2018
Annual Report

AVIC Joy Holdings (HK) Limited
幸福控股（香港）有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 260)

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Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Guan Liqun
(Chairman and Chief Executive Officer)
(appointed with effect from 28 March 2018 and 7 December 2017, respectively)
Li Chengning *(Chairman)*
(resigned with effect from 28 March 2018)
Zhang Zhibiao
Wang Ying
Fu Fangxing
(resigned with effect from 18 January 2019)
Mu Yan
Fu Xiao

Independence Non-executive Directors

Jiang Ping
Wu Rui
Guo Wei

COMPANY SECRETARY

Cheung Hoi Fun

SHARE REGISTRAR

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

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
(appointed with effect from 16 November 2018)

LEGAL ADVISER AS TO HONG KONG LAWS

Loong & Yeung

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Chiyu Banking Corporation Limited

REGISTERED OFFICE

Room A02, 35/F
United Centre
95 Queensway
Hong Kong

WEBSITE

www.avicjoyhk.com

STOCK CODE

260

CHAIRMAN'S STATEMENT

On behalf of the board (the "**Board**") of directors (the "**Directors**") of AVIC Joy Holdings (HK) Limited (the "**Company**"), I hereby present the results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2018 (the "**Year**").

During the Year, the Group continued to face intense competition in China market, which, coupled with frequent changes in policies in the recent years in China and the limited opportunities for growth offered in the market, raised difficulty for the Group's profitability. In the meantime, there was also a downward pressure for gas prices, which resulted in an undesired business revenue. The Group recorded a corresponding decrease in revenue contribution from the gas segment due to the completion of disposal of certain gas business in 2018.

The consolidated revenue of the Group reduced from approximately HK$252.6 million for the year ended 31 December 2017 to approximately HK$139.8 million for the Year. Affected by the impairment losses recognized in land development project and the changes in fair value of real estate investment, the Group made a loss attributable to the owners of the Company of approximately HK$517.1 million for the Year (2017: approximately HK$302.6 million).

For the Year, as impacted by the intense competition in the downstream gas markets, gas price was under pressure and sales volume decreased during 2018. As a result, gas business segment of the Group recorded a total revenue of approximately HK$128.8 million (2017: approximately HK$156.0 million), representing a decrease of 17% as compared to last year. In addition to devotion to the improvement of gas business performance, the Group also concluded the agreement for transfer of shares in gas companies in Shandong, Chengdu and Xuzhou, etc., and will continue to consider disposing of the remaining gas business when suitable opportunities arise in the future.

For the Year, the finance leasing segment through the Group's subsidiary, Guangdong Zi Yu Tai Finance Leasing Company Limited* (廣東資雨泰融資租賃有限公司) recorded a turnover of approximately HK$11.1 million (2017: approximately HK$16.8 million), representing a decrease of 34% from the previous year.

The Grade-A office markets within the core business district in Shanghai remained relatively stable in 2018. The Group will study the prevailing market conditions to formulate an optimal business strategy for its commercial property.

During the Year, the Group's business in Fuqing City, Fujian Province did not record sales revenue (2017: approximately HK$79.7 million). The revenue recorded in 2017 was mainly derived from sales of construction materials while the Group suspended the business of sales of construction materials to effectively prevent business risks due to the low gross profit margin. In respect of the PPP Class 1 land development of New Central Coastal City* (中部濱海新城) (the "**Project Land**") and the construction work of Ronggang Boulevard* (融港大道), aggregate developable commercial and residential land amounts to 3,990 mu. The changes in domestic laws and regulations and the government attitude towards it resulted in slow development of the project. The Group will continue with the project development by active communication with the government in 2019.

In 2019, in the hope of a gradual improvement of the Company's various business development, the Group will adjust its business segments, strengthen its management system and optimise its personnel structure in accordance with its business needs.

Looking into 2019, the Group will continue to look for ways to improve its efficiency of resources allocation, strengthen its capital structure, and seek potential acquisition and business opportunities to enhance the value enjoyed by the shareholders of the Company (the "**Shareholders**").

Finally, I would also like to extend my appreciation to all the Shareholders, the Board, the management team, employees and stakeholders for their support to the Group during the Year.

Guan Liqun
Chairman

Hong Kong
28 March 2019

* *For identification purpose only*

BUSINESS REVIEW – MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the Year, the principal business activities of the Group comprise operation of compressed natural gas ("**CNG**") stations, provision of finance lease and loan services and properties investment, class 1 land development in the People's Republic of China (the "**PRC**").

During the Year, the Group recorded consolidated revenue of approximately HK$139.8 million (2017: approximately HK$252.6 million), decreased by approximately HK$112.8 million from last year, which was mainly due to the reduction in revenue contribution from gas segment and sales of construction materials.

The Group's gross profit for the Year was approximately HK$44.2 million (2017: approximately HK$62.1 million), representing a decrease of 29% as compared with last year.

The net loss of the Group amounted to approximately HK$696.5 million during the Year, increased by approximately HK$378.1 million from approximately HK$318.4 million in 2017. The net loss was mainly attributable to (i) fair value losses of approximately HK$245.9 million on the Group's investment properties; (ii) the provision of an aggregate amount of approximately HK$423.8 million on the intangible assets net off by (iii) gain on disposal of subsidiaries amounted to approximately HK$52.7 million and income tax credit amounted to approximately HK$104.6 million during the Year.

OPERATIONAL REVIEW

(1) Gas Business

Against the backdrop of the intensified market competition and the deconsolidation of certain gas subsidiaries after disposal of gas companies in Shandong and Xuzhou thereof since September and November 2018, the total revenue of the gas business slid to approximately HK$128.8 million for the Year (2017: approximately HK$156.0 million), representing a decline of 17% from last year, as the sales volume of CNG dropped to approximately 37,517,000 m^3 (2017: approximately 44,706,000 m^3). In 2018, the gas segment recorded a segment gain of approximately HK$38.5 million (2017: loss of approximately HK$66.2 million). Since the Group commenced its restructuring in gas business in late 2014, gas business has been expected to deteriorate due to various factors, including among other things, (i) the economic slowdown in the provinces of the remaining gas business; (ii) the intensified market competition due to the changes in government policies; and (iii) the divergence of investment and operating strategies between the Group and business partners in certain business regions.

(2) Finance Lease and Loan Services and Properties Investment

The Group's finance lease and loan services and properties investment segment recorded a total revenue of approximately HK$11.1 million for the Year (2017: approximately HK$16.8 million), representing a decrease of 34% as a result of the decrease of interest income of LED finance lease contracts.

During the Year, the Group's commercial property in Shanghai has not been leased out as the Group is still in the process of formulating plans based on market conditions, including but not limited to leasing the property or realising the property at an enhanced capital value.

The loss of this segment increased to approximately HK$333.0 million during the Year (2017: approximately HK$96.3 million), mainly due to fair value loss on investment properties during the Year.

(3) PPP Class 1 Land Development Business and Sales of Construction Materials

The Group's business in Fuqing City, Fujian Province did not record sales revenue for the Year (2017: approximately HK$79.7 million). The revenue record in 2017 was mainly derived from sales of construction materials while the Group suspended the business of sales of construction materials to effectively prevent business risks due to the low gross profit margin.

The loss of this segment increased to approximately HK$464.5 million during the Year (2017: approximately HK$57.8 million), mainly due to the impairment of intangible assets during the Year.

BUSINESS OUTLOOK

Due to the impact of various unfavorable factors such as the vigorous development of electric vehicles in China, the gas business will be confronted with mounting pressure from competition. The Group continuously recorded revenue decrease and loss in the recent years. In a bid to optimise capital allocation and reduce loss from investment, the Group has disposed of the gas business of three segments in 2018. Looking forward, the Group will continue to optimise and restructure the remaining gas business as well as seek suitable opportunities to realize its value.

With the steady promotion of such national policies as supply-side reform, “Belt and Road Initiative” and “Made in China 2025”, the financing rental industry will embrace huge development potential in the future. Benefiting from favorable conditions brought by economic structure transformation, consumption upgrading and the development of the free trade zone, business such as rental of automobile, airplane and medical is expected to enjoy rapid growth. In view of such good business prospect, the Group will be dedicated to other business segments and value-added customers in a bid to expand the market of financing rental market and focus on the promotion of the development of the business of medical device financing and rental.

The development focus of Grade-A office markets is shifting from the core business districts to non-core business districts and the Group has real estate located in the North Bund (Waitan), Hongkou District, Shanghai, which is planned as the central business district and cluster area of international shipping and therefore enjoys great development potentials. However, restricted by the on-going development of surroundings of the project and influx of new buildings in the future, property appreciation and rental returns will face certain pressure. In the future, the Group will maximise the manifestation of capital value by optimising capital allocation in accordance with the market changes and business development needs.

In October 2017, Fujian Provincial Government issued the “Notice of Eight Measures for Further Strengthening the Regulation of Real Estate Market*” (關於進一步加強房地產市場調控八條措施的通知) to further regulate and control the land transfer procedures against excessive growth in land prices. In view of such policies and delayed schedule in land auction in relation to the Project Land, the Group will make efforts to speed up the land development and land auction progress.

FINANCIAL RESOURCES

As at 31 December 2018, the Group’s total debts (including trade payables, other payables and accruals, loans from joint ventures, finance lease payable, interest-bearing bank and other borrowings, loans from related companies, loans from non-controlling shareholders and convertible bonds) amounted to approximately HK$2,674.2 million (2017: approximately HK$2,748.9 million), of which approximately HK$1,684.2 million (2017: approximately HK$1,793.8 million) was related to bank and other borrowings at operating subsidiaries level funding the local PRC operations and the new mortgage loan for Shanghai property investment denominated in Renminbi. Cash and bank balances amounted to approximately HK$40.5 million (2017: approximately HK$34.9 million). Net debt amounted to approximately HK$2,633.7 million (2017: approximately HK$2,714.0 million). As a result, the Group’s gearing ratio, representing the ratio of the Group’s net debt divided by adjusted capital and net debt of approximately HK$2,716.4 million (2017: approximately HK$3,398.9 million), was 97% (2017: 80%).

During the Year, the Group was not materially exposed to foreign currency risk.

DIVIDEND

The Board does not recommend the payment of a final dividend for the Year (2017: Nil).

* *For identification purpose only*

MATERIAL ACQUISITION AND DISPOSAL

(1) Disposal of Shandong Gas Business

On 11 April 2018, the Company, Jetco Innovations Limited ("**Jetco Innovations**"), Shenzhen Sinogas Environmental Protection Technology Limited* (深圳中油潔能環保科技有限公司) ("**Shenzhen Sinogas**") and Shandong Rui Bang Technology Engineering Co., Ltd* (山東瑞邦工程技術有限公司) ("**Shandong Rui Bang**") entered into an equity transfer agreement (the "**April 2018 Equity Transfer Agreement**"), pursuant to which, the Company has conditionally agreed to sell or procure its subsidiaries to sell and Shandong Rui Bang has conditionally agreed to purchase (i) 100% of the issued share capital in Jetco Innovations, which holds 50% of the equity interest in Shandong Sinogas Company Limited* (山東中油潔能天然氣有限公司) ("**Shandong Sinogas**"); (ii) 50% of the equity interest in Shandong Sinogas held by Shenzhen Sinogas; and (iii) the debt owed by Shandong Sinogas and its subsidiaries to the Group for the consideration of RMB25,500,000 (equivalent to approximately HK$31.9 million). Details of the April 2018 Equity Transfer Agreement were disclosed in the Company's announcement dated 11 April 2018.

(2) The Second Deed of Replacement

On 12 October 2018, Ontex Enterprises Limited ("**Ontex**"), an indirect non-wholly owned subsidiary of the Company, entered into the second deed of replacement (the "**Second Deed of Replacement**") with Kingfun Investment Limited ("**Kingfun**"), pursuant to which Kingfun issued the 2.15% promissory note in the principal amount of HK$89,000,000 due on 15 June 2019 (the "**2018 Promissory Note**") to Ontex in replacement of the 2.15% promissory note in the principal amount of HK$89,000,000 due on 15 June 2018 (the "**2017 Promissory Note**").

As at 12 October 2018, an aggregate principal amount of HK$89,000,000 under the 2017 Promissory Note and accrued interest of HK$1,913,500 remain outstanding. Save for the maturity date being extended from 15 June 2018 to 15 June 2019, the principal terms of the 2018 Promissory Note are identical to those of the 2017 Promissory Note. In addition, the parties agreed that the accrued interest under the 2017 Promissory Note of HK$1,913,500 shall be paid in full by Kingfun to Ontex on or before the maturity date of the 2018 Promissory Note. Details of the Second Deed of Replacement were disclosed in the Company's announcement dated 12 October 2018.

(3) Disposal of Chengdu Gas Business

On 25 October 2018, the Company, Winfield Innovations Limited ("**Winfield Innovations**"), Chengdu Tongneng Compressed Natural Gas Company Limited* (成都通能壓縮天然氣有限公司) ("**Chengdu Tongneng**") and Sinogas Chengdu Company Limited* (中油潔能（成都）環保科技有限公司) ("**Sinogas Chengdu**") entered into an equity transfer agreement (the "**October 2018 Equity Transfer Agreement**"), pursuant to which, Winfield Innovations has conditionally agreed to sell and Chengdu Tongneng has conditionally agreed to purchase 52.51% of equity interest in Sinogas Chengdu and the debt owed by Sinogas Chengdu to Shenzhen Sinogas for the consideration of RMB34,000,000 (equivalent to approximately HK$38.4 million). Details of the October 2018 Equity Transfer Agreement were disclosed in the Company's announcement dated 25 October 2018.

(4) Disposal of Xuzhou Gas Business

On 15 November 2018, the Company, Dynamic Spring Limited ("**Dynamic Spring**"), Sino Gas Group Hong Kong Limited ("**Sinogas Hong Kong**") and Lucky Success Group Limited ("**Lucky Success**") entered into a share transfer agreement (the "**Share Transfer Agreement**"), pursuant to which, (i) the Company has conditionally agreed to sell and Dynamic Spring has conditionally agreed to purchase the one issued ordinary share of Sinogas Hong Kong and 100 issued ordinary shares of Lucky Success, representing the entire issued share capital of each of Sinogas Hong Kong and Lucky Success, at the consideration of RMB14,000,000 (equivalent to HK$15,820,000); and (ii) the debts owed by the Group (excluding Sinogas Hong Kong, Lucky Success and each of their subsidiaries (the "**Target Group**")) to the Target Group in the aggregate amount of RMB1,340,987.49 (equivalent to approximately HK$1,515,315.86) shall be waived. Details of the Share Transfer Agreement were disclosed in the Company's announcement dated 15 November 2018.

* *For identification purpose only*

STAFF BENEFITS

As at 31 December 2018, the Group had a total of 131 employees (2017: 343). The staff costs for the Year amounted to approximately HK$28 million (2017: approximately HK$47 million). The Group continues to provide remuneration package to employees according to market practices, their experience, professional qualification and performance. Other benefits include contribution of statutory mandatory provident fund for the employees, medical scheme and share option schemes. There was no major change to staff remuneration policies during the Year.

HUMAN RESOURCES

Apart from remunerating and promoting staff according to an established mechanism based on individual performance, experience, professional qualification and prevailing market practices, the Group actively encouraged and subsidised staff to participate in job-related study, trainings and seminars as part of the welfare and incentive scheme. This aims to encourage staff to embark on life-long study, and to formulate a feasible plan to their career development, which lays a solid foundation for sound and sustainable development of the Group.

PLEDGE OF ASSETS

As at 31 December 2018, the Group had pledged certain land use rights, trade receivables, investment properties and finance lease receivables for bank borrowings granted.

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Guan Liqun (“**Mr. Guan**”), aged 59, has been the chief executive officer of the Company since December 2017 and became an executive Director, the chairman of the Board and an authorised representative of the Company under Rule 3.05 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in March 2018. Mr. Guan graduated from Beihang University (北京航空航天大學) (formerly known as Beijing College of Aeronautics (北京航空學院)) majoring in electronic technology. He has over 31 years of working experience in the field of administrative management. Mr. Guan is currently the chief executive officer of AVIC International (HK) Group Limited, a substantial shareholder of the Company, and was previously the head of the administrative management department of AVIC International Holding Corporation (中國航空技術國際控股有限公司) (“**AVIC International**”), a subsidiary of Aviation Industry Corporation of China, Ltd. (中國航空工業集團有限公司) (formerly known as Aviation Industry Corporate of China (中國航空工業集團公司)) (“**AVIC**”), which is a substantial shareholder of the Company.

Mr. Zhang Zhibiao (“**Mr. Zhang**”), aged 45, has been an executive Director since July 2017. Mr. Zhang obtained a master’s degree in Business Administration from the Nankai University (南開大學) in the PRC, and a bachelor’s degree from Jiangxi University of Finance and Economics (江西財經大學) in the PRC. Mr. Zhang is currently the head of the operations management department of AVIC International. He previously served as the head of the planning and development department, the head of the administrative management department, the deputy head of the strategic development department, the office manager of international aviation business and the deputy office manager of the capital operation office of AVIC International. Prior to joining AVIC International, Mr. Zhang was the president assistant of SouthChina Securities Co., Ltd. (江南証券有限責任公司) (now known as AVIC Securities Co., Ltd. (中航證券有限公司)) and the head of SouthChina Financial Research Institute* (江南金融研究所). Mr. Zhang has over 22 years of working experience in the areas of management, aviation business, strategic development, industries research, securities, investment and initial public offerings.

Ms. Wang Ying (“**Ms. Wang**”), aged 32, has been an executive Director since July 2017. Ms. Wang obtained a master’s degree in Supply Chain Management and Purchasing from the School of Knowledge Economy and Management (歐洲知識經濟與管理學院*) in France, and the second bachelor’s degree in Business Administration from Université de Lille 2 (法國里爾第二大學*) in France, and the first bachelor’s degree from Wuhan University (武漢大學) in the PRC. In 2011, Ms. Wang joined AVIC International Holdings Limited (中航國際控股股份有限公司), whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 161), a subsidiary of AVIC International, and she was transferred to the strategy and capital department of AVIC from May 2016 to December 2016. She was responsible for planning and review in relation to reorganisation of AVIC’s subsidiaries, the securities of which are listed on the securities markets in Hong Kong, the PRC and overseas. Ms. Wang currently works in the assets and capital investment office of AVIC International, and is responsible for planning and review in relation to reorganisation and refinancing of AVIC International’s subsidiaries, the securities of which are listed on the securities markets in Hong Kong, the PRC and overseas.

