$	Lowest HK\$	
March 2017	4,674,000	2.49	2.34	11,216
April 2017	1,440,000	2.40	2.32	3,401

The above shares were cancelled upon repurchase.

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 18. Lease Commitments

### *The Group as lessee*

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases for offices, oil vessels, leasehold land and LPG stations which fall due as follows:

	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
Within one year	37,702	31,389
In the second to fifth year inclusive	65,822	72,123
Over five years	87,510	95,648
	<b>191,034</b>	<b>199,160</b>

As at 30 June 2018, rentals are fixed for an average of 5 years (31 December 2017: 6 years).

### *The Group as lessor*

At the end of the reporting period, the Group had contracted for the following future minimum lease payments for the office premises, leasehold land, oil vessels and warehouses:

	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
Within one year	19,030	10,604
In the second to fifth year inclusive	30,300	21,477
Over five years	750	1,050
	<b>50,080</b>	<b>33,131</b>

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 19. Other Commitments

	As at 30 June 2018 (Unaudited) <i>HK\$'000</i>	As at 31 December 2017 (Audited) <i>HK\$'000</i>
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of purchase of gas plant and machinery and oil vessels	382,428	368,803
Capital expenditure authorised for but not contracted and provided in the condensed consolidated financial statements in respect of acquisition of investment projects	101,952	215,386

## 20. Contingent Liabilities

The Group had no significant contingent liabilities as at 30 June 2018 and 31 December 2017.



# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 21. Fair Value Measurements of Financial Instruments

### ***Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis***

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 30 June 2018, derivative financial instruments comprise cross currency swap, commodities swaps, foreign exchange option and interest rate swaps, are measured at fair values at the end of the reporting period at Level 2 fair value hierarchy. No further disclosures on valuation techniques and key inputs are provided as the directors of the Company consider that the amount of derivative financial instruments is insignificant.

There were no transfer between level 1 and 2 for the year ended 31 December 2017 and the six months period ended 30 June 2018.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 22. Related Party Transactions

During the period, the Group entered into the following transactions with related parties:

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Sales to joint ventures	5,967	21,544
Rental expenses paid to Shum Ho, Neo <i>(Note)</i>	2,388	2,388
Management fee (paid to) received from an associate	(961)	616
Transportation fee received from an associate	1,109	—
Transportation fee received from a joint venture	157	—

*Note:* Shum Ho, Neo is the employee of the Group and also the son of Shum Siu Hung and Tong Shiu Ming. Shum Siu Hung is the executive director of the Company. On 19 December 2016, Sound Management Service Limited ("Sound Management", a subsidiary of the Group) entered into an office tenancy agreement with Ever Lucky Limited ("Ever Lucky"), a company incorporated in Hong Kong and wholly owned by Shum Ho, Neo, to extend the existing leasing agreement for the use of office premises owned by Ever Lucky located on 23rd Floor, The Sun's Group Centre, 200 Gloucester Road, Wanchai, Hong Kong at HK\$398,000 per calendar month for another year commencing on 1 January 2017. On 19 December 2017, Sound Management and Ever Lucky entered into another office tenancy agreement to extend the rental period for another one year at HK\$398,000 per calendar month to 31 December 2018. The details of the transaction were set out in the announcement issued by the Company on 19 December 2017.

# Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2018

## 22. Related Party Transactions *(Continued)*

### **Compensation of key management personnel**

The remuneration of executive directors and other members of key management during the period was as follows:

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
	HK\$'000	HK\$'000
Salaries and allowances	5,695	3,832
Contribution to retirement benefit schemes	54	54
	<b>5,749</b>	<b>3,886</b>

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.



# Interim Dividend

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

## Management Discussion and Analysis

### Market Overview

#### 1.1 *International crude oil market*

Over the past half year, oil prices steadily climbed from about US\$60 per barrel, to US\$60-70 per barrel, finishing in June around US\$73. The market anticipated that crude oil has regained equilibrium pricing, based on the upward momentum of oil prices that has persisted for the year (albeit at a slower than expected pace on average). However, as US policies to increase the production of petroleum products, coupled with the direct and indirect aftermath of the China-US trade war, brought a host of uncertainties to oil prices in May and June, the Group expects further volatility in the near term.