Ms. Mu Yan (“**Ms. Mu**”), aged 40, has been an executive Director since December 2017. Ms. Mu holds a master’s degree in economics from University of California, Irvine, the United States and a master’s degree in international business and finance from University of Reading, the United Kingdom. She also obtained a bachelor’s degree in international finance from Beihang University. Ms. Mu has over 11 years of experience in capital operations and financial management. She is currently the officer of the capital operation office of AVIC International. Ms. Mu is an executive director of Peace Map Holding Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 402). The Company holds 554,080,000 shares, representing 6.8% of the issued share capital of Peace Map Holding Limited.

Ms. Fu Xiao (“**Ms. Fu**”), aged 33, has been an executive Director since December 2017. Ms. Fu holds a bachelor’s degree in arts from Jiangxi Agricultural University, and a master’s degree in international economics law from Xiamen University. She has obtained legal professional qualification and corporate legal consultancy qualification. Ms. Fu has extensive working experience in corporate governance, mergers and acquisitions as well as in internal control. Ms. Fu currently serves as the assistant to the head of legal affairs department and legal consultant of AVIC International. She previously served as the deputy chief legal consultant of AVIC International Steel Trade Co., Limited.

* *For identification purpose only*

BIOGRAPHICAL DETAILS OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jiang Ping ("**Mr. Jiang**"), aged 42, has been an independent non-executive Director since December 2017. He is the chairman of the remuneration committee of the Company (the "**Remuneration Committee**"), and a member of each of the audit committee of the Company (the "**Audit Committee**") and the nomination committee of the Company (the "**Nomination Committee**"). Mr. Jiang holds a bachelor's degree in Thermal Engineering from Tsinghua University, and a master's degree in Mechanical Engineering from University of California at Berkley. Mr. Jiang has extensive experiences in private equity investment and company operations. Currently, Mr. Jiang is a founding partner of iVision Ventures, a venture capital fund focused on AI investment, responsible for investment, fund raising and management matters including compliance, structuring, and investor relations. Previously he served as an executive director of Flamingo Capital, ERP Director of Xiaomi Group and product director of Best Logistics.

Ms. Wu Rui ("**Ms. Wu**"), aged 40, has been an independent non-executive Director since December 2017. She is the chairman of the Nomination Committee, and a member of each of the Audit Committee and the Remuneration Committee. Ms. Wu holds a bachelor's degree in International Finance from Peking University's School of Economics, a master's degree in Economics from University of California at Los Angeles and a PhD degree from University of Southern California's Marshall School of Business. Currently, Ms. Wu is an associate professor at Tsinghua University's School of Economics. She has extensive experience in education and research and has published a large number of papers. The area of Ms. Wu's research mainly focuses on the relationship between corporations, corporate governance, non-marketing strategies and start-ups. She previously served as a research assistant in the headquarters of World Bank in the United States.

Mr. Guo Wei ("**Mr. Guo**"), aged 40, has been an independent non-executive Director since December 2017. He is the chairman of the Audit Committee, and a member of each of the Remuneration Committee and the Nomination Committee. Mr. Guo holds a bachelor's degree in management from Beijing University of Technology. He is also a Fellow Chartered Certified Accountant awarded by the Association of Chartered Certified Accountants, United Kingdom. Currently, Mr. Guo is the senior finance manager in the SME and Channels Development Business Unit, Greater China Region of Microsoft (China) Co. Ltd. He is mainly responsible for the overall financial management of the SME and Channels Development Business Unit. Mr. Guo has 18 years of multinational experience in China, with comprehensive and in-depth understanding of business operations and financial/accounting management in the industries of energy, healthcare and IT.

REPORT OF THE DIRECTORS

The Directors present their report and the audited consolidated financial statements of the Company for the Year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries are set out in note 48 to the financial statements.

BUSINESS REVIEW

A fair review of the business of the Group and particulars of important events affecting the Group that have occurred since the end of the financial year 2018 as well as discussion on the future business development, principal risks and uncertainties of the Group are provided in the Chairman's Statement on pages 3, the Business Review – Management Discussion and Analysis on pages 4 to 7, and note 45 to the financial statements of this annual report (the "**Annual Report**" or "**this report**"). An analysis using financial key performance indicators can be found in the Business Review – Management Discussion and Analysis on pages 4 to 7 of the Annual Report. The above sections form part of this report.

In addition, discussions on the Group's environmental policies and performance, compliance with the relevant laws and regulations which have a significant impact on the Group and relationships with its key stakeholders are provided in the paragraphs below.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Stock Exchange introduced Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**") in Appendix 27 to the Listing Rules which took effect in 2016. We have envisaged and adopted the ESG Reporting Guide in writing of the said report. Please refer to the Environmental, Social and Governance Report on pages 29 to 40 of the Annual Report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on it.

RELATIONSHIPS WITH KEY STAKEHOLDERS

Employees are regarded as the most valuable assets of the Group. The Group believes that the knowledge and expertise of our employees are crucial to the long-term success of the Group. To assist our staff to develop their potential, enhance their job competence and continue the Group's development, the Group actively encouraged and subsidised staff to participate in external job-related courses and seminars.

The Group will strive to maintain a long-term good relationship with all stakeholders such as shareholders, suppliers, business partners and professional bodies in the future development of the Group's business.

RESULTS AND DIVIDEND

The Group's results for the Year and the Group's financial position as at 31 December 2018 are set out in the financial statements on pages 48 to 49 of this report.

The Board does not recommend the payment of a final dividend for the Year (2017: Nil).

REPORT OF THE DIRECTORS

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements is set out on page 143 of this report. This summary does not form part of the audited financial statements.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of the movements in the Company's share capital, share options and convertible bonds during the Year are set out in notes 38, 39 and 35 to the financial statements, respectively.

BANK AND OTHER BORROWINGS

Particulars of bank and other borrowings of the Group are set out in note 36 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

References are made to the announcements of the Company dated 3 November 2016 and 17 November 2016 in relation to the placing of the Convertible Notes in the aggregate principal amount of HK$140,000,000. Capitalised terms used herein shall have the same meanings as those defined in the said announcements. The Convertible Notes in the principal amount of HK$140,000,000 were issued to six individual Noteholders on 17 November 2016.

On 31 December 2018, the Board announced that on or prior to 31 December 2018, the Company agreed with two out of the six Noteholders holding the Convertible Notes in the aggregate principal amount of HK$56,000,000 that the Company shall redeem their Convertible Notes in full by way of loan. The Convertible Notes in the aggregate principal amount of HK$84,000,000 remain outstanding. The Company is still in the process of negotiations with the remaining four Noteholders holding the Convertible Notes in the aggregate principal amount of HK$84,000,000 on the terms of redemption of their Convertible Notes by way of loan. Details of the partial redemption of the Convertible Notes were disclosed in the Company's announcement dated 31 December 2018.

SHARES ISSUED

As at 31 December 2018, the total number of issued shares of the Company (the "**Shares**") was 5,943,745,741. As compared with the position as at 31 December 2017, no new Shares were issued during the Year.

EQUITY-LINKED AGREEMENTS

The Company currently maintains the share option scheme as disclosed under the section headed "Share Option Scheme" in this report.

Save as disclosed above, no equity-linked agreements that will or may result in the Company issuing Shares or that require the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Company during the Year or subsisted at the end of the Year.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company had no reserves available for distribution in accordance with the provisions of section 297 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Companies Ordinance**").

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers accounted for 20% of the total sales for the Year and sales to the largest customer included therein amounted to 7%. Purchases from the Group's five largest suppliers accounted for 42% of the total purchases for the Year and purchases from the largest supplier included therein amounted to 31%.

None of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued Shares) had any beneficial interest in the Group's five largest customers or five largest suppliers.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the Year and up to the date of this report were:

Executive Directors:

Guan Liqun *(Chairman and Chief Executive Officer) (appointed with effect from 28 March 2018 and 7 December 2017, respectively)*
Li Chengning *(Chairman) (resigned with effect from 28 March 2018)*
Zhang Zhibiao
Wang Ying
Fu Fangxing *(resigned with effect from 18 January 2019)*
Mu Yan
Fu Xiao

Independent Non-executive Directors:

Jiang Ping
Wu Rui
Guo Wei

A full list of the names of the directors of the Company's subsidiaries can be found on the Company's website at www.avicjoyhk.com under "Corporate Governance".

According to Article 87 of the Articles of Association (the "**Articles of Association**"), at each Annual General Meeting ("**AGM**"), one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he retires.

In accordance with Article 87 of the Articles of Association, Ms. Wang Ying, Ms. Mu Yan and Ms. Fu Xiao will retire from office by rotation, and being eligible, will offer themselves for re-election at the forthcoming AGM of the Company. The terms of office of all Directors (including independent non-executive Directors) are subject to re-appointment or retirement by rotation in accordance with Articles 86(B), 87 and 88 of the Articles of Association.

The Company has received from each of its independent non-executive Directors an annual confirmation of independence and as at the date of this report, the Company still considers them to be independent in accordance with the guidelines for assessing independence as set out in Rule 3.13 of the Listing Rules.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on pages 8 to 9 of the Annual Report. Mr. Guan Liqun, the chairman of the Board and the chief executive officer of the Company, is the senior management of the Group.

CHANGES IN INFORMATION OF DIRECTORS

Save for changes in the biographical details of the Directors, there was no other change in the information of the Directors required to be disclosed pursuant to Rule 13.51B of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' emoluments are determined by the Remuneration Committee with reference to Directors' duties, responsibilities, performance, the Company's remuneration policy and the results of the Group pursuant to the power conferred on it at the Company's general meetings.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed in the Annual Report, none of the Directors or any of their connected entity had, directly or indirectly, a material interest, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, the holding company of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party subsisted at any time during the Year or at the end of the Year.

PERMITTED INDEMNITY PROVISION

Subject to the provisions of and so far as may be consistent with the statutes, every Director, secretary or other officer of the Company shall be entitled to be indemnified by the Company against all costs, charges, losses, expenses and liabilities incurred by him/her in the execution and/or discharge of his/her duties and/or the exercise of his/her powers and/or otherwise in relation thereto. Subject to the applicable laws and the Articles of Association, the Company has taken out and maintained Directors' liability insurance, throughout the Year, against the liability and costs associated with legal actions against the Directors arising out of corporate activities, and the level of the coverage is reviewed annually. Such provisions were in force during the course of the Year and remained in force as of the date of this report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules, were as follows:

Long positions in ordinary Shares of the Company:

	Number of Shares held, capacity and nature of interests		
Name of Director	**Personal interest**	**Total**	**Percentage of the Company's issued Shares**
Guan Liqun	6,170,000	6,170,000	0.1%

Save as disclosed above, as at 31 December 2018, none of the Directors or the chief executive of the Company had interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO), as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

At the AGM held on 25 June 2015, the Company adopted a share option scheme (the "**Share Option Scheme**"), following the Company's share option scheme having expired on 14 April 2015 (the "**Expired Share Option Scheme**"), for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's business development and growth and to enable the Group to recruit high-calibre employees and attract or retain human resources valuable to the Group. The Expired Share Option Scheme was valid and effective for a period of 10 years from the date of its adoption. Further details of the Share Option Scheme are disclosed in note 39 to the financial statements.

Movements in the Company's outstanding share options granted under the Expired Share Option Scheme, which shall continue to be valid and exercisable, during the Year were as follows:

Name or category of participant	At 1 January 2018	Granted during the Year	Exercised during the Year	Cancelled during the Year	Lapsed during the Year	At 31 December 2018	Date of grant[1]	Exercise period	Exercise price per share[2] HK$
Former Director									
Wang Xiaowei	4,490,000	–	–	–	(4,490,000)	–	13-6-12	13-6-13 to 12-6-22	0.236
	4,490,000	–	–	–	(4,490,000)	–	13-6-12	13-6-14 to 12-6-22	0.236
	8,980,000	–	–	–	(8,980,000)	–			
Consultants									
In aggregate	120,000,000	–	–	–	–	120,000,000	31-8-10	31-8-10 to 30-8-20	0.227
Other employees									
In aggregate	86,250,000	–	–	–	–	86,250,000	31-8-10	31-8-10 to 30-8-20	0.227
	215,230,000	–	–	–	(8,980,000)	206,250,000			

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.

2. The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

Save as disclosed above, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate at any time during the Year or at the end of the Year.

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

As at 31 December 2018, the interests and short positions of the substantial Shareholders and other persons, other than the Directors or the chief executive of the Company, in the Shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Notes	Long/short position	Capacity and nature of interest	Number of ordinary Shares held	Percentage of the Company's issued Shares
Billirich Investment Limited ("**Billirich**")	(a)	Long	Beneficial owner	1,031,595,000	17.36%
AVIC International Holding (HK) Limited ("**AVIC Int'l (HK)**")	(a)	Long	Interest of controlled corporation	1,031,595,000	17.36%
Tacko International Limited	(a)	Long	Interest of controlled corporation	1,031,595,000	17.36%
AVIC International (HK) Group Limited	(a)	Long	Beneficial owner and interest of controlled corporation	1,535,618,891	25.84%
AVIC Joy Air Holdings Limited	(b)	Long	Beneficial owner	60,810,000	1.02%
AVIC Joy Air (HK) Group Limited	(b)	Long	Interest of controlled corporation	60,810,000	1.02%
幸福航空控股有限公司	(b)	Long	Interest of controlled corporation	60,810,000	1.02%
AVIC International Holding Corporation	(a), (b)	Long	Interest of controlled corporation	1,596,428,891	26.86%
Aviation Industry Corporation of China, Ltd. ("**AVIC**")	(a), (b)	Long	Interest of controlled corporation	1,596,428,891	26.86%
Grand Win Overseas Ltd. ("**Grand Win**")	(c)	Long	Beneficial owner	313,965,000	5.28%
Sun Shining Investment Corp.	(c)	Long	Interest of controlled corporation	313,965,000	5.28%
Tai Yuen Textile Company Ltd.	(c)	Long	Interest of controlled corporation	313,965,000	5.28%

Notes:

(a) Billirich is a wholly-owned subsidiary of AVIC Int'l (HK). Tacko International Limited, together with its wholly-owned subsidiary, hold in aggregate approximately 20.37% of the issued share capital of AVIC Int'l (HK). Tacko International Limited is a wholly-owned subsidiary of AVIC International (HK) Group Limited, which in turn is a wholly-owned subsidiary of AVIC International Holding Corporation. AVIC International Holding Corporation is a 62.52% owned subsidiary of AVIC. Accordingly, all these corporations are deemed to be interested in the Shares held by Billirich.

(b) AVIC Joy Air Holdings Limited is a wholly-owned subsidiary of AVIC Joy Air (HK) Group Limited, which in turn is a wholly-owned subsidiary of 幸福航空控股有限公司. 幸福航空控股有限公司 is owned as to approximately 57.14% by AVIC and as to approximately 42.86% by AVIC International Holding Corporation, which is a 62.52% owned subsidiary of AVIC. Accordingly, all these corporations are deemed to be interested in the Shares held by AVIC Joy Air Holdings Limited.

(c) Grand Win is a wholly-owned subsidiary of Sun Shining Investment Corp. Tai Yuen Textile Company Ltd. beneficially owns 82.85% equity interest in Sun Shining Investment Corp. and therefore, these corporations are deemed to be interested in the Shares held by Grand Win.

Save as disclosed above, as at 31 December 2018, no substantial Shareholders or other persons, other than the Directors or the chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in Shares and underlying shares" above, had any interests or short positions in the Shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total number of issued Shares were held by the public as at the date of this report.

CONNECTED TRANSACTION

During the Year, the Company and the Group had the following connected transaction, certain details of which had been disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

On 12 October 2018, Ontex Enterprises Limited ("**Ontex**"), an indirect non-wholly owned subsidiary of the Company, entered into the second deed of replacement (the "**Second Deed of Replacement**") with Kingfun Investment Limited ("**Kingfun**"), pursuant to which Kingfun issued the 2.15% promissory note in the principal amount of HK$89,000,000 due on 15 June 2019 (the "**2018 Promissory Note**") to Ontex in replacement of the 2.15% promissory note in the principal amount of HK$89,000,000 due on 15 June 2018 (the "**2017 Promissory Note**").

As at 12 October 2018, an aggregate principal amount of HK$89,000,000 under the 2017 Promissory Note and accrued interest of HK$1,913,500 remain outstanding. Save for the maturity date being extended from 15 June 2018 to 15 June 2019, the principal terms of the 2018 Promissory Note are identical to those of the 2017 Promissory Note. In addition, the parties agreed that the accrued interest under the 2017 Promissory Note of HK$1,913,500 shall be paid in full by Kingfun to Ontex on or before the maturity date of the 2018 Promissory Note.

As at 12 October 2018, Kingfun, the issuer of the 2018 Promissory Note, owns 17.5% of the issued share capital of Spotwin Investment Limited ("**Spotwin**"), an indirect non-wholly owned subsidiary of the Company. Accordingly, Kingfun is a substantial shareholder of Spotwin and is a connected person of the Company at the subsidiary level under Rule 14A.06(9) of the Listing Rules. The Second Deed of Replacement and the transactions contemplated thereunder are subject to the reporting and announcement requirements, but are exempted from the circular, independent financial advice and independent Shareholders' approval requirements by virtue of Rule 14A.101 of the Listing Rules.

Details of the above connected transaction were disclosed in the announcement of the Company dated 12 October 2018.

Save as the connected transaction disclosed above, the Directors consider that all other related party transactions disclosed in note 43 to the financial statements did not fall under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) under Chapter 14A of the Listing Rules which are required to comply with any of the reporting, annual review, announcement, or independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules for the Year.

AUDITOR

Considering (i) Ernst & Young has been the auditor of the Company since 2007; and (ii) Ernst & Young and the Company could not reach a mutual agreement on the audit fee for the year ended 31 December 2018, on the recommendation of the Audit Committee, on 7 November 2018, the Board resolved to change the auditor of the Group. The Board and the Audit Committee take the view that the change of auditor complies with good corporate governance practice and will also enhance the independence of the auditor.

With the aforesaid reasons and in response to the Company's request, Ernst & Young has resigned as the auditor of the Company and its subsidiaries registered in Hong Kong with effect from 7 November 2018.

On 16 November 2018, Deloitte Touche Tohmatsu was appointed as the new auditor of the Group in place of Ernst & Young to hold office until the conclusion of the AGM.

Deloitte Touche Tohmatsu will retire and, being eligible, will offer itself for re-appointment. A resolution for the re-appointment of Deloitte Touche Tohmatsu as the auditor of the Company will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD

Wang Ying
Executive Director

Hong Kong
28 March 2019

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to pursuing strict and high standards of corporate governance since the Board believes that good corporate governance practices are essential to achieving the Group's objectives of enhancing corporate value as well as safeguarding the interests of the Shareholders.

The Company has complied with the applicable code provisions set out in the Corporate Governance Code ("**CG Code**") contained in Appendix 14 to the Listing Rules during the Year, save and except as disclosed hereunder:

(i) code provision A.2.1 of the CG Code stipulates that the roles of the chairman of the Board and the chief executive officer of the Company should be served by different individuals to achieve a balance of authority and power. Mr. Guan Liqun (appointed as an executive Director and be the chairman of the Board with effect from 28 March 2018) was the chairmen of the Board during the Year. The chairman of the Board is primarily responsible for the leadership of the Board ensuring that all significant policy issues are discussed by the Board in a timely and constructive manner by drawing up and approving the agenda and taking into account any matters proposed by other Directors for inclusion in the agenda, and that all Directors are properly briefed on issues arising at Board meetings, and that the Directors receive accurate, timely and clear information. Mr. Guan Liqun (appointed as the chief executive officer of the Company with effect from 7 December 2017) was the chief executive officers of the Company during the Year. The chief executive officer of the Company is responsible for day-to-day management of the Group's business.

The Board considers that the deviation from code provision A.2.1 of the CG Code will not have adverse effect to the Company, as decisions of the Company will be made collectively by the executive Directors. The Board will keep reviewing the current structure of the Board and the need of appointment of a suitable candidate to separate the role of chief executive officers and chairman of the board. Appointment will be made to comply with code provision A.2.1 of the Code if necessary;

(ii) code provision A.4.1 stipulates that non-executive directors (including independent non-executive directors) should be appointed for a specific term. The non-executive Directors were appointed without specific terms, but they are subject to retirement by rotation and being eligible for re-election at least once every three years in accordance with the Articles of Association; and

(iii) code provision D.1.4 stipulates that listed issuers should have formal letters of appointment for directors setting out the key terms and conditions of their appointments. The Company did not have letters of appointment for Directors. However, the Directors shall be subject to retirement by rotation and being eligible for re-election pursuant to the Articles of Association. Moreover, the Directors are required to comply with the requirements under statute and common law, the Listing Rules, the Companies Ordinance, legal and other regulatory requirements, if applicable.

DIRECTORS' AND RELEVANT EMPLOYEES' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the code of conduct regarding securities transactions of the Company by Directors and relevant employees of the Group who, because of their office or employment, are likely to be in possession of unpublished inside information in relation to the Company's securities. The Directors and such relevant employees are required to strictly comply with the Model Code when dealing in the securities of the Company. Following specific enquiry made by the Company, all the Directors and such relevant employees confirmed that they had complied with the required standards as set out in the Model Code during the Year.

BOARD OF DIRECTORS

Board Composition

As at the date of this report, the Board comprised eight Directors, with five executive Directors (the "**Executive Directors**") and three independent non-executive Directors ("**INEDs**"). The Directors during the Year and up to the date of this report are set out as follows:

Executive Directors:	Guan Liqun *(Chairman and Chief Executive Officer)* *(appointed with effect from 28 March 2018 and 7 December 2017, respectively)*
	Li Chengning *(Chairman) (resigned with effect from 28 March 2018)*
	Zhang Zhibiao
	Wang Ying
	Fu Fangxing *(resigned with effect from 18 January 2019)*
	Mu Yan
	Fu Xiao
INEDs:	Jiang Ping
	Wu Rui
	Guo Wei

The biographical details of the Directors are set out in the section headed "Biographical Details of Directors" on pages 8 to 9 of the Annual Report. The Directors have no financial, business, family or other material/relevant relationships with each other.

Duties of the Board

The main responsibilities of the Board include determining overall strategic planning, policy formulation, business and investment plans, risk management and internal control systems and reviewing the effectiveness of such systems, monitoring financial and project budget, and developing, reviewing and monitoring corporate governance policies and matters.

Corporate Governance Functions and Duties

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

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations on any changes and updating;

(b) to review and monitor the training and continuous professional development of Directors and senior management of the Company;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and Directors; and

(e) to review the Company's compliance with the CG Code and disclosure in this report.

During the Year, the corporate governance duties performed by the Board were summarised as follows:

(a) reviewed the Company's corporate governance policies and practices;

(b) reviewed the Company's policies and practices on compliance with legal and regulatory requirements;

(c) reviewed the Company's compliance with the CG Code and disclosure in this report;

(d) reviewed the training and continuous professional development of the Directors and senior management of the Company; and

(e) reviewed the code of conduct and compliance manual applicable to employees of the Group and the Directors.

Management Functions

Implementation of the decisions and plans of the Board and direction of the day-to-day operation are delegated to the management. The respective functions of the Board and the management of the Company have been formalised and will be reviewed by the Board from time to time to ensure that they are consistent with the existing rules and regulations. All members of the Board are provided with monthly updates giving a balanced and understandable assessment of the performance, position and prospect of the Group.

Board Meetings

The Board meets regularly to discuss the overall strategy of the Group and to review and approve the Group's annual and interim results and other matters which need to be dealt with. At least 14 days' notice of all regular Board meetings is normally given to all Directors, and all Directors are given the opportunity to include matters for discussion in the agenda. The company secretary of the Company (the "**Company Secretary**") assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are normally sent to all Directors at least three days before the intended date of each regular Board meeting or Board committee meeting. The Company Secretary is responsible for keeping minutes of the Board and Board committee meetings.

Board Meetings (continued)

During the Year, eight Board meetings were held and the attendance records of each Director at the Board meetings, Board committee meetings and general meetings are set out below:

Name of Directors	Number of meetings attended/held Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Executive Directors					
Guan Liqun *(appointed with effect from 28 March 2018)*	5/8	1/3			1/1
Mr. Li Chengning *(resigned with effect from 28 March 2018)*	2/8				0/1
Mr. Zhang Zhibiao	6/8				1/1
Ms. Wang Ying	3/8				0/1
Mr. Fu Fangxing *(resigned with effect from 18 January 2019)*	5/8				1/1
Ms. Mu Yan	8/8				0/1
Ms. Fu Xiao	4/8				0/1
INEDs					
Mr. Jiang Ping	7/8	3/3	1/1	1/1	1/1
Ms. Wu Rui	6/8	3/3	1/1	1/1	0/1
Mr. Guo Wei	8/8	3/3	1/1	1/1	0/1

According to the current Board practice, if a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter should be dealt with by the Board at a duly convened Board meeting.

Every Director is entitled to have access to Board papers and related materials, and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's management. Where queries are raised by Directors, prompt and full responses will be given if possible. Directors will be continuously updated on the major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices. Each Director has the liberty to seek independent professional advice at the Company's expense if so reasonably required. The Company has arranged appropriate insurance cover in respect of legal actions against its Directors and officers. The Company reviews the extent of such insurance every year.

INEDs

As of 31 December 2018 and up to the date of this report, the number of Directors was eight, of which three Directors were INEDs, representing more than one-third of the Board.

The Board has received from each INED an annual confirmation of independence and considers that all the INEDs are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Continuous Professional Development

Pursuant to code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. During the Year, all Directors have participated in continuous professional development by attending seminars or programs or studying relevant materials on the topics related to corporate governance and regulations.

The individual training record of each Director received for the Year is summarised as follows:

Name of Directors	**Participation in Continuous Professional Development Activities** — **Attending trainings/ briefings/seminars/ conference**	**Reading regulatory updates**
Executive Directors		
Guan Liqun *(appointed with effect from 28 March 2018)*	√	√
Mr. Li Chengning *(resigned with effect from 28 March 2018)*	√	√
Mr. Zhang Zhibiao	√	√
Ms. Wang Ying	√	√
Mr. Fu Fangxing *(resigned with effect from 18 January 2019)*	√	√
Ms. Mu Yan	√	√
Ms. Fu Xiao	√	√
INEDs		
Mr. Jiang Ping	√	√
Ms. Wu Rui	√	√
Mr. Guo Wei	√	√

Appointment and Re-election of Directors

During the Year, the non-executive Directors provided the Group with a wide range of expertise and experience as well as checks and balance in achieving agreed corporate goals and objectives and monitoring performance reporting by their participation in the Board and Board committee meetings with independent judgment on issues relating to the Group's strategy, policy, performance, accountability, resources, key appointments and management process.

The Company did not have formal letters of appointment for Directors. Directors shall be subject to retirement by rotation and eligible for re-election at least once every three years pursuant to the Articles of Association. Moreover, Directors are required to comply with the requirements under statute and common law, the Listing Rules, the Companies Ordinance, legal and other regulatory requirements, if applicable.

In accordance with the Articles of Association, at each AGM, one-third of the Directors for the time being (or, if the number is not three or a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. Every retiring Director shall be eligible for re-election. As such, no Director has a term of appointment longer than three years.

Further, any Director appointed by the Board to fill a casual vacancy shall hold office only until the next following general meeting whilst for those appointed as an addition to the Board shall hold office until the next following AGM and in both cases, those Directors shall then be eligible for re-election at the relevant general meeting.

Every newly appointed Director will receive an induction pack from the legal advisor of the Company on the first occasion of his/her appointment. This induction pack is a comprehensive, formal and tailored induction on the responsibilities and on-going obligations to be observed by a Director pursuant to the Companies Ordinance, the Listing Rules and the SFO. Directors will be continuously updated on any major developments of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the CG Code stipulates that the roles of the chairman of the Board and the chief executive officer of the Company should be served by different individuals to achieve a balance of authority and power. Mr. Guan Liqun (appointed as an executive Director and be the chairman of the Board with effect from 28 March 2018) was the chairman of the Board during the Year. The chairman of the Board is primarily responsible for the leadership of the Board ensuring that all significant policy issues are discussed by the Board in a timely and constructive manner by drawing up and approving the agenda and taking into account any matters proposed by other Directors for inclusion in the agenda, and that all Directors are properly briefed on issues arising at Board meetings, and that the Directors receive accurate, timely and clear information. Mr. Guan Liqun (appointed as the chief executive officer of the Company with effect from 7 December 2017) was the chief executive officers of the Company during the Year. The chief executive officer of the Company is responsible for day-to-day management of the Group's business.

The Board considers that the deviation from code provision A.2.1 of the CG Code will not have adverse effect to the Company, as decisions of the Company will be made collectively by the executive Directors. The Board will keep reviewing the current structure of the Board and the need of appointment of a suitable candidate to separate the roles of chief executive officer and chairman of the Board. Appointment will be made to comply with code provision A.2.1 of the CG Code if necessary.

BOARD COMMITTEES

The Company has established three Board committees (the "**Board Committees**"), namely the Audit Committee, the Remuneration Committee and the Nomination Committee, each of which has its specific written terms of reference, to assist the Board Committees in discharging their duties and responsibilities. Minutes of all meetings and resolutions of the Board Committees, which are kept by the Company Secretary, are circulated to all Board Committees' members and the Board Committees are required to report back to the Board on their decisions and recommendations, where appropriate. The Board Committees are provided with sufficient resources to perform their duties and have access to independent professional advice at the Company's expense if so reasonably requested.

Audit Committee

In order to comply with the CG Code, the Board revised the terms of reference of the Audit Committee on 31 December 2018. During the Year, the Audit Committee comprised three INEDs, namely, Mr. Guo Wei (chairman of the Audit Committee), Mr. Jiang Ping, and Ms. Wu Rui. During the Year, the number of members of the Audit Committee is three, the Company has complied with Rule 3.21 of the Listing Rules. The Audit Committee is chaired by an INED with appropriate professional qualifications or accounting or related financial management expertise.

The Audit Committee shall meet at least twice a year. During the Year, three meetings of the Audit Committee were held and attended by the external auditors of the Company. The attendance of the members was set out in the sub-section headed "Board Meetings" of this report.

The primary duties of the Audit Committee include acting as the key representative body for overseeing the relationship with the external auditors; reviewing and monitoring the effectiveness of the audit process; reviewing the Group's financial information; and overseeing the Group's financial reporting system and risk management and internal control systems. The latest terms of reference of the Audit Committee can be viewed on the websites of the Stock Exchange and the Company at www.hkexnews.hk and www.avicjoyhk.com, respectively.

Audit Committee (continued)

During the Year, the Audit Committee has reviewed and discussed the financial reporting matters, including:

(i) reviewed and recommended for the Board's approval the interim and annual results, the interim report and annual report and other financial statements;

(ii) considered and discussed the reports and presentations from the external auditors and the senior management, respectively, with particular focus on the appropriateness of accounting policies and practices, areas of judgment, compliance with the Hong Kong Financial Reporting Standards and other legal requirements in relation to financial reporting;

(iii) recommended to the Board on the appointment and re-appointment of the external auditors and the relevant terms of engagement, including their remuneration;

(iv) reviewed the risk management and internal control systems of the Group and the effectiveness of the Group's internal audit function for the Year which covered financial, operational and compliance controls. The process used in such review included discussions with the management of the Company on the risk areas identified and the review of findings and reports from an independent professional advisor. The Audit Committee reviewed and concurred with the management's confirmation that the Group's risk management and internal control systems were effective and adequate for the Year; and

(v) reviewed and was satisfied with the adequacy of the resources, staff qualification and experience, training programmes and budget of the Company's accounting, financial reporting and internal audit functions.

Remuneration Committee

During the Year, the Remuneration Committee comprised three members, namely, Mr. Jiang Ping (chairman of the Remuneration Committee), Mr. Guo Wei and Ms. Wu Rui.

The Remuneration Committee shall meet at least once a year. During the Year, one meeting of the Remuneration Committee was held and the attendance of the members was set out in the sub-section headed "Board Meetings" of this report.

Details of the Directors' emoluments and remuneration payable to members of senior management by band are set out in note 11 to the financial statements. The Remuneration Committee adopted the model "to determine, with delegated responsibility, the remuneration packages of individual executive Directors and senior management".

The primary duties of the Remuneration Committee include to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration, to review and approve the management's remuneration proposal with reference to the Company's corporate goals and objectives, to determine the remuneration packages of individual executive Directors and senior management including benefits in kind, pension rights and compensation payment comprising any compensation payable for loss or termination of their office or appointment, to make recommendations to the Board on the remuneration of non-executive Directors. The latest terms of reference of the Remuneration Committee can be viewed on the websites of the Stock Exchange and the Company at www.hkexnews.hk and www.avicjoyhk.com, respectively.

During the Year, the Remuneration Committee reviewed and recommended to the Board on the existing policies and structure of the remuneration of the Directors and senior management of the Group; reviewed and approved the remuneration packages of the Directors and senior management of the Group with reference to the Company's complexity and its size as well as individual performances; and reviewed and made recommendation to the Board on the remuneration of INEDs.

Nomination Committee

In order to comply with the CG Code, the Board revised the terms of reference of the Nomination Committee on 31 December 2018. From 1 January 2018 to 31 March 2019, the Nomination Committee comprised three members, namely, Ms. Wu Rui (chairman of the Nomination Committee), Mr. Jiang Ping and Mr. Guo Wei.

The Nomination Committee shall meet at least once a year. During the Year, one meeting of the Nomination Committee was held and the attendance of the members was set out in the sub-section headed "Board Meetings" of this report.

The primary duties of the Nomination Committee include to review the structure, size, composition (including the skills, knowledge and experience) and diversity of the Board at least annually, to identify, screen and recommend to the Board appropriate individuals to serve as Directors, to assess the independence of INEDs, to make recommendations to the Board on the appointment or re-appointment of Directors, to review the Board diversity policy and to monitor its implementation, to review the time commitment required of Directors and evaluate whether Directors have committed adequate time to discharge their liabilities, and to review and implement the nomination policy at least once a year. The latest terms of reference of the Nomination Committee can be viewed on the websites of the Stock Exchange and the Company at www.hkexnews.hk and www.avicjoyhk.com, respectively.

During the Year, the Nomination Committee has reviewed the structure, size, composition and diversity of the Board including the skills, knowledge and experience of the Directors, made recommendations to the Board on the re-election of retiring Directors, assessed the independence of INEDs and reviewed the Board diversity policy.

In designing the Board's composition, the Nomination Committee would consider the Board diversity from a number of factors, including but not limited to gender, age, cultural background and ethnicity, educational background, professional experience, skills, knowledge and length of service. The Company will also take into account factors based on the Company's business model and specific needs from time to time. Directors' appointments will continue to be made on a merit basis and candidates will be considered against objective criteria, with due regard to the benefits of diversity on the Board.

Dividend Policy

The Board has adopted a dividend policy (the "**Dividend Policy**") on 31 December 2018 in recommending dividends, to allow the Shareholders to participate in the Company's profits and enable the Company to retain adequate reserves for future growth. The Dividend Policy allows the Company to declare special dividends from time to time in addition to interim and/or final dividends.

The proposed dividend payout shall be determined with reference to the general financial condition of the Group, the Group's actual and future operations and liquidity position, the Group's expected working capital requirements and future expansion plans, the Group's debt to equity ratios and the debt level, retained earnings and distributable reserves of the Company and each of the members of the Group, any restrictions on payment of dividends that may be imposed by the Group's lenders, general economic conditions, business cycle of the Group's business and other internal and external factors that may have an impact on the business or financial performance and position of the Company, the Shareholders' and investors' expectation and industry's norm and any other factors that the Board deems appropriate.

Nomination Policy

The Board has adopted a nomination policy on 31 December 2018 in relation to the nomination, appointment, re-appointment of Directors and the nomination procedure of the Company, which provides that in evaluating and selecting any candidate for directorship, the Nomination Committee shall consider the candidates' character and integrity, professional qualifications, skills, knowledge and experience, independence, diversity on the Board, willingness to devote adequate time to discharge duties as a Board member and/or Board committee(s) of the Company, any potential contributions the candidate can bring to the Board and such other perspectives that are appropriate to the Company's business.