#### 1.2 *The oil and gas consumer market in China*

In respect to China, the market was largely unchanged in the first half of 2018 as compared to 2017, with the oil product price continuously fueling the performance of upstream industries such as exploration and refinery. In contrast, downstream industries still reported meager growth despite the launch of national policies favorable to downstream players including a cut in value-added taxes, a tax on imported vehicles, as well as measures to lower logistic costs. Demand for liquefied petroleum gas (“LPG”) for use as a chemical material, re-export and civilian consumption remained steady. Concurrently, vehicle-related demand was negatively affected by liquefied natural gas (“LNG”), electric energy and structural changes in the taxi market. In the long run, demand for oil products and LPG in China will likely sustain low to moderate rates of growth. The Group looks to tap into both the domestic and overseas markets while consolidating its existing customer market, given that oil products and LPG demand in China will likely be impacted by the emergence of new energies such as LNG and electric energy. This will serve to, increase market competitiveness of other new energies due to increasing oil product and LPG prices, and the promulgation of environmental protection policies by the government.

# Management Discussion and Analysis

(Continued)

## **1.3 The exchange rate of Renminbi**

In the first quarter of 2018, the exchange rate of Renminbi against the US dollar continued to ride on the upward trend of the fourth quarter of 2017, moving from 6.49 to a low of 6.25. Thereafter, the China-US trade war and other unfavourable factors started pushing down the Renminbi in May to around 6.62, and cautiously moving in a downward trend to 6.75 by the end of July. Given that the Group's main incomes are denominated in Renminbi, the depreciation of the currency poses a considerable impact on the profitability and performance of the Group. With the aim of mitigating the influence of volatile exchange rates, the Group has deployed various defensive measures such as strengthening its main businesses denominated in US dollars. This includes expansion of our marine bunkering business in Singapore which increases our USD cash inflow and thereby minimize unnecessary exchange of Renminbi, in addition to expediting the exchange of RMB into USD at times of RMB depreciation.

## **1.4 Basic situation of the Group during the first half of 2018**

During the first half of 2018, the China market was still plagued by over-capacity, leading to a less-than-satisfactory operating environment. However, the end-user sales network of the Group continued to fully utilize its competitive edges to maintain the operating scale of its LPG and oil/chemical products (hereafter together referred to "oil products") businesses. In the fourth quarter of 2017, the Group successfully tapped into the oil product market in Singapore that boosted its sales volume of its oil products. It also successfully established procurement points for oil products in Malaysia to achieve cost cutting through joint procurement for oil products sales in Singapore, Hong Kong and partly in China. However, under intense competition, coupled with increasing costs driven by increasing oil and LPG prices, the gross profits of energy products shrunk in line with the difficult operating environment. This was aggravated by the depreciation of Renminbi during the first half of the year and interest rate hikes across the globe, leading to a decrease in the overall profits of the Group by approximately 18.70% to approximately HK\$325,542,000.

# Management Discussion and Analysis

(Continued)

## 2.1 Operating income

During the first half of 2018, the Group achieved a total revenue of approximately HK\$11,997,224,000 (among which, the revenue of energy products was approximately HK\$11,655,954,000, contributing around 97.16% of total revenue). This represents an increase of approximately 21.40% as compared with the total revenue of approximately HK\$9,882,313,000 (among which, the revenue of energy products was approximately HK\$9,716,870,000, contributing around 98.33% of the total revenue for the year) as compared to the same period last year. During the period, sales volumes of energy products increased by approximately 131,500 tonnes relative to the previous period. This was also accompanied by considerable increases in the prices of energy products, contributing to the growth in our turnover for the first half of the year.

## 2.2 Gross profits

During the period, total gross profits were approximately HK\$909,991,000, representing an increase of around 17.20% as compared with the total gross profits of approximately HK\$776,435,000 for the same period of last year. In an effort to maintain market share, the Group was unable to increase its prices corresponding to increases in procurement costs under oversupply on the market. On the other hand, the Group took proactive efforts in cutting the procurement costs through renting floating warehouses in Malaysia for joint procurement for oil products sales in Singapore, Hong Kong and partly in China, leading to a decrease in procurement prices. The combined effect of these activities was offset by rising oil prices, yet gross profits only recorded a slight decline (gross margin decreasing to approximately 7.59% for the period, compared to approximately 7.86% for the same period last year).

# Management Discussion and Analysis

(Continued)

## 2.3 Net profit and basic earnings per share

During the period, the Group recorded a net profit of approximately HK\$325,542,000, representing a decrease of approximately 18.70% as compared with the net profit of approximately HK\$400,419,000 for the same period last year. Despite an increase in gross profits for the period of approximately HK\$133,556,000, a net exchange loss of approximately HK\$15,257,000 was recorded for the period, whereas there was a net exchange gain of approximately HK\$24,477,000 for the same period of last year, representing an exchange difference of approximately HK\$39,734,000. On top of this, the PRC government paid approximately RMB58,086,000 (equivalent to approximately HK\$66,707,000) to a wholly owned PRC subsidiary of the Group as an one off compensation for early termination of the lease contract of an auto-gas station during the same period of last year. Further, fees and expenses for the first half of the year reported increases corresponding to unavoidable business developments, in particular finance costs increasing over 30% due to global interest rate hikes. Subsequent to the coming into effect of HKFRS9 on 1 January this year, the Group was required to make a general provision of approximately HK\$75,000,000 for expected default loss on trade receivables and other receivables, of which HK\$35,000,000 has been reflected in the condensed consolidated statement of profit or loss and other comprehensive income for the first half of the year. Under the combined effects of the above factors, the net profit recorded a decrease of approximately HK\$74,877,000.

In the first half of 2018, the Group did not engage in any fund raising activities in relation to our shares, however, one repurchasing exercise has been executed. For the six months ended 30 June 2018, the weighted average number of the Company's issued ordinary shares was approximately 1,472,488,117 shares and the basic earnings per share in the first half of the year was HK\$0.229, representing a drop of approximately 15.81% over the basic earnings per share of HK\$0.272 for the same period last year.

# Management Discussion and Analysis

(Continued)

## 2.4 Net exchange gain and loss

Affected by the expectations of the China-US trade war, the exchange rate of Renminbi against the US dollar declined by approximately 2% during the period, resulting in the recording of a net exchange loss of approximately HK\$15,257,000 by the Group for the period ended 30 June 2018, whereas a net exchange gain of approximately HK\$24,477,000 was recorded by the Group for the same period of last year.

## 2.5 Changes in fair values of derivative financial instruments

With the sales volume of oil products on a continuous growth, there were considerable inventory of oil products for the Group. In order to mitigate the negative impact on its interests caused by price fluctuations of oil products and global economic uncertainties, the Group entered into several derivative contracts for oil commodities in accordance to its oil product inventory level for the purpose of hedging. The loss from derivatives contracts for the 6 months was approximately US\$5.5 million, mainly attributable to market uncertainties under the lurking China-US trade war in May and June. To avoid incurring a loss for the cross-month inventory of approximately 120,000 tonnes due to the possible price drop of oil products, the management has hedged the position, the gross profits from the sale of those oil products in May and June amounted to approximately US\$7 million, representing a net profit for hedging and actuals of approximately US\$1.5 million.

## 2.6 Finance costs

Due to oil products and LPG price increases and the Group's proactive exploration of the Singapore oil product market and China chemical product market, there has been a significant increase in the volumes and amount of purchases and inventories of oil products, and inventory turnover decreased relative to previous periods. Coupled with two rate hikes by the US Federal Reserve, we have utilized a substantial amount of short-term bank loans to meet the needs induced by the increase in liquidity in the first half of the year. The finance costs have accordingly increased to approximately HK\$125,818,000, representing an increase of approximately of 35.32% as compared with the finance costs of approximately HK\$92,977,000 for the same period last year.

# Management Discussion and Analysis

(Continued)

## 2.7 Net current assets

As of 30 June 2018, the Group had net current assets of approximately HK\$4,399,868,000 and a current ratio of approximately 179.25%, representing an increase of approximately HK\$409,162,000 and an increase of approximately 11.34% as compared with the net current assets of approximately HK\$3,990,706,000 (current ratio: 167.91%) respectively as of 31 December 2017.

## 2.8 Net cash flow from operating activities

As of 30 June 2018, there was a relatively large number of inventories on the books (mainly oil products) as well as a rise in both sales volume and pricing of oil products. The combined effect of the aforementioned has resulted in a surge in our trade receivables. As such, the operating activities incurred a slight net cash outflow of approximately HK\$2,296,000 during this period (the same period of last year saw a net cash outflow of approximately HK\$503,362,000).

## 3. Performance review

During this period, the Group continued to devote its efforts in the operations of its energy products. In the first half of 2018, the Group achieved a total sales volume of approximately 2,849,500 tonnes, among which the sales volume of LPG was approximately 878,300 tonnes and that of oil products was approximately 1,971,200 tonnes, representing a drop of approximately 0.76% for LPG and an increase of approximately 7.54% for oil products as compared with their respective sales volume for the same period of last year.

# Management Discussion and Analysis

(Continued)

## 3. Performance review (Continued)

	First half of 2018	First half of 2017	Second half of 2017
Sales volume of LPG (percentage contributed to the total sales volume of the period)	<b>878,300 tonnes (30.82%)</b>	885,000 tonnes (32.56%)	1,008,000 tonnes (28.56%)
Sales volume of oil products (percentage contributed to the total sales volume of the period)	<b>1,971,200 tonnes (69.18%)</b>	1,833,000 tonnes (67.44%)	2,522,000 tonnes (71.44%)
	<b>2,849,500 tonnes</b>	2,718,000 tonnes	3,530,000 tonnes
Total sales volume	<b>(100.00%)</b>	(100.00%)	(100.00%)

### 3.1 LPG business

In the first half of the year, the Group realized LPG sales volume of approximately 878,300 tonnes, representing a slight drop of around 0.76% as compared with approximately 885,000 tonnes for same period last year. The emergence of new energies and national policies were the primary reasons that fettered the development of clean energies such as LPG during this period.