Board Diversity Policy

The Board revised the Board diversity policy on 31 December 2018 in relation to the nomination and appointment of new Directors, which provides that the selection of Board candidates shall be based on a range of diversified perspectives with reference to gender, age, cultural and educational background, professional qualifications and experience, skills, knowledge, industry and regional experience and length of service.

The above measurements were also adopted when the Nomination Committee reviewed the composition of the Board. After assessing the suitability of the Directors' skills and experience to the Company's business, the Nomination Committee confirmed that the existing Board was appropriately structured.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibilities for preparing the financial statements which give a true and fair view of the state of affairs of the Group in accordance with the relevant statutory requirements and applicable accounting standards. The financial statements are prepared on a going concern basis and the Directors are not aware of any material uncertainties or events which may have a significant impact on the Company's ability to operate as a going concern.

The responsibilities of the auditors with respect to the financial statements are set out in the Independent Auditor's Report annexing in the Annual Report.

The Company has published its annual and interim results, in accordance with the requirements of the Listing Rules and other relevant regulations, in a timely manner within three months and two months respectively after the end of the relevant periods.

Risk Management and Internal Control

The Board is directly responsible for the risk management and internal control systems of the Group and reviewing their effectiveness. The systems are designed for the Group to identify and manage the significant risks to achieve its business objectives, safeguard its assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The systems are designed to manage rather than to eliminate the risk of failure to achieve business objectives of the Group, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the design, implementation and the overall effectiveness of risk management and internal control systems. The Board conducts reviews of the effectiveness of those systems at least annually through the Audit Committee that covers all material controls in financial, operational and compliance.

The Board has adopted a risk management policy in providing directions in identifying, evaluating and managing significant risks. Pursuant to such policy, the management of the Company can identify risks that might adversely affect the achievement of the Group's objectives, and assess and prioritize the identified risks, risk mitigation plans will then be established to respond to the those risks considered to be significant.

An independent professional advisor, Crowe (HK) Risk Advisory Limited has been engaged to assist the Board and the Audit Committee to assess the risk management and internal control systems of the Group and perform the internal audit functions for the Group. From which, deficiencies in the design and implementation of internal controls will be identified and recommendations will be proposed for improvement. Such report will be submitted to the Audit Committee and the Board at least once a year.

Risk Management and Internal Control (continued)

The Board through the Audit Committee conducted an annual review and assessment on the effectiveness of the Group's risk management and internal control systems in its financial, operational and compliance controls and risk management functions, including but not limited to the Group's ability to respond to changes in its business and external environment in terms of significant risks; the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and results of internal audit work; the extent and frequency of communication of monitoring results to the Board in relation to result of risk and internal control review; significant control failing or weakness having been identified and their related implications; and status of compliance with the Listing Rules. The Board is of the opinion that the Group's risk management and internal control systems were adequate and effective during the Year.

The Board through the Audit Committee had reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting functions as well as the qualifications and experience of the outsourced internal auditors.

The Company has formulated the inside information policy and that is reviewed at least once a year to ensure its update with the latest regulatory requirements. Pursuant to such policy, the Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours as provided in the SFO. The Group ensures that such information is kept strictly confidential before it is fully disclosed to the public.

Auditors' Remuneration

On 7 November 2018, Ernst & Young has resigned as auditor of the Company and Deloitte Touche Tohmatsu has been appointed as the Company's auditor with effect from 16 November 2018. During the Year, the remuneration paid or payable to Ernst & Young and Deloitte Touche Tohmatsu, is set out as follows:

Services rendered for the Group	**HK$'000**
Audit services	1,380
Non-audit services *(including review of interim results and transactions)*	1,160
Total	2,540

COMPANY SECRETARY

The Company engages external service providers to provide company secretarial services and has appointed Ms. Cheung Hoi Fun ("**Ms. Cheung**") as the Company Secretary with effect from 1 June 2016. Ms. Cheung is a chartered company secretary and fulfilled the requirements under Rule 3.28 of the Listing Rules. She undertook not less than 15 hours of relevant professional training during the year as required under Rule 3.29 of the Listing Rules. The Company Secretary provided advices to the Board to ensure that the Board procedures and all applicable laws are followed. Ms. Cheung is not an employee of the Group and Mr. Guan Liqun, the Chairman of the Board, is the person whom Ms. Cheung can contact for the purpose of code provision F.1.1 of the CG Code.

COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of good communication with Shareholders. Information in relation to the Group is disseminated to the Shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars. Such published documents together with the latest corporate information and news are also made available on the websites of the Stock Exchange and the Company at www.hkexnews.hk and www.avicjoyhk.com, respectively.

The general meetings of the Company provide a forum for communication between the Board and the Shareholders. Code provision E.1.2 of the CG Code stipulates that the chairman of the Board should invite the chairmen of audit, remuneration, nomination and any other committees (as appropriate) to attend the AGM. In their absence, he should invite another member of the committee or, failing this, his/her duly appointed delegate, to attend. These persons should be available to answer questions at the AGM.

COMMUNICATION WITH SHAREHOLDERS (continued)

During the Year, due to other business engagements at the relevant time, the chairman of the Audit Committee and the Remuneration Committee did not attend the AGM of the Company held on 30 May 2018.

Separate resolutions are proposed at the general meeting for each substantial issue, including the re-election of retiring Directors.

The notice to Shareholders is to be sent at least 20 clear business days before an AGM and at least 10 clear business days before a meeting other than an AGM. An explanation of the detailed procedures of conducting a poll is provided to the Shareholders at the commencement of the meeting. The chairman of the general meeting answers questions from Shareholders regarding voting by way of a poll. The poll results are published in the manner prescribed under the requirements of the Listing Rules.

SHAREHOLDERS' RIGHTS

Shareholders' Right to Convene Extraordinary General Meeting

Pursuant to section 566 of the Companies Ordinance, Shareholders representing at least 5% of the total voting rights of all the Shareholders having a right to vote at general meetings as at the date of deposit of the requisition can deposit a written request to convene an extraordinary general meeting (the "**EGM**") at the registered office of the Company (the "**Registered Office**") for the attention of the Company Secretary (the "**Requisition**").

Such Requisition must state the general nature of the business to be dealt with at the EGM and must be authenticated by the person or persons making it.

If the Directors do not within 21 days from the date of the deposit of the Requisition proceed duly to convene an EGM to be held on a date not more than 28 days after the date of the notice convening the EGM, the Shareholders concerned, or any of them representing more than one half of the total voting rights of all of them, may themselves convene an EGM in the same manner, as nearly as possible, as that in which the EGM is required to be called by the Directors, provided it is held within three months of the date of the deposit of the Requisition.

Shareholders' Right to Put Enquiries to the Board

The Board has established a shareholders' communication policy and reviews it at least once a year. Shareholders should direct any questions about their shareholdings to the Company's share registrar, Tricor Tengis Limited.

Shareholders may make reasonable requests to the Company for information regarding the Company which has been made publicly available. Such requests should be directed to the Company Secretary at the Registered Office.

If a Shareholder wishes to make an enquiry of the Board (the "**Enquiry**"), the Enquiry must be served at the Registered Office for the attention of the Board and set out in writing, stating the nature of the Enquiry, and the reason for making the Enquiry.

Shareholders' Right to Put Forward Proposals at General Meetings

The Companies Ordinance provides that, a company must give notice of a resolution if it has received requests to do so from: (a) the members of the company representing at least 2.5% of the total voting rights of all the members who have a right to vote on the resolution at the AGM to which the requests relate; or (b) at least 50 members who have a right to vote on the resolution at the AGM to which the requests relate.

The Companies Ordinance also provides that, the request (a) may be sent to the company in hard copy form or in electronic form; (b) must identify the resolution of which notice is to be given; (c) must be authenticated by the person or persons making it; and (d) must be received by the company not later than (i) 6 weeks before the AGM to which the requests relate; or (ii) if later, the time at which notice is given of that meeting. All requests shall be sent to the Registered Office for the attention of the Company Secretary.

CONSTITUTIONAL DOCUMENTS

The Articles of Association (in both English and Chinese) is available on the websites of the Stock Exchange and the Company. During the Year, there has been no change to the Articles of Association.

I. ABOUT THIS REPORT

The purpose of this Environmental, Social and Governance Report ("**ESG Report**") is not only to communicate AVIC Joy Holdings (HK) Limited and its subsidiaries' (collectively, the "**Group**") sustainability strategies, management approaches and performances to its stakeholders, but also strengthen the Group's understanding towards their ongoing activities in sustainable development of the societies and environment as a whole. This ESG Report summarises the related system establishment and this year's performance made by the Group in corporate social responsibility and sustainable development.

The Group hopes to develop its business objectives and creates shareholder/investor value, while at the same time protects the ecological environment by fully utilizing resources and minimising the emission of pollutants during operation. The Group recognizes the importance of sustainable development, actively shoulders its environmental and social responsibilities. As a responsible and visionary corporate citizen, the Group has to balance the relationship between each operational measure and the environment by continuously optimising operations management, business strategies and policies; and contribute towards the sustainable development of the globe, human being and our business.

Reporting Scope and Period

The ESG Report mainly covers the gas business, provision of finance lease and loan services and property investment; and provision of land development services of the Group, and presents the relevant strategic approach to sustainability and their performance in the environmental and social aspects of the above business. A summary of the environmental indicators and the performance data are listed out in the "Summary of Environmental Data and Performance" below. The reporting period is financial year ended 31 December 2018.

Reporting Guide

The ESG Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in the Appendix 27 to the Listing Rules issued by the Hong Kong Stock Exchange.

II. STAKEHOLDER'S ENGAGEMENT

The Group is committed to maintaining the sustainable development of its business and providing support to environmental protection and the community in which it operates. The Group maintains a strong relationship with its stakeholders, including government/regulatory organisations, shareholders/investors, employees, clients, suppliers, community, etc. and strives to balance their opinions and interests through constructive communications in order to determine the directions of its sustainable development. The Group assesses and determines its environmental, social and governance risks, and ensuring that the relevant risk management and internal control systems are operating properly and effectively. The following table shows the management response to the stakeholders' expectations and requests:

Stakeholders	Expectations and requests	Management response
Shareholders/Investors	➢ Interest protection ➢ Business strategies and performance ➢ Corporate governance system	➢ Ensure satisfactory financial performance, business growth and a strong competitive position within the industry ➢ Set up comprehensive business strategic plan for achieving business goals and objectives ➢ Management possesses experience and professional knowledge in business sustainability
Employees	➢ Compensation and welfare ➢ Career development ➢ Health and workplace safety	➢ Establish fair, reasonable and competitive remuneration scheme ➢ Provide equal opportunities in promotion, training and career development ➢ Pay attention to occupational health and workplace safety
Customers	➢ High quality products and services ➢ Corporate reputation ➢ Reasonable price	➢ Provide high quality products and services continuously in order to maintain customer satisfaction ➢ Establish after-sales services to satisfy customers' needs ➢ Provide various kinds of value-added services
Suppliers	➢ Integrity ➢ Good relationship with the Company ➢ Stable demand	➢ Ensure proper contractual obligations are in place ➢ Maintain strong and long-term relationship with high-quality suppliers ➢ Provide various effective communication channels

III. MATERIALITY MATRIX

During the reporting period, the Group has assessed a number of environmental, social and operating items, and evaluated their importance to stakeholders and the Group through various channels. This assessment help to ensure that the Group's business objectives and development direction are in line with the stakeholders' expectations and requirements. The Group's and stakeholders' matters of concern are presented in the following materiality matrix:

Materiality Matrix

Importance to Stakeholders	Low	Medium	High
High	◆ Anti-discrimination measures ➢ Suppliers management	◆ Staff training and promotion opportunity ➢ Operational compliance	➢ Customers' satisfaction ◆ Talent management
Medium	➢ Community contribution ◆ Preventive measures for child and forced labour ◆ Protecting labour rights	✧ Greenhouse gas emissions ✧ Use of resources ✧ Water resources utilization	◆ Staff compensation and welfare ✧ Exhaust air emissions ◆ Occupational health and workplace safety
Low	✧ Sewage discharge ✧ Generation of hazardous wastes	✧ Energy conservation measures ✧ Generation of non-hazardous wastes	➢ Anti-corruption measures ➢ Protecting clients' privacy measures

Importance to the Group

✧ Environmental ◆ Employee ➢ Operation

IV. ENVIRONMENTAL PROTECTION

The Group always adheres to the management philosophy of sustainable development, and devotes to pay attention and protects the natural environment. In order to provide employees with a better understanding of the impact from their daily practices in business activities on the environment; the Group continues to adopt various policies, measures and actions, implement appropriate environmental management policies for energy use and waste generation. The Group hopes that their employees can also influence and enhance the environmental awareness among their families, friends and business partners.

IV. ENVIRONMENTAL PROTECTION (continued)

1. Management of Emissions

For gas business, the Group is not involved in the exploration of gas and does not directly produce any air emissions and hazardous wastes. Apart from gas business, the Group also engages in other businesses, including provision of finance lease and loan services and property investment, and provision of land development services. As the Group mainly operates such businesses in an office setting, the major environmental impact are the greenhouse gas and air emissions generated by electricity consumption in office and gas station; and fuel consumption of office vehicles. The Group focuses on carrying out various energy saving measures to minimize the impact on the environment resulted from emissions. Waste management mainly involves collection of domestic wastes and recycling of waste papers. The Group does not produce any hazardous waste and air pollutants in the course of its business and the impact of waste water discharges to the environment are not significant.

2. Management of Use of Resources

In terms of resources management, the Group believes that operation and environmental protection are closely related. To minimize the adverse impact of its operations on the environment, the Group continuously and timely identifies issues arisen from its business activities. Hence, the Group commits to promoting its corporate culture on resources conservation by constantly reminding its employees that resources are precious; and implements various measures to encourage its employees to build a habit of conservation and make the best use of resources.

Conversation of Energy

The Group focuses on eliminating excessive use of resources, and hence numerous electricity conservation policies have been introduced and implemented for energy saving and to raise the electricity efficiency of electrical appliances. The Group encourages it employees to change their habit in using electrical appliances. The control measures include the use of light emitting dioxide lamps, use of natural light whenever possible instead of using artificial light, switching off electrical appliances such as air-conditioners, computers, personal electronic devices and common office equipment after work and/or when they are idle. Motion sensors are also installed to turn lights off when there is no one in the office.

During the reporting period, the Group's business consumed approximately 1,855.70 megawatt hours of electricity, which was decreased by approximately 30% compared to 2017. The reason was due to the disposal of gas business during the reporting period. Substantial amount of electricity was consumed in gas business. Disposal of which led to a significant drop of the overall electricity consumption of the Group.

For gasoline and diesel consumption, the Group consumed 17,451.43 and 117.94 liters respectively during the reporting period. The fuel consumption significantly dropped when compared to 2017 also due to the disposal of gas business during the reporting period.

	Unit	2018	2017
Electricity:			
Consumption	Megawatt hours	1,855.70	2,658.63
Intensity	(per employee)	5.13	7.75
Gasoline:			
Consumption	Liters	17,451.43	35,234.70
Intensity	(per employee)	48.21	102.73
Diesel:			
Consumption	Liters	117.94	141.53
Intensity	(per employee)	0.33	0.41

IV. ENVIRONMENTAL PROTECTION (continued)

2. Management of Use of Resources (continued)

Conversation of Energy (continued)

With reference to the guidelines of the Greenhouse Gas Protocol and the regional emission factors, greenhouse gas emissions are calculated from the above data. During the reporting period, the Group has generated 1,620.72 tonnes of CO_2 equivalent emissions, decreased by approximately 30% compared to last year. The intensity of CO_2 equivalent emissions was 4.48 tonnes (per employee). Disposal of gas business is the key reason causing the drop of CO_2 equivalent emissions.

	Unit	2018	2017
Gashouse gas emission:			
Scope 1:			
Emission	Tonnes	40.24	89.22
Scope 2:			
Emission	Tonnes	1,580.48	2,246.51
Total	Tonnes	1,620.72	2,335.73
Intensity	(per employee)	4.48	6.81

Conservation of Water

The Group encourages its staffs to make best use of water resources and reduce wastage; and incorporates water-smart actions in everyday life. The Group also enhances its staffs' awareness in water conservation. The responsible staff should regularly check the water facilities, pipelines and faucets in their area so as to make sure that the facilities are in good condition. If any pipeline or valve is found to be damaged, the Group should immediately inform the maintenance department for repair. During the reporting period, the Group has consumed 11,838.29 tonnes water, and resulted in about 35% decrease when compared to 2017 (see the table below). Gas business consumes heavily on electricity, and also water resources. Disposal of the gas business led to a significant drop of the overall water consumption of the Group.

	Unit	2018	2017
Water:			
Consumption	Tonnes	11,838.29	18,336.35
Intensity	(per employee)	32.70	53.46

IV. ENVIRONMENTAL PROTECTION (continued)

2. Management of Use of Resources (continued)

Conservation of Paper

Paper is important resources. Various measures are introduced and implemented to avoid or reduce wastage. The Group encourages its employees to distribute files in electronic format and to make photocopy and/or print documents on both side of the papers. Internal memos and announcement are dispatched by emails instead of paper memos and faxes. The Group also encourages its employees to fully utilize papers by reusing one-side used papers and collect the double-sided wasted papers to the recycler for recycling. For the type of paper usage, the Group uses papers certified by Forest Stewardship Council (the "**FSC-Certified Paper**") for printing financial reports since 2015. FSC-Certified Paper is made from environmental friendly, socially responsible and economically viable manner forests. During the reporting period, the Group's business consumed approximately 8.09 kilogram of paper, at a level similar to that of last year.

	Unit	2018	2017
Paper:			
Consumption	kilogram	8.09	8.12
Intensity	(per employee)	0.02	0.02

Compliance

During the reporting period, there was no confirmed non-compliance incident relating to environmental protection that have significant impact on the Group.