In the first half of the year, the LPG business recorded revenue of approximately HK\$4.027 billion, representing an increase of approximately 13.37% as compared with the revenue of approximately HK\$3.552 billion for the same period of last year.

# Management Discussion and Analysis

(Continued)

## 3.1 LPG business (Continued)

Gross profit achieved for the period was approximately HK\$559 million, representing an increase of approximately 10.26% from the gross profit of approximately HK\$507 million for the same period of last year. Due to an increase of average cost and extremely intensive price competition, the gross margin of the LPG business was approximately 13.88% for the period, representing a decrease of approximately 0.39% from the gross margin of approximately 14.27% for the same period last year.

### *Procurement*

In the first half of 2018, the Group procured a volume of approximately 480,600 tonnes of goods from overseas, representing a decrease of approximately 9.83% as compared with approximately 533,000 tonnes for the same period of last year. The goods procured from refineries in China amounted to approximately 392,400 tonnes, representing an increase of approximately 11.48% as compared with approximately 352,000 tonnes for the same period of last year. During this period, the total procurement of LPG was approximately 873,000 tonnes, similar to approximately 885,000 tonnes for the same period of last year.





# Management Discussion and Analysis

(Continued)

## 3.1 LPG business (Continued)

### Sales

In the first half of 2018, the total sales volume of LPG amounted to approximately 878,300 tonnes, representing a decline of approximately 0.76% as compared with approximately 885,000 tonnes in the same period of 2017.

Sales category	First half of 2018	First half of 2017	Second half of 2017
Overseas customers	<b>223,000 tonnes</b>	236,300 tonnes	186,900 tonnes
i) Volumes of deliveries conducted overseas	<b>93,400 tonnes</b>	94,300 tonnes	45,200 tonnes
ii) Volumes of re-exported goods	<b>129,600 tonnes</b>	142,000 tonnes	141,700 tonnes
Industrial customers	<b>330,300 tonnes</b>	350,000 tonnes	350,000 tonnes
Other terminals and bottling plants	<b>118,000 tonnes</b>	72,200 tonnes	254,100 tonnes
Bottled LPG	<b>142,000 tonnes</b>	149,500 tonnes	146,000 tonnes
Auto-gas refueling	<b>65,000 tonnes</b>	77,000 tonnes	71,000 tonnes
Total	<b>878,300 tonnes</b>	885,000 tonnes	1,008,000 tonnes

As illustrated above, comparing with the sales volumes for the same period of last year, almost all sales categories in China have experienced various declines in sales volumes. We feel that this was largely due to the overall underperformance of the market as a whole. As there were not many plants located in Southern China which use LPG as their chemical raw materials, such phenomenon has not created any encouragement for industrial customers to increase demand of LPG. Conversely, the shrinkage in the volume of autogas refueling was more impactful. In Guangzhou, the LPG autogas refueling market was targeted at buses and taxis as its core sales targets. Because of the government policy, parts of the buses had to switch to the use of liquefied natural gas, resulting in the reduction in the number of LPG buses, which in turn led to diminishing demand for automotive LPG utilized by the bus fleet. On the other hand, the taxi industry was prone to serious under-utilisation as affected by the improper on-line car hiring activities. In the circumstance that the demand for LPG from buses and taxis both declined due to different grounds, the shrinkage in the business of auto-gas refueling has become unavoidable.

# Management Discussion and Analysis

(Continued)

## 3.2 Oil/chemical products business

In the first half of the year, the Group achieved a total sales volume of oil products of approximately 1,971,200 tonnes in Hong Kong, China and Singapore, representing an increase of approximately 7.54% as compared with approximately 1,833,000 tonnes for the same period last year.

In the first half of the year, the oil products business recorded revenue of approximately HK\$7.629 billion, representing an increase of around 23.75% as compared with revenue of approximately HK\$6.165 billion for the same period last year. Due to the rebound in prices, revenue has marked a significant surge of over 20% despite of a growth of only 7.54% in the sales volume.

With a drastic increase in revenue, the actual increase in our gross profit amounted to approximately 30.71% (the first half of 2018: HK\$332 million; the first half of 2017: HK\$254 million). The gross margin of the oil products business reported a mild increase from approximately 4.12% for the same period of last year to approximately 4.35% for the first half of 2018. Since the fourth quarter of 2017, the procurement point for oil products in Malaysia has started to carry out joint procurement for sales in Singapore, Hong Kong and partly in China, evidencing preliminary upside through cost saving.

### *Procurement*

In the first half of the year, the Group procured a total of approximately 1,932,000 tonnes of oil products, representing an increase of approximately 5.40% as compared with approximately 1,833,000 tonnes for the same period of last year; among which, the volume procured overseas was approximately 923,000 tonnes, representing an increase of around 16,400 tonnes (an increment of approximately 1.81%) as compared with approximately 906,600 tonnes for the same period of last year. The volume of procurement in the Mainland China was approximately 1,009,000 tonnes, representing an increase of around 82,600 tonnes (an increment of approximately 8.92%) as compared with approximately 926,400 tonnes for the same period of last year.

# Management Discussion and Analysis

(Continued)

## 3.2 Oil/chemical products business (Continued)

### Sales

Sales category	First half of 2018	First half of 2017	Second half of 2017
Hong Kong	<b>727,800 tonnes</b>	906,600 tonnes	1,068,700 tonnes
Marine bunkering	<b>349,600 tonnes</b>	366,600 tonnes	417,000 tonnes
Sales on land	<b>57,500 tonnes</b>	0 tonnes	0 tonnes
Trading of oil products/ chemical products	<b>320,700 tonnes</b>	540,000 tonnes	651,700 tonnes
Singapore	<b>325,700 tonnes</b>	0 tonnes	118,700 tonnes
Marine bunkering	<b>325,700 tonnes</b>	0 tonnes	118,700 tonnes
China	<b>917,700 tonnes</b>	926,400 tonnes	1,334,600 tonnes
Sales at sea	<b>388,700 tonnes</b>	363,800 tonnes	495,000 tonnes
Sales on land	<b>115,000 tonnes</b>	105,900 tonnes	104,200 tonnes
Trading of oil products/chemical products	<b>414,000 tonnes</b>	456,700 tonnes	735,400 tonnes
Total	<b>1,971,200 tonnes</b>	1,833,000 tonnes	2,522,000 tonnes

During this period, the total sales volume of direct bunkering to ships in Hong Kong has showed a slight decrease. As to the trading of oil products/chemicals products, there was a year-on-year decrease of approximately 40.61% given a more volatile customer base despite the lack of limitations of on the individual markets. Sales of oil products on land commencing within the year generated sales of approximately 57,500 tonnes, reflecting a sound beginning for development of the oil product market on land in Hong Kong.

In the first half of the year, the oil product business in Singapore achieved a sales volume of approximately 325,700 tonnes, reflecting a prime new market for the Group's development efforts. The average monthly usage of Singapore market was around 4 million tonnes, with the Group's long term objective of seizing 10% of the market share. Accordingly, the Group is looking for a floating warehouse twice the size of the floating warehouse of 100,000 tonnes currently leased for use to cater to the warehousing and delivery needs for the procurement of oil products in Hong Kong and China.

# Management Discussion and Analysis

(Continued)

## 3.2 Oil/chemical products business (Continued)

*Sales (Continued)*

During the period, the oil product sales in China has decreased approximately 8,700 tonnes, representing a decline of approximately 0.94%.

Our oil products business has adopted a development model which is similar to the one that is practiced in the Zhuhai LPG Terminal, that is to make use of infrastructure such as its existing oil terminal and leased oil terminal to be the distribution points in order to promote the wholesaling business of shipping and automotive transportation. During the period, the Chinese oil products business recorded a total sales volume of approximately 917,700 tonnes, representing a slight reduction of approximately 0.94% as compared with approximately 926,400 tonnes for the same period of last year. Sales of oil products (at sea and on land) in China has built a solid customer base and was able to generate a relatively stable sales volume, with the gross profit margin holding steady around 4-5%. In contrast, the chemical product market was highly limited in Guangdong Province with a volatile wholesale customer base resulting in fluctuating prices and gross profit margins impacted by numerous factors. The Group believes that a relatively long period of time will be required before we can successfully connect with the end-user customers of the chemical products. Before that, the Group may reduce the amount of resources such as bank credit invested in this respect, and divert our resources into our prime markets for development, including marine bunkering in Singapore.

## 3.3 Electronics business

In the first half of the year, the electronics business recorded a revenue amounting to approximately HK\$341,270,000 in total, representing an improvement of nearly 1.06 times as compared with the revenue of approximately HK\$165,443,000, but a slight decline as compared with the revenue of approximately HK\$423,679,000 for the second half of last year. In the first half of the year, the gross profit contribution of the electronics business was approximately HK\$19,027,000, whereas the gross profit for the same period of last year was approximately HK\$15,812,000.