3. The Environment and Natural Resources

The impact of the Group's business activities on the environment mainly attributed to the resources consumed in the offices and gas stations, including electricity, water and paper, and fuel consumption of the office vehicles. Hence, we focus on the environmental education and advocacy among staff. Various resource saving measures have been implemented to raise the awareness of our people to understand the importance of resource conservation. They are encouraged to make full use of resources, to maximise their effectiveness and to avoid wastage. Please refer to "Management of Use of Resources" above for details.

V. EMPLOYMENT AND LABOUR PRACTICES

As employees are the core assets of the Group, a set of comprehensive talent management mechanism has been established to attract and retain competent talents for sustainable and long-term development of the business. According to the Group's Employee Handbook, the recruitment policy is fair that all candidates are not discriminated against because of their race, color, religion, national origin, background, age and gender. The Group devotes to create a non-discriminate, equal, harmonious and safe workplace; and build up good relationship with its people with mutual respect.

Talent Selection

The Group is a fair opportunity employer and has established and implemented fair and non-discriminating policy in hire and recruitment. The Group also devotes to protect human rights and privacy of its employees. The appropriate candidates are selected based on their knowledge, ability, morality and job requirements. Impartial opportunities are provided for employment to all individuals, regardless of their age, gender, sexual orientation, race, disability, marital status, pregnancy, religion or political affiliation. The Group provides equal opportunities to employees in providing benefits, promotion, performance appraisal, training and career development and works closely with its employees with an aim to achieve win-win situation.

V. EMPLOYMENT AND LABOUR PRACTICES (continued)

Labor Standards

The Group cherishes human rights and prohibits any unethical hiring practices, including child labor and forced labor. Policies and procedures are established in order to comply with the local labor laws and regulations. The candidates' identity documents are inspected during the hiring process and the Group never hired any applicant under the legal working age.

Compensation and Welfare

The Group regularly examines the salary levels of all employee grades to ensure it is up to the market standard. The salary is reviewed and adjusted once a year according to the employees' attendance performance, personal performance, number of service years, market condition and other relevant factors. Performance appraisal is an open and two-way communication; it allows the employees to gain better understanding about the job requirement; and the Group can also take this opportunity to set up training and personal development plan for its people. Staff salary level is determined based on one's knowledge, skills, job scope and performance. The Group strives to establish a fair, reasonable and competitive remuneration scheme.

The Group strictly complies with the national and local labor laws and regulations. Employees are entitled to annual leaves, sick leaves, marriage leaves, funeral leaves, maternity leaves and other leaves, etc. The Group participates in the MPF scheme for its Hong Kong employees' retirement. Work hours of staff are in line with the local laws and regulations. The Group handles dismissal and compensation in accordance with the national laws and regulations.

Development and Training

In order to support the Group's sustainable and long-term business development; and to map the career plan for its employees, the Group is keen on deploying the human resources effectively by encouraging its employees to continue study and lifelong learning, and to build an excellent, professional, well-trained and responsible corporate team. This not only enhances the quality and capability of employees, but also raises the cohesiveness among them, resulting in increased productivity. New hires are provided with orientation training so as to give them better understanding about the Group's corporate culture, business philosophy, development history, management practices, business scope, employee rights and obligations, and the Group's human resources plan. This is to make sure that new hires can readily adapt and integrate into their work environment.

Health and Safety

The Group takes a comprehensive preventive approach to employees' health and workplace safety, including illness and injury prevention. In order to raise the occupational safety awareness of its employees, the Group provides frequent trainings on the necessary knowledge and techniques relating to workplace safety. The Group also carries out role-based technical training periodically, safety assessment and team activities to ensure that its employees are prepared mentally and have adequate knowledge and skills to meet the safety standards and to fulfill their job duties. New hires of gas business have to attend a 3-level safety training for at least 40 hours and have to pass safety examination before they are allowed to work.

Compliance

During the reporting period, the Group did not have violations relating to employment and labor practices.

VI. OPERATING PRACTICES

Supply Chain Management

The Group insists on establishing long-term and stable strategic partnerships with good intermediaries and suppliers and developing together on the basis of equality and mutual benefit. For gas business, the performance of the qualified suppliers is reviewed annually. Such assessment is made based on their products' quality, price, effectiveness and credibility, and the suppliers are rated according to the pre-determined criteria. All suppliers scored below 60 are to be removed from the list of qualified suppliers. The Group requires intermediaries to have accreditation, good internal management system, stable service quality, reasonable prices, legal compliance, and possesses appropriate professional skills and quality. The Group is dedicated to achieving co-development with its suppliers based on equality and mutual win-win situation.

Product Responsibility

The Group is dedicated to satisfy its customers' expectations with a spirit of pursuing excellence and continuous improvement. With technological advancement and improved living standards, customers are increasingly demanding for product and service quality. The Group has established strict procurement management system for the gas business. In terms of office work, the Group stands firm on the ground of a strict service quality management procedure to control the quality and safety of the services provided. To ensure the quality of products and services, additional examination and controls are implemented to all subsidiaries and regional offices. There are colleagues responsible for quality assurance to sample check the products. Operational manuals are prepared and provided to its employees so as to make sure consistent product and service quality is maintained.

The Group emphasizes confidentiality responsibility and complies with all relevant laws and regulations regarding data privacy. All employees are strictly prohibited to disclose or misuse any information related to the Group's transactions or operations, business secrets or other confidential information of clients for their own personal interest.

Compliance

During the reporting period, there was no violation or non-compliance incident relating to product responsibility that had significant impact on the Group nor any complaints concerning breaches of customer privacy and loss of data.

Anti-corruption

The Group believes that fairness, honesty and integrity are important business assets, and adopts a zero-tolerance approach for all kinds of corruption, bribery, extortion, fraud and money laundering situation. The Group resolutely fights against corruption, and does the best to contribute to the building an honest and upright society. Employees must strictly abide by the regulation and must make their own judgements as to the appropriateness of their conduct in business operation. Employees who hide traces, evidence or to avoid investigation of suspicious transactions may be considered as illegal. The Group aims to safeguard the company's legitimate rights and interests and maintains good business discipline.

Compliance

During the reporting period, the Group and its employees did not involve in any litigation cases of corruptions.

VII. COMMUNITY INVESTMENT

The Group is a responsible taxpayer and spares no effort in easing local unemployment pressure by offering job opportunities to local people. The Group helps its employees to prepare and plan for retirement by paying "Five Insurances and Housing Provident Fund" for the employees in the Mainland China and "Mandatory Provident Fund" for employees in Hong Kong. The Group runs its business following good practices, and achieves a good development order; and to some certain extent, the Group has contributed to social stability and building a harmonious community.

VIII. SUMMARY OF ENVIRONMENTAL DATA AND PERFORMANCE

	Unit	Note	**2018**	**2017**
Gashouse gas emission:				
Scope 1:		1		
Emission	Tonnes		40.24	89.22
Scope 2:		2		
Emission	Tonnes		1,580.48	2,246.51
Total	Tonnes		1,620.72	2,335.73
Intensity	(per employee)		4.48	6.81
Air emission:				
Nitrogen oxides	Tonnes		3.40	7.55
Intensity	(per employee)		0.01	0.02
Sulfur oxides	Tonnes		0.27	0.60
Intensity	(per employee)		–#	–#
Particles	Tonnes		0.37	0.81
Intensity	(per employee)		–#	–#
Energy and water consumption:				
Electricity:				
Consumption	Megawatt hours		1,855.70	2,658.63
Intensity	(per employee)		5.13	7.75
Gasoline:				
Consumption	Liters		17,451.43	35,234.70
Intensity	(per employee)		48.21	102.73
Diesel:				
Consumption	Liters		117.94	141.53
Intensity	(per employee)		0.33	0.41
Water:				
Consumption	Tonnes		11,838.29	18,336.35
Intensity	(per employee)		32.70	53.46
Paper:				
Consumption	Kilogram		8.09	8.12
Intensity	(per employee)		0.02	0.02

Data less than 0.01

Note:

1 Scope 1 refers to the Group's business direct GHG emissions, including combustion of gasoline and diesel.

2 Scope 2 refers to the Group's business indirect GHG emissions, including consumption of purchased electricity.

IX. "ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE" BY THE HONG KONG STOCK EXCHANGE

Key Performance Indicators ("KPIs")	Reporting Guideline	Page
	A. Environmental	
Aspect A1	**Emissions**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	32–34
KPI A1.1	The types of emissions and respective emissions data.	32
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	37
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	N/A
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	N/A
KPI A1.5	Description of measures to mitigate emissions and results achieved.	32–34
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	33–34
Aspect A2	**Use of Resources**	
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	32–34
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (MWh) and intensity (e.g. per unit of production volume, per facility).	32
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	33
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	32–34
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	33
KPI A2.5	Total packaging material used for finished products (in tons) and, if applicable, with reference to per unit produced.	N/A[1]
Aspect A3	**The Environment and Natural Resources**	
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	34
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	34

IX. "ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE" BY THE HONG KONG STOCK EXCHANGE (continued)

Key Performance Indicators ("KPIs")	Reporting Guideline	Page
	B. Social	
Aspect B1	**Employment and Labor Practices**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	34–35
Aspect B2	**Health and Safety**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	35
Aspect B3	**Development and Training**	
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	35
Aspect B4	**Labor Standards**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.	34–35
Aspect B5	**Supply Chain Management**	
General Disclosure	Policies on managing environmental and social risks of the supply chain.	36
Aspect B6	**Product Responsibility**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products provided and methods of redress.	36

IX. "ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE" BY THE HONG KONG STOCK EXCHANGE (continued)

Key Performance Indicators ("KPIs")	Reporting Guideline	Page
	B. Social	
Aspect B7	**Anti-corruption**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	36
Aspect B8	**Community Investment**	
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	36

Note:

1 The Group's main businesses are the gas business, provision of finance lease and loan services and property investment; and provision of land development services. The Group did not generate any hazardous waste and use any packaging materials.

2 Pursuant to Appendix 27 of the "Main Board Listing Rules", the KPIs under Area B "Social" are recommended disclosures only. Therefore, the Group chooses not to disclose those KPIs in this report.

Deloitte. 德勤

To the members of AVIC Joy Holdings (HK) Limited
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of AVIC Joy Holdings (HK) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 46 to 142, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill and intangible assets	
We identified the impairment of goodwill and intangible assets arising from historical acquisitions as a key audit matter due to the complexity and significant judgements involved in the assessment. Determining whether goodwill and intangible assets are impaired required management's estimation of the value-in-use of the cash generating units ("CGUs") to which goodwill and intangible assets have been allocated. In estimating the value-in-use on the value of CGUs, key assumptions used by management included the estimate of revenue growth rates, gross margins and discount rates adopted in future cash flow forecasts. The carrying amount of goodwill and intangible assets were approximately HK$29.3 million (with accumulated impairment of HK$104.5 million) and HK$540.8 million (with accumulated impairment of HK$423.8 million) as at 31 December 2018 respectively. Details of goodwill, intangible assets and the impairment testing of goodwill are disclosed in Notes 17, 18 and 19 to the consolidated financial statements respectively.	Our procedures in relation to the impairment of goodwill and intangible assets included: • Obtaining approved cash flow forecasts from management, and evaluating the key assumptions such as forecast revenue, budgeted revenue growth rates, gross margins and discount rates used by management in their impairment assessment with reference to the future business plan, market data and industry benchmarks; • Engaging our internal valuation experts to review the reasonableness of the discount rate provided by management; and • Evaluating the historical accuracy of the forecasted future cash flows by comparing them to the actual results in the current year and understanding the cases for significant variances.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
We identified the valuation of investment properties as a key audit matter due to its significance to the consolidated financial statements as whole and the significant judgment and estimation associated with determining the inputs used in the valuation. As disclosed in Note 16 to the consolidated financial statements, the fair values of the Group's investment properties amounted to HK$1,707.3 million as at 31 December 2018 with a fair value loss of investment properties of HK$245.9 million recognised in the consolidated statement of profit or loss for the year then ended under the line item "fair value losses on investment properties, net". The fair values of the Group's investment properties as at 31 December 2018 have been arrived at on the basis of valuations carried out by an independent qualified professional valuer not connected with the Group (the "Valuer"). Details of the valuation techniques and significant unobservable inputs used in the calculations are disclosed in Note 16 to the consolidated financial statements. The fair values are dependent on certain significant unobservable inputs that involve judgment made by the management of the Group together with the Valuer, including recent prices of similar properties on less active markets and the adjustments made on factors such as market price of the properties.	Our procedures in relation to the valuation of investment properties included: • Evaluating the competence, capabilities and objectivity of the Valuer; • Obtaining an understanding from the Valuer and the management of the Group on the valuation process to understand the performance of property markets, significant assumptions adopted and data used in the valuations; • Evaluating the appropriateness of the methodologies adopted in the valuation models; and • Assessing the reasonableness of the significant unobservable inputs used in the valuation models by checking, on a sample basis, based on evidence of comparable market transactions and the publicly available information of the property industry in People's Republic of China and comparing the data used in the valuations to entity-specific historical information.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 28 March 2018.

OTHER INFORMATION

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
REVENUE	5		
Sales of goods		**128,756**	235,763
Interest		**11,066**	16,843
Total revenue		**139,822**	252,606
Cost of sales		**(95,672)**	(190,488)
Gross profit		**44,150**	62,118
Other income, gains and losses	6	**13,442**	(15,506)
Impairment losses, net of reversal	8	**(37,094)**	(22,156)
Selling and distribution expenses		**(14,713)**	(41,177)
Administrative expenses		**(76,324)**	(124,191)
Other expenses		**(2,138)**	(12,683)
Fair value losses on investment properties, net	16	**(245,912)**	(696)
Impairment of goodwill	17	**(331)**	(48,206)
Impairment of intangible assets	18	**(423,816)**	–
Gain on disposal of subsidiaries	44	**52,660**	27,742
Gain on disposal of a joint venture	20	**8,537**	–
Share of profits of joint ventures		**8,226**	12,900
Finance costs	7	**(127,799)**	(148,331)
LOSS BEFORE TAX		**(801,112)**	(310,186)
Income tax credit/(expense)	9	**104,629**	(8,249)
LOSS FOR THE YEAR	10	**(696,483)**	(318,435)
Attributable to:			
Owners of the Company		**(517,071)**	(302,643)
Non-controlling interests		**(179,412)**	(15,792)
		(696,483)	(318,435)
LOSS PER SHARE			
Basic and diluted	13	**(HK8.70 cents)**	(HK5.09 cents)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2018

	Note	**2018 HK$'000**	2017 HK$'000
LOSS FOR THE YEAR		**(696,483)**	(318,435)
OTHER COMPREHENSIVE (EXPENSES)/INCOME:			
Item that will not be reclassified to profit or loss:			
Fair value loss on investment in equity instrument at fair value through other comprehensive income		**(42,111)**	–
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(34,535)**	58,540
Reclassification adjustments for foreign operations disposed of during the year	44	**(10,608)**	(7,525)
Other comprehensive (expenses)/income for the year, net		**(87,254)**	51,015
TOTAL COMPREHENSIVE EXPENSES FOR THE YEAR		**(783,737)**	(267,420)
Total comprehensive expenses attributable to:			
Owners of the Company		**(602,186)**	(253,102)
Non-controlling interests		**(181,551)**	(14,318)
		(783,737)	(267,420)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**20,495**	39,896
Prepaid land lease payments	15	**6,466**	18,269
Investment properties	16	**1,707,264**	2,047,200
Goodwill	17	**29,285**	32,402
Intangible assets	18	**540,776**	964,672
Investments in joint ventures	20	**65,249**	71,299
Equity instrument at fair value through other comprehensive income	21	**16,622**	–
Available-for-sale investment	22	**–**	58,733
Other asset	23	**2,680**	2,680
Prepayments and deposits	26	**5,285**	7,414
Finance lease receivables	24	**22,340**	26,163
		2,416,462	3,268,728
CURRENT ASSETS			
Inventories	29	**11**	2,634
Contract costs	30	**289,918**	148,835
Trade receivables	25	**31,437**	82,158
Prepayments, deposits and other receivables	26	**53,915**	206,107
Finance lease receivables	24	**8,807**	6,943
Promissory note receivable	27	**89,000**	89,000
Amounts due from joint ventures	20	**158,640**	218,515
Amounts due from non-controlling shareholders	28(b)	**–**	311
Bank balances and cash	31	**40,484**	34,867
		672,212	789,370
CURRENT LIABILITIES			
Trade payables	32	**8,720**	20,977
Other payables and accruals	33	**99,854**	73,064
Finance lease payable	34	**–**	840
Convertible bonds	35	**–**	182,011
Interest-bearing bank and other borrowings	36	**487,573**	415,741
Loans from joint ventures	20	**8,736**	9,196
Tax payable		**3,226**	2,360
		608,109	704,189
NET CURRENT ASSETS		**64,103**	85,181
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,480,565**	3,353,909

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT LIABILITIES			
Finance lease payable	34	–	288
Interest-bearing bank and other borrowings	36	**1,196,598**	1,378,030
Loans from related companies	28(a)	**564,982**	372,253
Loans from non-controlling shareholders	28(b)	**307,779**	296,509
Deferred tax liabilities	37	**135,770**	241,733
		2,205,129	2,288,813
NET ASSETS		**275,436**	1,065,096
CAPITAL AND RESERVES			
Share capital	38	**2,234,815**	2,234,815
Equity component of convertible bonds	35	–	61,314
Other reserves		**(2,152,164)**	(1,611,292)
Equity attributable to owners of the Company		**82,651**	684,837
Non-controlling interests		**192,785**	380,259
		275,436	1,065,096

The consolidated financial statements on page 46 to 52 were approved and authorised for issue by the Board of Directors on 28 March 2019 and are signed on its behalf by:

Wang Ying
Director

Mu Yan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to owners of the Company												
	Share capital HK$'000	**Share option reserve** HK$'000	**Equity component of convertible bonds** HK$'000	**Investment revaluation reserve** HK$'000	**Capital reserve** HK$'000	**Special capital reserve** HK$'000	**Exchange fluctuation reserve** HK$'000	**Reserve funds** HK$'000	**Property revaluation reserve** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000	**Non-controlling interests** HK$'000	**Total equity** HK$'000
At 1 January 2017	2,234,815	15,098	61,314	–	58,086	823,357	(46,492)	2,047	9,426	(2,219,712)	937,939	394,577	1,332,516
Loss for the year	–	–	–	–	–	–	–	–	–	(302,643)	(302,643)	(15,792)	(318,435)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	57,066	–	–	–	57,066	1,474	58,540
Reclassification adjustments for foreign operations disposed of during the year	–	–	–	–	–	–	(7,525)	–	–	–	(7,525)	–	(7,525)
Total comprehensive expenses for the year	–	–	–	–	–	–	49,541	–	–	(302,643)	(253,102)	(14,318)	(267,420)
At 31 December 2017	2,234,815	15,098	61,314	–	58,086	823,357	3,049	2,047	9,426	(2,522,355)	684,837	380,259	1,065,096
Adjustments (see note 2)	–	–	–	(86,289)	–	–	–	–	–	86,289	–	–	–
At 1 January 2018 (restated)	2,234,815	15,098	61,314	(86,289)	58,086	823,357	3,049	2,047	9,426	(2,436,066)	684,837	380,259	1,065,096
Loss for the year	–	–	–	–	–	–	–	–	–	(517,071)	(517,071)	(179,412)	(696,483)
Change in fair value of equity instrument through other comprehensive income	–	–	–	(42,111)	–	–	–	–	–	–	(42,111)	–	(42,111)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(32,396)	–	–	–	(32,396)	(2,139)	(34,535)
Reclassification adjustments for foreign operations disposed of during the year	–	–	–	–	–	–	(10,608)	–	–	–	(10,608)	–	(10,608)
Total comprehensive expenses for the year	–	–	–	(42,111)	–	–	(43,004)	–	–	(517,071)	(602,186)	(181,551)	(783,737)
Transfer to accumulated losses upon maturity of convertible bonds	–	–	(61,314)	–	–	–	–	–	–	61,314	–	–	–
Transfer upon forfeiture of options	–	(984)	–	–	–	–	–	–	–	984	–	–	–
Disposal of subsidiaries	–	–	–	–	–	–	–	(340)	–	340	–	(5,923)	(5,923)
At 31 December 2018	2,234,815	14,114	–	(128,400)	58,086	823,357	(39,955)	1,707	9,426	(2,890,499)	82,651	192,785	275,436

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES			
Loss before tax		**(801,112)**	(310,186)
Adjustments for:			
Finance costs		**127,799**	148,331
Interest income		**(2,943)**	(8,848)
Share of profits of joint ventures		**(8,226)**	(12,900)
Depreciation of property, plant and equipment		**6,548**	17,362
Amortisation of prepaid land lease payments		**1,050**	2,010
Amortisation of intangible assets		**47**	46
Impairment loss on property, plant and equipment		**2**	7,986
Write-off of inventories		**279**	261
Impairment loss on goodwill		**331**	48,206
Impairment loss on trade receivables, net of reversal		**31,704**	(832)
Impairment loss on intangible assets		**423,816**	–
Impairment loss on other receivables		**5,390**	18,724
Write-off of prepayments		**–**	10,431
Impairment loss on an available-for-sale investment		**–**	4,986
Impairment loss on amount due from a non-controlling shareholder		**–**	4,264
Impairment loss on prepaid land lease payments		**–**	1,991
Loss on fair value changes of investment properties, net		**245,912**	696
(Gain)/loss on disposal of property, plant and equipment		**(694)**	1,753
Gain on disposal of subsidiaries	44	**(52,660)**	(27,742)
Gain on disposal of a joint venture	20	**(8,537)**	–
Operating cash flows before movements in working capital		**(31,294)**	(93,461)
Increase in inventories		**(77)**	(411)
Increase in contract costs		**(153,736)**	(32,233)
Decrease in trade receivables		**8,425**	4,248
Decease/(increase) in prepayments, deposits and other receivables		**130,729**	(11,725)
Decrease/(increase) in finance lease receivables		**314**	(8,875)
Decrease in amounts due to joint ventures		**–**	600
Increase in trade payables		**461**	21,468
Increase/(decrease) in other payables and accruals		**59,721**	(77,489)
Cash from/(used in) operations		**14,543**	(197,878)
Income taxes paid		**(468)**	(8,762)
Net cash from/(used in) operating activities		**14,075**	(206,640)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(5,289)**	(8,110)
Prepaid land lease payments		**(1,094)**	(3,032)
Proceeds on redemption of promissory notes receivable		**–**	155,554
Interest received		**247**	5,659
Proceeds from disposal of property, plant and equipment		**3,327**	3,757
Proceeds from disposal of a joint venture		**16,879**	–
Net cash inflow from disposal of subsidiaries	44(a)	**41,131**	24,922
Repayment from joint ventures		**60,197**	18,707
Net cash from investing activities		**115,398**	197,457
FINANCING ACTIVITIES			
Repayment of bank and other borrowings		**(378,258)**	(1,631,887)
Repayment of loans from related companies		**(51,300)**	–
Repayment of convertible bonds		**(38,728)**	–
Repayment of finance leases		**(1,155)**	(873)
Interest paid on bank and other borrowings		**(91,005)**	(72,599)
Interest paid on convertible bonds		**(19,165)**	(6,635)
Interest paid on loans from related companies		**(8,700)**	–
New bank and other borrowings		**226,840**	1,554,034
Advance of loans from related companies		**253,759**	–
Net cash used in financing activities		**(107,712)**	(157,960)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**21,761**	(167,143)
Cash and cash equivalents at 1 January		**34,867**	153,990
Effect of foreign exchange rate changes		**(16,144)**	48,020
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, representing bank balances and cash		**40,484**	34,867

1. GENERAL INFORMATION

AVIC Joy Holdings (HK) Limited (the "Company") is a limited liability company incorporated in Hong Kong whose shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Room A02, 35/F, United Centre, 95 Queensway, Hong Kong.

During the year, the Group was principally involved in the operation of compressed natural gas ("CNG") refueling stations; management and operation of light-emitting diode ("LED") energy management contracts ("EMC"); provision of finance lease and loan services and property investment; and provision of land development services and sale of construction materials in the People's Republic of China ("PRC"). The Group operates LED EMC business through its investment in a joint venture.

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

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

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

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

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

HKFRS 15 *Revenue from Contracts with Customers*

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

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated losses 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 HKAS 11 *Construction Contracts* and the related interpretations.

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

- Sale of CNG and petroleum products

- Provision of land development services

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

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

HKFRS 15 *Revenue from Contracts with Customers (continued)*

Summary of effects arising from initial application of HKFRS 15

The adoption of HKFRS 15 does not have material impact on the timing and amounts of revenue recognised by the Group from sales of goods and services.

There was no material impact to the consolidated statement of financial position of the Group as at 1 January 2018 and 31 December 2018.

HKFRS 9 *Financial Instruments*

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

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

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

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

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets under HKFRS 9 and HKAS 39 at the date of initial application,1 January 2018.

	Note	**Available-for-sale investments ("AFS")** HK$'000	**Equity instrument at fair value through other comprehensive income ("FVTOCI")** HK$'000	**Investment revaluation reserve** HK$'000	**Accumulated losses** HK$'000
Closing balance at 31 December 2017 – HKAS 39		58,733	–	–	(2,522,355)
Effect arising from initial application of HKFRS 9:					
Reclassification from AFS investments	(A)	(58,733)	58,733	(86,289)	86,289
Opening balance at 1 January 2018		–	58,733	(86,289)	(2,436,066)

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

HKFRS 9 *Financial Instruments* (continued)

Summary of effects arising from initial application of HKFRS 9 (continued)

Notes:

(A) AFS INVESTMENTS

From AFS equity investment to equity instrument at FVTOCI

The Group elected to present in other comprehensive income ("OCI") for the fair value changes of its equity investment previously classified as AFS investment. The investment is not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, approximately HK$58,733,000 were reclassified from AFS investment to equity instrument at FVTOCI, which is all related to listed equity investments previously measured at fair value under HKAS 39. In addition, impairment losses previously recognised of HK$86,289,000 were transferred from accumulated losses to investment revaluation reserve as at 1 January 2018.

(B) IMPAIRMENT UNDER ECL MODEL

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and finance lease receivables. Except for those which had been determined as credit impaired under HKAS 39, trade receivables have been assessed individually with outstanding significant balances, the remaining balances are grouped based on past due analysis.

ECL for other financial assets at amortised cost, including bank balances, other receivables, promissory note receivable and amounts due from joint ventures are measured on 12-month ECL ("12m ECL") basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the Group has assessed and reviewed the 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. No additional impairment loss was identified as the amount was insignificant.

New and amendments to HKFRSs issued but not yet effective

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

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

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

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

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

HKFRS 16 *Leases*

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

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

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

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$7,046,000 as disclosed in note 41. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$741,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

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

HKFRS 16 *Leases* (continued)

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application.

Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening accumulated losses without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

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

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

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in the Group's interests in existing subsidiaries

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

Investments in joint ventures

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

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

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

The Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount.

Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts at the acquiree's identifiable net assets or at fair value. Acquisition-related costs are expensed as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

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

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date; and

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

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net amount of identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net amount of assets acquired and liabilities assumed, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

Costs to fulfil a contract

The Group incurs costs to fulfil a contract in its provision of land development services. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant Standards, failing which it recognises an asset for these costs only if they meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;

(b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (prior to 1 January 2018)

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

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

Revenue from the sale of goods is recognised when goods are delivered and title has passed.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leases

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

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset. Other than investment properties measured under fair value model, such costs are recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

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

Leasehold land and building

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars ("HK$"), which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange prevailing at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries and joint ventures are currencies other than the Hong Kong dollar. As at the end of the reporting period, for the purpose of presenting of consolidated financial statements, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, all the exchange differences accumulated in equity relating to that particular foreign operation is reclassified in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Other employee benefits

Pension schemes and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its Hong Kong employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF scheme.

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

Short-term employee benefits

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

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

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 39 to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

The cost of equity-settled transactions is recognised in employee benefit expense, in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of loss per share.

Income tax

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

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

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax is provided on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right exists to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset or as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	2% or over the lease terms, whichever is shorter
Leasehold improvements	4% to 20% or over the lease terms, whichever is shorter
Plant and machinery	10% to 20%
Furniture and fixtures	15% to 25%
Motor vehicles	10% to 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end with the effect of any changes in estimate accounted for on a prospective basis.

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

Construction in progress represents gas refueling stations under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) are recognised in profit or loss in the year of the retirement or disposal.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

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

Land development contract

Land development contract is stated at cost less any impairment losses and is amortised on the output-based basis over its estimated useful life.

Franchise

Purchased franchise is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated life of 20 years.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment on tangible, intangible assets and contract costs other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible, intangible assets with finite useful lives and contract costs to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss. Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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

Before the Group recognises an impairment loss for assets capitalised as contract costs under HKFRS 15, the Group assesses and recognises any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalised as contract costs is recognised to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognised as expenses. The assets capitalised as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss , unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories represent finished goods and are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

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

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

Interest income which is derived from the Group's ordinary course of business is presented as revenue.

Financial assets

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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

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

A financial asset is classified as held for trading if:

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

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

(i) Amortised cost and interest income

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

(ii) Equity instruments designated as at FVTOCI

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, other receivables, finance lease receivables, promissory note receivable, amounts due from joint ventures and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for trade receivables and lease receivables without significant financing component. The ECL are assessed individually for debtors with significant balances or collectively using a provision matrix with past due analysis.

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

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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

(i) Significant increase in credit risk (continued)

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

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

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument 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 debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKAS 17 *Leases.*

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the past due analysis basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables and finance lease receivables are each assessed as a separate group);

- Past-due status;

- Nature, size and industry of debtors; and

- External credit ratings where available.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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

Financial assets are classified into AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchase or sales of financial assets are recognised and derecognised on trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL. The Group designated listed equity securities as AFS financial assets on initial recognition of those items.

Equity securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, finance leases receivables, promissory note receivable, amounts due from joint ventures, amounts due from non-controlling shareholders and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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

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

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

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

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past a normally allowed credit period of 90 to 120 days and observable changes in national or local economic conditions that correlate with default on receivables.

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

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

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using effective interest method or at FVTPL.

Financial liabilities of amortised cost

Financial liabilities including trade and other payables, liability component of convertible bonds, finance lease payable, interest-bearing bank and other borrowings, loans from related companies, loans from joint ventures and loans from non-controlling shareholders are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity (continued)

Financial liabilities of amortised cost (Continued)

Derecognition/non-substantial modification of financial liabilities

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

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

Non-substantial modifications of financial liabilities (under HKFRS 9 since 1 January 2018)

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

Non-substantial modifications of financial liabilities (before application of HKFRS 9 on 1 January 2018)

For non-substantial modifications of financial liabilities that do not result in derecognition, at the point of modification, the carrying amount of the relevant financial liabilities is revised for directly attributable transaction costs and any consideration paid to or received from the counterparty. The effective interest rate is then adjusted to amortise the difference between the revised carrying amount and the expected cash flows over the life of the modified instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible bonds

The component parts of the convertible loan notes are classified separately as financial liability and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component (including any embedded non-equity derivatives features) is estimated by measuring the fair value of similar liability that does not have an associated equity component.

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

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

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks which are not restricted as to use.

Other asset

The other asset of the Group represents a golf club membership with indefinite useful lives which are carried at cost less any subsequent accumulated impairment losses.

It is tested for impairment at least annually, and whenever there is any indication that it may be impaired by comparing its carrying amount with its recoverable amount. If its recoverable amount of club memberships is estimated to be less than its carrying amount, its carrying amount is reduced to its recoverable amount. An impairment loss is recognised in profit or loss.

If an impairment loss subsequently reverses, its carrying amount is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed original cost. A reversal of an impairment loss is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Key sources of estimation uncertainty

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

Impairment of goodwill and intangible assets

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. During the year, the Group recognised HK$331,000 (2017: HK$48,206,000) impairment of goodwill. The carrying amount of goodwill at 31 December 2018 was HK$29,285,000 (2017: HK$32,402,000). Further details of the impairment testing of goodwill are given in note 19 to the financial statements.

The Group assesses at the end of each of the reporting period whether there is an indication that intangible assets may be impaired. If any indication exists, the Group estimates the recoverable amounts of the intangible assets. The Group measures the recoverable amounts of the intangible assets with reference to their value-in-use. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from intangible assets based on the development plan forecasted by the management, economic outlook, expected selling price, development costs and a suitable discount rate in order to calculate the present value. As at 31 December 2018, the carrying amount of intangible assets was approximately HK$540,776,000 (2017: HK$964,672,000). Further details are set out in note 18 to the financial statements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; and

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

The carrying amount of investment properties at 31 December 2018 was HK$1,707,264,000 (2017: HK$2,047,200,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 16 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of other receivables

Upon application of HKFRS 9 at 1 January 2018, the Group uses individual assessments to calculate ECL for the other receivables. The provision rates are based on past due analysis as groupings of various debtors that have similar loss patterns. The individual assessments are based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. Accordingly, a provision for impairment of other receivable of HK$5,390,000 was charged to the consolidated statement of profit or loss during the year. The carrying amount of other receivables at 31 December 2018 was HK$42,152,000. Further details are given in notes 26 and 46 to the financial statements.

Before application of HKFRS 9, as at 31 December 2017, the directors had conducted impairment testing on the Group's other receivables, and considered the status of recoverability of certain of these balances based on the financial position of the respective counterparties or the collection of some of the receivables which were provided for in prior years. Accordingly, a provision for impairment of other receivables of HK$18,724,000 was charged to the consolidated statement of profit or loss during the year. The carrying amount of other receivables at 31 December 2017 was HK$38,385,000. Further details are given in note 26 to the financial statements.

Impairment of contract costs

The Group determines whether the outcome of the contract costs can be estimated reliably. This requires a continuous estimation of the total contract revenue and costs and stage of completion with reference to work completed/certified and the assessment of the probability of the future economic benefits flows to the Group. The carrying amount of contract costs as at 31 December 2018 was HK$289,918,000 (2017: HK$148,835,000). Further details are set out in note 30 to the financial statements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Provision of ECL for trade receivables

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

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Notes 46 and 25, respectively.

5. REVENUE AND SEGMENT INFORMATION

Revenue

For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

Segments	For the year ended 31 December 2018 CNG and petroleum products HK$'000
Types of goods	
Sale of CNG and petroleum products recognised at a point in time to retail customers in the Mainland China	128,756

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	For the year ended 31 December 2018 Segment revenue HK$'000
Sale of CNG and petroleum products	128,756
Revenue from contracts with customers	128,756
Interest income on finance leases and loans	11,066
Total revenue	139,822

All CNG and petroleum products are delivered within periods of less than one year. As permitted under HKFRS 15, the transaction price allocated to those unsatisfied contracts is not disclosed.

5. REVENUE AND SEGMENT INFORMATION (continued)

Revenue (continued)

(ii) Performance obligations for contracts with customers

Sales of CNG and petroleum products and construction materials (revenue recognised at one point in time)

The Group sells CNG and petroleum products to the customers through its own retail CNG stations.

The revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at the CNG stations. For retail customers, payment of the transaction price is due immediately at the point the customer purchases the goods. For corporate customers, the payment terms are mainly on credit and the credit period is generally 90 to 120 days.

For the year ended 31 December 2017

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

	Year ended 31 December 2017 HK$'000
Sale of CNG and petroleum products	156,024
Sale of construction materials	79,739
Interest income on finance leases and loans	16,843
	252,606

Segment Information

For management purposes, the Group is organised into business units based on their products and services and has four reporting segments as follows:

(a) Sale of CNG and petroleum products of the Group's gas station operation;

(b) Management and operation of LED EMC;

(c) Provision of finance lease and loan services and property investment; and

(d) Provision of land development services and sale of construction materials.

Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's loss before tax except that certain interest income, impairment on AFS investment, finance costs depreciation and amortisation as well as head office and corporate expenses are excluded from such measurement.

For the presentation of the Group's geographical information, revenues and results information is attributed to the segments based on the locations of the customers, and assets information is based on the locations of the assets. As the Group's major operations and markets are located in Mainland China, no further geographical information is provided.

The following table presents revenue and profit/(loss) for the Group's primary segment for the year ended 31 December 2018 and 2017.