# Management Discussion and Analysis

(Continued)

## 3.4 Other businesses

**LNG auto-gas refueling station business** — Currently, the LNG efforts are still under development. This is largely due to the fact that the prices of crude oil remain at levels that make LNG a marginally competitive fuel source. However, with the rebound in oil prices, LNG is beginning to evidence increasing attractiveness to both users and investors. Our existing projects have been screened, through which we have also undertaken initiatives to abandon projects which only have a slim chance of making a profit to our Group. Instead, we focused on devoting our resources to invest into other potential projects. As to the LNG project jointly conducted with logistic companies, we will also shift our attention to the constructions of refueling stations in order to strive for better investment returns.

**Real estate business** — Such business focuses on the construction of the headquarters located in Zhuhai. Upon the completion of the building with its roof capped at the end of 2017, we are carrying out interior decoration at full speed and are currently obtaining approval for sales from relevant governmental departments. It is expected that end user sales can begin in the second half of the year should things go smoothly.

## 4. Business outlook

In the past, the Group has focused on the sale of energy products in Southern China. However, the market is currently undergoing oversupply and fierce competition, which brings structural difficulties to our business operations. Indeed, the issue of oversupply is not a key problem for operators who have owned a huge end-user market such as NewOcean Group, who will have the advantages to stay in the market. Eventually, a balance between the demand and supply will be reached. For those operators who manage to maintain market share reasonable return expectations are wholly likely. We note however, that this process will play out over a period of time, which will likely evidence volatility during the adjustment process. The fact is that we are unable to remove this market risks, in order to minimize and diversify our exposures, we are actively exploring new markets to various our revenue streams.

# Management Discussion and Analysis

(Continued)

## 4. **Business outlook** (Continued)

Accordingly, the Group has established its development blueprint in 2017, which was to expand its overseas business in a proactive manner. We will continue to adopt the same operating strategies that are designed to push our development forward with our end-user markets so as to facilitate the rapid growth in our business volume. Meanwhile, we are reviewing the Group's industry structure and operating model so as to continuously improve efficient coordination between our industry and logistics chains. It is expected that such measures will enhance our operating efficiency and further lower our operating costs.

**Oil products business** — The developments of our oil products business will be expedited.

- (1) We are not only facilitating our cooperation with our partners in China to construct refueling stations at prime locations in Guangdong Province, but also considering establishing sales networks of automotive refueling stations by means of acquisition and mergers.
- (2) Other than laying the groundwork for operations in Mainland China, we also acquired shareholdings of three companies which engaged in auto-fuel trading and oil products transportation in Hong Kong in late 2017, which in turn allowed the Group to become the primary agent of the four major oil companies in Hong Kong and officially enter into the auto-fuel market in Hong Kong. The oil sales volume on land was approximately 57,500 tonnes for the first half of 2018.
- (3) As for our marine bunkering business, since Hong Kong or ports along the coastal lines of China are not considered as embodying with any geographical advantage, our foothold established in Singapore plays a crucial role for future strategic moves. Leasing the floating warehouse in Malaysia as a procurement centre has already helped lowering the procurement costs of fuel oil for marine uses, and helped the Group tap into the marine bunkering market in Singapore. With the sales volume significantly increasing to approximately 325,700 tonnes for the first half of 2018, we are now looking for a floating warehouse of approximately 200,000 to 300,000 tonnes for the purpose of further development.

# Management Discussion and Analysis

(Continued)

## 4. Business outlook (Continued)

- (4) We are currently planning to expand our marine bunkering business to all of the ports in Malaysia; meanwhile, our company in Singapore will provide supply services of oil and technical support for these new markets.

**LPG business** — The retail markets located in the Southern China region of China (including Macau and Hong Kong) will still be the core of our business.

- (1) We are currently exploring more opportunities to develop more end-user markets for our bottled LPG. Meanwhile, we will enhance our management towards distributors and provide them with more support in order to improve our sales volume, and thus our profitability.
- (2) As to the expansion of our business to the overseas markets, we began wholesaling LPG to Africa two years ago. At present, we are seeking suitable land parcels in Africa for the construction of an LPG terminal, gas plants and bottling plants. We aim to tap into the local end-user markets as soon as possible, which are expected to yield healthy ROIC.

**Improvement on our industry chain** — Vertical integration will be conducted.

- (1) The Group is now pressing ahead with the establishment of its refinery project in Malaysia. Despite a delay due to the government change at the beginning of the year, the project is back on track. We believe that a significant part of the Group's annual sales volume of oil and gas will be from the products manufactured by the refinery. Thus, the oil and gas business of the Group will be able to be largely self-sufficient, instead of relying on the supply from other sources.
- (2) After the works of such vertical integration, the Group will be able to achieve better costs management under a low-risk ecosystem. This will also enhance the Group's bargaining power on the international markets, thus broadening its procurement channels and promise of increased sales opportunities.

We are confident that the long-term growth in Group sales and improvements in our profitability can only be achieved by the continuous expansion of our end-user sales network in the Southern China region, the active expansion of sales markets in the overseas markets, as well as the vertical integration of our supply chain.

# Directors' and Chief Executives' Interests in Shares and Underlying Shares

As at 30 June 2018, the interests of certain directors and chief executives and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

## Long positions of ordinary shares of HK\$0.10 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Shum Siu Hung	Beneficial owner	72,714,358	4.95%
	Corporate interest (Note 1)	490,779,280	33.43%
		563,493,638	38.38%
Shum Chun, Lawrence	Beneficial owner	57,623,558	3.92%
	Other (Note 2)	73,616,892	5.01%
		131,240,450	8.93%
Chiu Sing Chung, Raymond	Beneficial owner	2,200,000	0.15%

### Notes:

- These represent the block of 490,779,280 shares beneficially owned by Uniocean Investments Limited ("Uniocean") which were held as corporate interest by Mr. Shum Siu Hung, and were the same block of shares as referred to in note 1 in the paragraph headed "Substantial Shareholders' Interest in Shares and Underlying Shares" below. Uniocean is owned as to 70% by Mr. Shum Siu Hung, 15% by Mr. Shum Chun, Lawrence and 15% by Mr. Shum Ho, Neo, both are sons of Mr. Shum Siu Hung.
- These interests reflect 15% proportional interest of Mr. Shum Chun, Lawrence in the 490,779,280 shares held by Uniocean.



# Substantial Shareholders' Interest in Shares and Underlying Shares

As at 30 June 2018, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that other than the interests disclosed above in respect of certain directors and chief executives, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

## Long positions of ordinary shares of HK\$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Uniocean	Beneficial owner	490,779,280	33.43%
Tong Shiu Ming	Family interest (Note 1)	490,779,280	33.43%
	Family interest (Note 2)	72,714,358	4.95%
FFMC Holdings Pte. Ltd.	Interest of controlled corporation (Note 3)	75,706,000	5.16%
Fullerton Fund Management Company Ltd.	Investment manager (Note 3)	75,706,000	5.16%

### Notes:

1. These represents the same block of 490,779,280 shares held as corporate interest by Shum Siu Hung, spouse of Tong Shiu Ming as referred to in note 1 under the paragraph headed "Directors' and Chief Executives' Interest in Shares and Underlying Shares" above, and were deemed to be the family interest of Tong Shiu Ming.
2. These represents the same block of 72,714,358 shares held beneficially by Shum Siu Hung, spouse of Tong Shiu Ming as referred to in the paragraph headed "Directors' and Chief Executives' Interest in Shares and Underlying Shares" above, and were deemed to be the family interest of Tong Shiu Ming.
3. Fullerton Fund Management Company Ltd as investment manager is deemed to own a total of 75,706,000 shares through various funds under its management. Fullerton Fund Management Company Ltd.'s entire interest is indirectly owned by FFMC Holdings Pte. Ltd.

Other than disclosed above, the Company has not been notified of any other relevant interests or short position in the issued share capital of the Company as at 30 June 2018.

# Corporate Governance and Other Information

## Compliance with the Corporate Governance Code

In the opinion of the directors, throughout the six months ended 30 June 2018 the Company has complied with the code provisions (the “CG Code”) contained in the Code on Corporate Governance Practices and Corporate Governance Report as set out in Appendix 14 of the Listing Rules with the exception that the independent non-executive directors are not appointed for a specific term as provided in the Corporate Governance Code. Under the Bye-laws of the Company, independent non-executive directors of the Company shall retire by rotation and their appointment will be reviewed when they are due for re-election. In the opinion of the directors, this arrangement meets the same objectives as the CG Code.

## Compliance with the Model Code for Securities Transactions By Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the “Securities Transactions Code”) as its own code of conduct regarding securities transactions. Having made specific enquiry of all directors, all directors of the Company have complied with the required standards as set out in the Securities Transactions Code during the six months ended 30 June 2018.

## Disclosure Pursuant to Rule 13.18 of The Listing Rules

On 25 August 2016, the Company entered into the Facility Agreement for a term loan facility of US\$150,000,000 (equivalent to approximately HK\$1,167,000,000) for the purpose of refinancing of any existing indebtedness of any member of the Group and financing the general working capital requirements of the Group. The loan to be made to the Company upon utilisation of the facility will be repayable in four instalments, 10% of the utilised amount is repayable on the date which falls 30 months after the date of first drawdown, 10% of the utilised amount is repayable on the date which falls 36 months after the date of first drawdown, 10% of the utilised amount is repayable on the date which falls 42 months after the date of first drawdown, and the remaining 70% of the utilised amount is repayable on the date which falls 48 months after the date of the first drawdown.