5. REVENUE AND SEGMENT INFORMATION (continued)

Segment Information (continued)

Year ended 31 December 2018

	Sale of CNG and petroleum products HK$'000	Management and operation of LED EMC HK$'000	Provision of finance lease and loan services and property investment HK$'000	Provision of land development services and sale of construction materials HK$'000	Total HK$'000
Segment revenue:					
Revenue from external customers	128,756	–	–	–	128,756
Interest income	–	–	11,066	–	11,066
	128,756	–	11,066	–	139,822
Segment results	38,480	14,907	(333,019)	(464,453)	(744,085)
Reconciliation:					
Finance costs — unallocated					(50,350)
Corporate and other unallocated expenses					(6,677)
Loss before tax					(801,112)
Income tax credit					104,629
Loss for the year					(696,483)
Other segment information:					
Interest income	15	782	214	1,932	2,943
Depreciation and amortisation	(6,522)	–	(469)	(296)	(7,287)
Depreciation and amortisation — unallocated					(358)
Gain on disposal of subsidiaries	52,660	–	–	–	52,660
Gain on disposal of a joint venture	8,537	–	–	–	8,537
Share of profit and loss of joint ventures	(5,945)	14,171	–	–	8,226
Impairment of goodwill	–	–	–	(331)	(331)
Impairment of property, plant and equipment	(2)	–	–	–	(2)
Write-off of inventories	(279)	–	–	–	(279)
Impairment of trade receivables	–	–	–	(31,704)	(31,704)
Impairment of other receivables	(5,390)	–	–	–	(5,390)
Impairment of intangible assets	–	–	–	(423,816)	(423,816)
Finance costs	(3,849)	–	(71,226)	(2,374)	(77,449)
Fair value losses on investment properties, net	–	–	(245,912)	–	(245,912)
Capital expenditure*	(5,234)	–	–	–	(5,234)
Capital expenditure – unallocated*					(55)

* Capital expenditure consists of addition to property, plant and equipment.

5. REVENUE AND SEGMENT INFORMATION (continued)

Segment Information (continued)

Year ended 31 December 2018 (continued)

	Sale of CNG and petroleum products HK$'000	Management and operation of LED EMC HK$'000	Provision of finance lease and loan services and property investment HK$'000	Provision of land development services and sale of construction materials HK$'000	Total HK$'000
Segment assets	**184,917**	**91,631**	**1,988,350**	**920,526**	**3,185,424**
Reconciliation:					
Elimination of intersegment receivables					**(148,727)**
Corporate and other unallocated assets					**51,977**
Total assets					**3,088,674**
Segment liabilities	**164,717**	**208,471**	**1,308,387**	**567,728**	**2,249,303**
Reconciliation:					
Elimination of intersegment payables					**(148,727)**
Corporate and other unallocated liabilities					**712,662**
Total liabilities					**2,813,238**

5. REVENUE AND SEGMENT INFORMATION (continued)

Segment Information (continued)

Year ended 31 December 2017

	Sale of CNG and petroleum products HK$'000	Management and operation of LED EMC HK$'000	Provision of finance lease and loan services and property investment HK$'000	Provision of land development services and sale of construction materials HK$'000	Total HK$'000
Segment revenue:					
Revenue from external customers	156,024	–	–	79,739	235,763
Interest revenue	–	–	16,843	–	16,843
	156,024	–	16,843	79,739	252,606
Segment results	(66,177)	20,427	(96,272)	(57,847)	(199,869)
Reconciliation:					
Interest income					4,469
Impairment of an AFS investment					(4,986)
Finance costs – unallocated					(71,195)
Corporate and other unallocated expenses					(38,605)
Loss before tax					(310,186)
Income tax expense					(8,249)
Loss for the year					(318,435)
Other segment information:					
Interest income	37	2,118	157	2,067	4,379
Depreciation and amortisation	(16,541)	–	(1,319)	(503)	(18,363)
Depreciation and amortisation – unallocated					(1,055)
Gain on disposal of subsidiaries	27,742	–	–	–	27,742
Share of profit and loss of joint ventures	(5,440)	18,340	–	–	12,900
Impairment of goodwill	(8,886)	–	–	(39,320)	(48,206)
Impairment of property, plant and equipment	(7,986)	–	–	–	(7,986)
Write-off of inventories	(261)	–	–	–	(261)
Impairment of prepaid land lease payments	(1,991)	–	–	–	(1,991)
Impairment of an amount due from a non-controlling shareholder	(4,264)	–	–	–	(4,264)
Reversal of impairment of trade receivables	832	–	–	–	832
Write-off of prepayments	(10,431)	–	–	–	(10,431)
Impairment of other receivables	(11,764)	–	(6,960)	–	(18,724)
Finance costs	(3,549)	–	(66,337)	(7,250)	(77,136)
Fair value losses on investment properties, net	–	–	(696)	–	(696)
Capital expenditure*	(4,433)	–	(64)	–	(4,497)
Capital expenditure – unallocated*					(3,613)

* Capital expenditure consists of additions to property, plant and equipment.

5. REVENUE AND SEGMENT INFORMATION (continued)

Segment Information (continued)

Year ended 31 December 2017 (continued)

	Sale of CNG and petroleum products HK$'000	Management and operation of LED EMC HK$'000	Provision of finance lease and loan services and property investment HK$'000	Provision of land development services and sale of construction materials HK$'000	Total HK$'000
Segment assets	226,496	76,678	2,334,538	1,406,149	4,043,861
Reconciliation:					
Elimination of intersegment receivables					(123,663)
Corporate and other unallocated assets					137,900
Total assets					4,058,098
Segment liabilities	339,695	208,430	1,186,452	531,956	2,266,533
Reconciliation:					
Elimination of intersegment payables					(123,663)
Corporate and other unallocated liabilities					850,132
Total liabilities					2,993,002

6. OTHER INCOME, GAINS AND LOSSES

An analysis of the Group's other income, gains and losses is as follows:

	2018 HK$'000	2017 HK$'000
Other income		
Interest income	**247**	348
Loan interest income	**782**	2,118
Promissory note interest income	**1,914**	6,382
Government grants received (Note)	**–**	107
Gross rental income	**1,124**	1,424
Sub-total	**4,067**	10,379
Other gains and losses, net		
Exchange gain/(loss), net	**7,562**	(11,236)
Gain/(loss) on disposal of property, plant and equipment	**694**	(1,753)
Impairment loss recognised in respect of property, plant and equipment	**(2)**	(7,986)
Impairment loss of an available-for-sale investment	**–**	(4,986)
Others	**1,121**	76
Sub-total	**9,375**	(25,885)
Total	**13,442**	(15,506)

Note: Various government grants have been received to subsidise the operation of the Group's gas stations in various provinces in Mainland China. There are no unfulfilled conditions or contingencies relating to these grants.

7. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

	2018 HK$'000	2017 HK$'000
Interests on bank and other borrowings	**70,814**	80,521
Interest on convertible bonds	**15,882**	21,646
Interests on loans from related companies	**28,216**	14,675
Interests on loans from non-controlling shareholders	**11,385**	11,385
Interests on finance lease payable	**27**	72
Amortisation of financing arrangement fees	**1,475**	4,389
Finance charge on redemption of promissory note receivable	**–**	15,643
	127,799	148,331

8. IMPAIRMENT LOSSES, NET OF REVERSAL

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Impairment losses recognised/(reversed) on:		
– Trade receivables	**31,704**	(832)
– Other receivables	**5,390**	18,724
– Amount due from a non-controlling shareholder	**–**	4,264
	37,094	22,156

Details of impairment assessment for the year ended 31 December 2018 are set out in note 46.

9. INCOME TAX (CREDIT)/EXPENSE

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2017: Nil). Taxation on Mainland China profits was calculated on the estimated assessable profits for the year at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2018 HK$'000	2017 HK$'000
Current – Mainland China Enterprise Income Tax ("EIT")		
Charge for the year	**1,334**	3,135
Under provision in prior years	**–**	7,542
Deferred tax credit	**(105,963)**	(2,428)
	(104,629)	8,249

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

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

9. INCOME TAX (CREDIT)/EXPENSE (continued)

A reconciliation of the tax expense applicable to loss before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense for the year at the effective rates is as follows:

	2018		
	Hong Kong HK$'000	**Mainland China HK$'000**	**Total HK$'000**
Loss before tax	**(165,293)**	**(635,819)**	**(801,112)**
Tax at the statutory tax rates	**(27,273)**	**(165,546)**	**(192,819)**
Under provision of PRC EIT in the prior years	**–**	**109**	**109**
Income tax at concessionary rate	**–**	**(215)**	**(215)**
Tax effect of share of profits and losses attributable to joint ventures	**–**	**(2,057)**	**(2,057)**
Tax effect of income not subject to tax	**–**	**(35,375)**	**(35,375)**
Tax effect of deductible temporary differences not recognised	**–**	**7,927**	**7,927**
Tax effect of expenses not deductible for tax	**27,273**	**63,863**	**91,136**
Tax effect of tax losses not recognised	**–**	**26,665**	**26,665**
Income tax credit for the year	**–**	**(104,629)**	**(104,629)**

	2017		
	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Loss before tax	(165,126)	(145,060)	(310,186)
Tax at the statutory tax rates	(27,246)	(36,265)	(63,511)
Effect of withholding tax at 5% or10% on the distributable profits of the Group's PRC subsidiaries	–	(2,428)	(2,428)
Under provision of PRC EIT in the prior years	–	7,542	7,542
Tax effect of share of profits and losses attributable to joint ventures	–	(3,225)	(3,225)
Tax effect of income not subject to tax	–	(5,626)	(5,626)
Tax effect of deductible temporary differences not recognised	–	2,494	2,494
Tax effect of expenses not deductible for tax	27,246	8,824	36,070
Tax effect of tax losses not recognised	–	36,933	36,933
Income tax expense for the year	–	8,249	8,249

10. LOSS FOR THE YEAR

The Group's loss for the year is arrived at after charging:

	2018 HK$'000	2017 HK$'000
Cost of inventories sold and operation costs of gas stations*	**95,672**	112,949
Cost of construction materials sold*	**–**	77,539
Auditor's remuneration	**1,380**	2,988
Depreciation on property, plant and equipment	**6,548**	17,362
Amortisation of prepaid land lease payments	**1,050**	2,010
Amortisation of intangible assets	**47**	46
Write-off of inventories**	**279**	261
Impairment of prepaid land lease payments**	**–**	1,991
Minimum lease payments under operating leases in respect of land and buildings	**6,065**	10,637
Employee benefit expense (excluding directors' and chief executive's remuneration (note 11)):		
Wages, salaries, allowances and benefits in kind	**27,959**	46,983
Pension scheme contributions	**131**	415
	28,090	47,398

* Included in "cost of sales" on the face of the consolidated statement of profit or loss.

** Included in "other expenses" on the face of the consolidated statement of profit or loss.

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies Regulation (Disclosure of information about Benefits of Directors), is as follows:

	2018 HK$'000	2017 HK$'000
Fees:		
Executive directors	**216**	174
Non-executive director	**–**	2
Independent non-executive directors	**180**	168
	396	344
Other emoluments (executive directors and a non-executive director):		
Salaries, allowances and benefits in kind	**503**	–
Pension scheme contributions	**–**	–
	503	–
	899	344

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

The details of the directors' outstanding share options are set out in page 14 of the Report of the Directors and note 39 to the financial statements. The fair value of such options, which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

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

Mr. Guan Liqun is the Chief Executive Officer ("CEO") of the Group and the emolument below also represent the services for his role as CEO.

(a) Independent non-executive directors

The fees paid/payable to independent non-executive directors during the year were as follows:

	Notes	**2018** **HK$'000**	2017 HK$'000
Hu Xiaowen	(i)	–	55
Gong Changhui	(ii)	–	56
Wu Meng	(iii)	–	15
Wang Songhui	(iv)	–	3
Huang Bo	(v)	–	24
Jiang Ping	(vi)	**60**	5
Wu Rui	(vi)	**60**	5
Guo Wei	(vi)	**60**	5
		180	168

As at 31 December 2018, there was HK$75,000 of emoluments payable to the independent non-executive directors (2017: Nil). The fees payable to independent non-executive directors above are the director fees.

Notes:

(i) Resigned with effect from 2 December 2017

(ii) Resigned with effect from 4 December 2017

(iii) Resigned with effect from 1 April 2017

(iv) Appointed with effect from 6 November 2017 and resigned with effect from 4 December 2017

(v) Appointed with effect from 30 June 2017 and resigned with effect from 23 November 2017

(vi) Appointed with effect from 4 December 2017

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors and a non-executive director

2018	Notes	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Total remuneration HK$'000
Executive directors:				
Guan Liqun	(viii)	**27**	**503**	**530**
Li Chengning	(vi)	**9**	**–**	**9**
Zhang Zhibiao	(iv)	**36**	**–**	**36**
Wang Ying	(iv)	**36**	**–**	**36**
Fu Fangxing	(vii)	**36**	**–**	**36**
Mu Yan	(iii)	**36**	**–**	**36**
Fu Xiao	(iii)	**36**	**–**	**36**
		216	**503**	**719**

2017	Notes	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Total remuneration HK$'000
Executive directors:				
Zhu Dong	(i)	31	–	31
Wang Xiaowei	(ii)	31	–	31
Zang Zheng	(i)	33	–	33
Xiao Wei	(ii)	33	–	33
Li Chengning	(vi)	3	–	3
Zhang Zhibiao	(iv)	17	–	17
Wang Ying	(iv)	17	–	17
Fu Fangxing	(iii)	3	–	3
Mu Yan	(iii)	3	–	3
Fu Xiao	(iii)	3	–	3
Non-executive director:				
Ren Yunan	(v)	2	–	2
		176	–	176

Notes:

(i) Resigned with effect from 5 November 2017

(ii) Resigned with effect from 4 December 2017

(iii) Appointed with effect from 4 December 2017

(iv) Appointed with effect from 10 July 2017

(v) Appointed with effect from 6 November 2017 and resigned with effect from 1 December 2017

(vi) Appointed with effect from 4 December 2017 and resigned with effect from 28 March 2018

(vii) Appointed with effect from 4 December 2017 and resigned with effect from 18 January 2019

(viii) Appointed with effect from 28 March 2018

12. FIVE HIGHEST PAID EMPLOYEES

One director was included in the five highest paid employees during the year (2017: Nil), details of whose remuneration are set out in note 11 above. Details of the remuneration for the year for the remaining four (2017: five) highest paid employees who are not directors of the Company are as follows:

	2018 HK$'000	2017 HK$'000
Salaries, allowances and benefits in kind	**1,680**	3,580
Discretionary bonuses	**80**	165
Pension scheme contributions	**33**	135
	1,793	3,880

The number of non-director and highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2018	2017
Nil to HK$1,000,000	**4**	4
HK$1,000,001 to HK$1,500,000	**–**	1
	4	5

13. LOSS PER SHARE

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the Company of HK$517,071,000 (2017: HK$302,643,000), and the weighted average number of ordinary shares of 5,943,745,741 (2017: 5,943,745,741) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2018 and 2017 in respect of a dilution as the impact of the share options and convertible bonds outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1 January 2017	61,413	1,003	100,105	8,533	62,775	6,959	240,788
Exchange adjustment	1,062	21	50	37	1,364	747	3,281
Additions	–	–	42	274	3,941	3,853	8,110
Disposals	–	–	–	(571)	(16,334)	–	(16,905)
Disposals of subsidiaries	(7,826)	–	(357)	(2)	(633)	(2,720)	(11,538)
At 31 December 2017	54,649	1,024	99,840	8,271	51,113	8,839	223,736
Exchange adjustment	(2,259)	(2)	1,360	(858)	846	(530)	(1,443)
Additions	–	–	–	2,289	1,484	1,516	5,289
Disposals	–	–	–	(296)	(9,526)	–	(9,822)
Disposals of subsidiaries	(19,575)	(729)	(44,533)	(3,737)	(27,793)	(7,379)	(103,746)
At 31 December 2018	32,815	293	56,667	5,669	16,124	2,446	114,014
DEPRECIATION AND IMPAIRMENT							
At 1 January 2017	(33,455)	(731)	(90,058)	(7,533)	(38,262)	(2,372)	(172,411)
Depreciation provided for the year	(1,528)	(40)	(4,546)	(1,076)	(10,172)	–	(17,362)
Impairment loss in profit or loss	(3,909)	–	(4,072)	(5)	–	–	(7,986)
Elimination on disposals	–	–	–	572	10,833	–	11,405
Elimination on disposals of subsidiaries	1,807	–	229	2	476	–	2,514
At 31 December 2017	(37,085)	(771)	(98,447)	(8,040)	(37,125)	(2,372)	(183,840)
Depreciation provided for the year	(921)	(30)	(2,278)	(639)	(2,680)	–	(6,548)
Impairment loss in profit or loss	–	–	(2)	–	–	–	(2)
Elimination on disposals	–	–	–	280	6,909	–	7,189
Elimination on disposals of subsidiaries	16,496	649	44,434	3,014	24,418	671	89,682
At 31 December 2018	(21,510)	(152)	(56,293)	(5,385)	(8,478)	(1,701)	(93,519)
CARRYING VALUES							
At 31 December 2018	11,305	141	374	284	7,646	745	20,495
At 31 December 2017	17,564	253	1,393	231	13,988	6,467	39,896

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The directors had conducted impairment testing on the Group's property, plant and equipment, and they considered that the carrying amounts of certain plant and equipment are in excess of their recoverable amounts as a result of the continuing operating losses of certain subsidiaries. Accordingly, a provision for impairment of HK$2,000 (2017: HK$7,986,000) (note 6) was charged to the consolidated statement of profit or loss as at 31 December 2018.

15. PREPAID LAND LEASE PAYMENTS

Analysed for reporting purposes as:

	2018	2017
	HK$'000	HK$'000
Current asset (included in prepayments)	**201**	1,484
Non-current asset	**6,466**	18,269
	6,667	19,753

16. INVESTMENT PROPERTIES

	HK$'000
Carrying amount at 1 January 2017	1,911,392
Net decrease in fair value recognised in profit and loss	(696)
Exchange adjustments	136,504
Carrying amount 31 December 2017	2,047,200
Net decrease in fair value recognised in profit and loss	(245,912)
Exchange adjustments	(94,024)
Carrying amount at 31 December 2018	1,707,264

The Group's investment properties consist of five (2017: five) commercial properties and several carparks in the PRC. The directors of the Company have determined that the investment properties consist of only one class of asset, i.e., commercial, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2018 based on valuations performed by Roma Appraisals Limited, independent professionally qualified valuer, at HK$1,707,264,000 (2017: HK$2,047,200,000). Each year, the Group's management decides to appoint which external valuers to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the valuers on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 41(a) to the financial statements.