# Corporate Governance and Other Information *(Continued)*

## **Disclosure Pursuant to Rule 13.18 of The Listing Rules *(Continued)***

On 26 April 2017, Sound Agents Limited (“Sound Agents”), a wholly owned subsidiary of the Group, entered into the Facility Agreement for a revolving short term advance facility up to HK\$150,000,000 or the equivalent in other major foreign currencies for financing the Group’s general working capital requirements. The loan advance to be made to Sound Agents upon utilisation of the facility will be repayable in six months and the loan advance is subjected to revolve for another six months upon each repayment date.

On 30 June 2017, the Company entered into a facility agreement for a term loan of HK\$190,000,000 for the purpose of refinancing the Group’s existing indebtedness of any member of the Group. The loan to be made to the Company will be repayable in four instalments, 25% of the utilised amount is repayable on the date which falls 15 months after the date of first drawdown, 25% of the utilised amount is repayable on the date which falls 18 months after the date of first drawdown, 25% of the utilised amount is repayable on the date which falls 21 months after the date of first drawdown, the remaining 25% is repayable on the date which falls 24 months after the date of first drawdown.

On 28 May 2018, the Company entered into a facility agreement for a term loan facility with two tranches: tranche A of US\$145,000,000 (equivalent to approximately HK\$1,128,100,000) and tranche B of HK\$195,000,000 for the purpose of refinancing of any existing indebtedness of any member of the Group and financing the general working capital requirements of the Group. The loan to be made to the Company upon utilisation of the facility will be repayable in four instalments, 10% of the utilised amount is repayable on the date which falls 30 months after the date of first drawdown, 10% of the utilised amount is repayable on the date which falls 36 months after the date of first drawdown, 10% of the utilised amount is repayable on the date which falls 42 months after the date of first drawdown, and the remaining 70% of the utilised amount is repayable on the date which falls 48 months after the date of the first drawdown.

Under the above facility agreements, in the event the Shum Family (comprising certain family members and relatives of Mr. Shum Siu Hung, Chairman of the Company as set out in the facility agreement) cease to remain as the largest shareholder and maintains less than 30% shareholdings of the Company, the facilities available to the Company will be cancelled and all outstanding amounts will then become immediately due and payable.

As at 30 June 2018 the Shum Family beneficially own approximately 42.31% in aggregate of the issued share capital of the Company.

# Corporate Governance and Other Information *(Continued)*

## Liquidity and Financial Review

At 30 June 2018, the net current assets of the Group amounted to approximately HK\$4,399,868,000 (31 December 2017: HK\$3,990,706,000) and the Group's bank balances and cash and pledged bank deposits was approximately HK\$1,361,448,000 (31 December 2017: HK\$2,042,802,000). At the reporting date, gearing ratio was 0.49:1 (31 December 2017: 0.48:1) which was calculated based on total net borrowings of approximately HK\$3,484,556,000 (31 December 2017: HK\$3,304,584,000) and total equity attributable to owners of the Company of approximately HK\$7,156,906,000 (31 December 2017: HK\$6,915,350,000).

## Purchase, Sale and Redemption of the Company's Listed Securities

During the six months ended 30 June 2018, the Company repurchased and cancelled 4,906,000 of its ordinary shares of HK\$0.10 each on the Stock Exchange at an aggregate consideration of approximately HK\$7,756,000 excluding transaction cost. The repurchase of the Company's share during the six months ended 30 June 2018 was effected by the Board, pursuant to the repurchase mandate granted by the shareholders, with a view to benefit shareholders as a whole by enhancing the net asset value per share and earnings per share of the Company.

Details of the shares repurchase during the six months ended 30 June 2018 are as follow:

Month of repurchase	No. of ordinary share of HK\$0.10 each	Price per share		Aggregate consideration paid (excluding transaction cost) HK\$'000
		highest HK\$	lowest HK\$	
June 2018	4,906,000	1.59	1.59	7,756

The above shares were cancelled upon repurchase.

The premium paid (excluding transaction cost) on the repurchase of the shares of approximately HK\$7,266,000 has been debited to the share premium account.

# Corporate Governance and Other Information *(Continued)*

## Human Resources

As at 30 June 2018, the Group employed approximately 1,308 employees in Hong Kong, Macau, Singapore and mainland China. The Group remunerated the employees based on their performance, experience and prevailing market practices.

## Audit Committee

The audit committee, comprising two executive directors and all independent non-executive directors of the Company, has reviewed with the Company's external auditor the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with the directors, including a review of the unaudited condensed consolidated accounts for the six months ended 30 June 2018.

By order of the Board  
**Shum Siu Hung**  
*Chairman*

Hong Kong, 29 August 2018