At 31 December 2018, the Group's investment properties with an aggregate carrying value of HK$1,687,200,000 (2017: HK$2,026,000,000) were pledged as security for the Group's certain bank loans as further detailed in note 36 to the financial statements.

16. INVESTMENT PROPERTIES (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2018 using	
	Significant unobservable inputs (Level 3)	**Total**
	HK$'000	**HK$'000**
Commercial properties	**1,707,264**	**1,707,264**

	Fair value measurement as at 31 December 2017 using	
	Significant unobservable inputs (Level 3)	Total
	HK$'000	HK$'000
Commercial properties	2,047,200	2,047,200

There were no transfers of fair value measurements between Level 2 and Level 3 in both years.

The fair values of the investment properties were determined using the comparison approach based on market comparables of similar properties and with adjustments made on factors such as location, size, age, condition and aspects of the properties. The weighted average range of the adjusted price per square meter is HK$16,080 to HK$101,232 (2017: HK$31,820 to HK$117,046).

The Group has determined that the highest and best use of the commercial properties at the measurement date would be to convert those properties for residential purpose. For strategic reason, the properties are not being used in this manner.

A significant increase/(decrease) in the adjusted price per square feet would result in a significant increase/(decrease) in the fair value of the investment properties.

17. GOODWILL

		2018 HK$'000	2017 HK$'000
COST			
At 1 January		**235,590**	242,224
Disposal of subsidiaries	44	**(101,816)**	(6,634)
At 31 December		**133,774**	235,590
IMPAIRMENT			
At 1 January		**203,188**	154,982
Impairment loss recognised in the year		**331**	48,206
Eliminated on disposal of subsidiaries	44	**(99,030)**	–
At 31 December		**104,489**	203,188
CARRYING VALUES			
At 31 December		**29,285**	32,402

18. INTANGIBLE ASSETS

	Land development cost HK$'000	Franchises HK$'000	Total HK$'000
COST			
At 1 January 2017, 31 December 2017 and 31 December 2018	964,000	896	964,896
AMORTISATION AND IMPAIRMENT			
At 1 January 2017	–	224	224
Charge for the year	–	46	46
Exchange adjustments	–	(46)	(46)
At 31 December 2017	–	224	224
Charge for the year	–	47	47
Exchange adjustments	–	33	33
Impairment loss recognised in the year	423,816	–	423,816
At 31 December 2018	423,816	304	424,120
CARRYING VALUES			
At 31 December 2018	540,184	592	540,776
At 31 December 2017	964,000	672	964,672

As at 31 December 2018, there is an amount of HK$540,184,000 (2017: HK$964,000,000) intangible assets in respect of land development contracts in relation to the land development of New Central Coastal City (中部濱海新城) (the "Project Land") and construction work of Ronggang Boulevard (融港大道) (collectively referred to as the "Project"). AVIC International (Fujian) Industrial Co., Ltd. ("AVIC Fujian"), a subsidiary of the Group, together with two parties formed a joint committee to manage the Project.

In February 2013, AVIC Fujian and Fuqing City Municipal Government (the "Fuqing Government") entered into the Master Investment and Construction Co-operation Agreement ("MICCA"). Pursuant to the MICCA, the Fuqing City Municipal Government is responsible for land planning, securing land, relocating residents and ensuring that all requisite legal and other necessary approvals. AVIC Fujian is primarily responsible for funding and managing (i) the development work associated with the Project Land to meet the land sale requirement; and (ii) the construction of Ronggang Boulevard.

18. INTANGIBLE ASSETS (continued)

In November 2017, the Fuqing Government issued a notice to AVIC Fujian together with the two parties of the joint committee of the Project, pursuant to which, the Fuqing Government (i) terminated the MICCA, (ii) revoked the land development right in the Project Land, and (iii) allowed AVIC Fujian or the joint committee to proceed the negotiation with the Fuqing Government on the compensation due to the termination of the MICCA (the "Notice"), on the grounds that the MICCA violates certain rules and regulations in the PRC, namely《中華人民共和國招投標法》,《中華人民共和國預算法》,《國務院辦公廳關於規範國有土地使用權出讓收支管理的通知》,《財政部、國土資源部、中國人民銀行<關於印發國有土地使用權出讓收支管理辦法>的通知》and《中華人民共和國擔保法》and therefore, the Fuqing Government is unable to execute the MICCA. The Group took several measures including the continuous negotiation with the Fuqing Government and the filing of appeal in May 2018 to the Higher People's Court of Putian Municipality (莆田市中級人民法院), aiming to request the Fuqing Government to continue to execute the MICCA in accordance with the terms of the agreement. The directors of the Company, having sought legal advice, considered that the Fuqing Government does not have sufficient legal grounds to terminate the MICCA and are in the opinion that the Group will succeed in the appeal. Taking into account of the possible outcome of the appeal and the estimated shorten period of the Project due to the delay of the Project, the Group recognised an impairment of HK$423,816,000 in the consolidated statement of profit or loss for the year ended 31 December 2018.

19. IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through business combinations has been allocated to the following cash-generating units (i) the gas refueling station operation; (ii) the provision of finance lease and loan services; and (iii) the provision of land development services with amounts of HK$7,229,000 (2017: HK$10,015,000), HK$22,056,000 (2017: HK$22,056,000) and HK$nil (2017: HK$331,000), respectively, for impairment testing. During the year, goodwill from gas refueling station with a carrying amount of HK$2,786,000 was derecognised upon the disposals of subsidiaries (note 44(a)).

The recoverable amounts of the gas refueling station operation cash-generating units have been determined based on fair value less costs of disposal using market approach which is categorised under level 3 of fair value hierarchy or value in use calculation using cash flow projections based on financial budgets approved by senior management covering a 5-year period. The discount rate applied to cash flow projections is 15.80% (2017: 13.66%). Cash flows beyond 5-year period are extrapolated using a steady 5% (2017: 5%) growth rate. During the year ended 31 December 2018, management of the Group determine that there is no impairment on the gas refueling station operation (2017: impairment loss of HK$8,886,000 was recognised). Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the gas refueling station operation cash-generating unit to exceed the aggregate recoverable amount of the gas refueling station operation cash-generating unit.

The recoverable amount of the provision of finance lease and loan service cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a 5-year period with reference to the average contract periods of the existing finance lease arrangements. The discount rate applied to cash flow projections is 16.03% (2017: 15.14%). Cash flows beyond 5-year period are extrapolated using a steady 3% (2017: 3%) growth rate. During the year ended 31 December 2018 and 31 December 2017, management of the Group determines that there is no impairment on the provision of finance lease and loan service. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the gas refueling station operation cash-generating unit to exceed the aggregate recoverable amount of the finance lease and loan service cash-generating unit.

19. IMPAIRMENT TESTING OF GOODWILL (continued)

The recoverable amount of the provision of land development service cash-generating unit has been determined based on the present value of contract income attributable to the subject land development contract covering a 5-year period by applying a discount rate representing the weighted average cost of capital required under Multi-Period Excess Earnings Method for the land development project. The discount rate applied to cash flow forecast is 22.75% (2017: 22.21%) approved by senior management. An impairment loss of HK$331,000 was recognised for the year ended 31 December 2018 (2017: HK$39,320,000).

The key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill are as follows:

Forecast revenue and budgeted gross margins – The basis used to determine the value assigned to the forecast revenue and budgeted gross margins is the past performance of the unit, market selling prices of the adjacent lands and management's expectations of market development.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

20. INVESTMENTS IN JOINT VENTURES

	2018 **HK$'000**	2017 HK$'000
Cost of investment in joint ventures	**22,500**	57,181
Share of post-acquisition profits and other comprehensive income	**42,749**	14,118
	65,249	71,299

The amounts due from joint ventures of HK$158,640,000 (2017: HK$218,515,000) and an amounts due to joint ventures of HK$8,736,000 (2017: HK$9,196,000) included in current assets and current liabilities, respectively, are non-trade nature, unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Group's joint ventures at the end of the reporting period, which are held indirectly through wholly-owned and non-wholly-owned subsidiaries of the Company, are as follows:

Name	Country of incorporation/ registration and principal place of business	Proportion of ownership interest held by the Group		Proportion of voting right held by the Group		Principal activities
		2018	**2017**	**2018**	**2017**	
Jia Lian International Limited ("Jia Lian")	British Virgin Islands	**45%**	45%	**45%**	45%	Investment holding
Sinogas Chengdu Company Limited ("Sinogas Chengdu")	PRC/Mainland China	**N/A**	52.5%	**N/A**	52.5%	Operation of gas refuelling stations

20. INVESTMENTS IN JOINT VENTURES (continued)

The Group holds 45% and 52.5% of the issued share capital of Jia Lian and Sinogas Chengdu respectively. However, under a Shareholders' agreement, the group and the another shareholder jointly controls the composition of the board of directors of Jia Lian and Sinogas Chengdu. Therefore they are classified as joint ventures of the Group.

Jia Lian and Sinogas Chengdu, which are considered material joint ventures of the Group, are engaged in the management and operation of LED EMC and operation of gas refuelling, respectively, and are accounted for using the equity method. During the year ended 31 December 2018, the Group has disposed its entire interest in Sinogas Chengdu which results a gain on disposal of a joint venture of HK$8,537,000.

The following table illustrates the summarised financial information in respect of Jia Lian adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2018 **HK$'000**	2017 HK$'000
Bank balances and cash	**51,550**	40,780
Other current assets	**69,732**	71,520
Current assets	**121,282**	112,300
Non-current assets	**499,746**	644,788
Financial liabilities, excluding trade and other payables	**(123,446)**	(153,215)
Other current liabilities	**(159,548)**	(190,068)
Current liabilities	**(282,994)**	(343,283)
Non-current liabilities	**(210,898)**	(311,661)
Net assets	**127,136**	102,144
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	**45%**	45%
Proportion of net assets of the Group's ownership	**57,211**	45,965
Others	**8,038**	5,113
Carrying amount of the investment at 31 December	**65,249**	51,078
Revenue	**109,212**	206,556
Interest income	**85**	57
Depreciation and amortisation	**(298)**	(227)
Interest expenses	**(13,577)**	(19,061)
Tax	**(745)**	(3,331)
Profit and total comprehensive income for the year	**31,490**	40,756

20. INVESTMENTS IN JOINT VENTURES (continued)

The following table illustrates the summarised financial information in respect of Sinogas Chengdu adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2018 **HK$'000**	2017 HK$'000
Bank balances and cash	**N/A**	919
Other current assets	**N/A**	3,413
Current assets	**N/A**	4,332
Non-current assets	**N/A**	73,614
Financial liabilities, excluding trade and other payables	**N/A**	(409)
Other current liabilities	**N/A**	(44,618)
Current liabilities	**N/A**	(45,027)
Net assets	**N/A**	32,919
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	**N/A**	52.5%
Proportion of net assets of the Group's ownership	**N/A**	17,282
Others	**N/A**	2,939
Carrying amount of the investment at 31 December	**N/A**	20,221

	Year ended 31 December 2018	Year ended 31 December 2017
Revenue	**22,893**	37,498
Interest income	**5**	7
Depreciation and amortisation	**(5,304)**	(5,528)
Interest expenses	**(1,679)**	(1,884)
Tax	**(15)**	(15)
Loss and total comprehensive expense for the period/year	**(11,323)**	(10,362)

21. EQUITY INSTRUMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 **HK$'000**
Listed investments:	
– Equity securities listed in fair value	**16,622**

The investment represents an investment in the equity securities of Peace Map Holding Limited ("Peace Map") (Stock Code: 402), a company whose shares are listed on the Stock Exchange.

As at 31 December 2018, the Group's shareholding in Peace Map maintained at 6.8%. A decrease in fair value of HK$42,111,000 has been recognised in other comprehensive income during the year ended 31 December 2018.

These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments in equity instrument as at FVTOCI upon application of HKFRS 9 as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

22. AVAILABLE-FOR-SALE INVESTMENT

	2017 HK$'000
Listed equity investment, at fair value	58,733

The investment represents an investment in the equity securities of Peace Map (Stock Code: 402), a company whose shares are listed on the Stock Exchange. The investment was designated as an available-for-sale financial asset and has no fixed maturity date or coupon rate.

Upon the adoption of HKFRS 9, it has been reclassified to equity instrument at FVTOCI on 1 January 2018.

23. OTHER ASSET

The other asset represents a golf club membership. Management considers that no impairment is identified with reference to the market price of the club membership.

24. FINANCE LEASE RECEIVABLES

The Group provides finance leasing services on equipment in Mainland China. These leases are classified as finance leases and have remaining lease terms ranging from one to five years.

	Minimum lease payments		Present value of minimum lease payments	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Finance lease receivables comprise:				
Within one year	**12,412**	11,052	**8,807**	6,943
In the second to fifth year, inclusive	**28,097**	32,776	**22,340**	26,163
	40,509	43,828	**31,147**	33,106
Less: unearned finance income	**(9,362)**	(10,722)		
Present value of minimum lease payments	**31,147**	33,106		
Analysed for reporting purposes as:				
Current assets	**8,807**	6,943		
Non-current assets	**22,340**	26,163		
	31,147	33,106		

The Group's finance lease receivables are denominated in Renminbi ("RMB"), which is the functional currency of the relevant group entity.

As at 31 December 2018, the Group's finance lease receivables with an aggregate carrying amount of HK$31,147,000 (2017: HK$33,106,000) were pledged as security for the Group's certain bank loans, as further detailed in note 36 to the consolidated financial statements.

Effective interest rates of the above finance leases range from 8.4% to 9.3% per annum.

25. TRADE RECEIVABLES

	2018	2017
	HK$'000	HK$'000
Trade receivables	**65,090**	84,270
Less: Allowance for credit losses	**(33,653)**	(2,112)
	31,437	82,158

25. TRADE RECEIVABLES (continued)

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to HK$31,437,000 and HK$82,158,000 respectively. For the sale of CNG and petroleum products, the Group's trading term with its retail customers is in cash, and for its corporate customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 90 to 120 days, extending up to 180 days for major customers. Each corporate customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

As at 31 December 2018, certain trade receivables with an aggregate carrying amount of HK$1,757,000 (2017: HK$1,880,000) were pledged to secure a loan advanced from a third party as set out in note 36 to the financial statements.

An aging analysis of the gross trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2018 **HK$'000**	2017 HK$'000
0 to 90 days	**3,714**	55,786
91 to 120 days	**1**	26,310
121 days to 1 year	**5**	62
Over 1 year	**61,370**	2,112
	65,090	84,270

The movements in provision for impairment of trade receivables are as follows:

	2017 HK$'000
At 1 January	2,944
Impairment losses reversed	(832)
At 31 December	2,112

The aging analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2017 HK$'000
Neither past due nor impaired	55,786
Less than 30 days past due	26,310
31 to 180 days past due	62
	82,158

25. TRADE RECEIVABLES (continued)

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$27,722,000 which are past due as at the reporting date. Out of the past due balances, HK$27,722,000 has been past due 90 days or more and is not considered as in default since the management considered the past due balances can be repaid based on repayment history.

As at 31 December 2017, trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Details of impairment assessment for trade receivables for the year ended 31 December 2018 are set out in note 46.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 **HK$'000**	2017 HK$'000
Prepayments	**16,307**	174,495
Deposits and other receivables	**69,656**	85,778
Impairment	**(26,763)**	(46,752)
	59,200	213,521
Non-current portion	**(5,285)**	(7,414)
Current portion	**53,915**	206,107

The financial assets included in the above balances which are not considered to be impaired relate to receivables for which there was no recent history of default and are neither past due nor impaired.

The movements in provision for impairment of other receivables are as follows:

	2017 HK$'000
At 1 January	18,745
Disposal of subsidiaries	(3,396)
Impairment losses recognised (note 8)	18,724
Written off	10,431
Exchange adjustments	2,248
At 31 December	46,752

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

As at 31 December 2017, provision for impairment of other receivables of the Group is provision for individually impaired receivables of HK$46,752,000 with an aggregate carrying amount before provision of HK$46,752,000.

Details of impairment assessment for other receivables for the year ended 31 December 2018 are set out in note 46.

27. PROMISSORY NOTE RECEIVABLE

The promissory note was issued during the year ended 31 December 2017 with an original maturity date of 15 June 2018. During the year ended 31 December 2018, the settlement date of PN4 has extended and the maturity date is 15 June 2019.

Interest rate	Maturity date	2018 HK$'000	2017 HK$'000
2.15% per annum	15 June 2019	**89,000**	89,000
		89,000	89,000

28. BALANCES WITH RELATED COMPANIES AND NON-CONTROLLING SHAREHOLDERS

(a) Related companies

Breakdown of balances with related companies is as follows:

	Notes	2018 HK$'000	2017 HK$'000
Loans from related companies			
AVIC International (HK) Group Limited	(i)	**148,773**	147,253
China Joy Airlines (HK) Holdings Limited	(ii)	**213,750**	225,000
Catic International Finance Limited	(ii)	**126,079**	–
北京凱財諮詢服務有限公司	(iii)	**76,380**	–
		564,982	372,253
Non-current portion		**(564,982)**	(372,253)
Current portion		**–**	–

The above related companies are entities whose ultimate holding company is Aviation Industry Corporation of China, Ltd., one of the substantial shareholders of the Company.

Notes:

(i) The loan is unsecured, bears interest at 5% per annum and is repayable in 2020.

(ii) The loans are unsecured, bears interest at 5.6% per annum and are repayable in 2020.

(iii) The loan is unsecured, bears interest at 5.8% per annum and is repayable in 2020.

28. BALANCES WITH RELATED COMPANIES AND NON-CONTROLLING SHAREHOLDERS (continued)

(b) Non-controlling shareholders

As at 31 December 2017, the amounts due from non-controlling shareholders are unsecured, non-interest bearing, have no fixed terms of repayment and with an impairment loss provision amounted to HK$4,264,000 which was provided during 2017. In 2018, the Group fully disposed the amounts due from non-controlling shareholders to individual third parties through the disposal of several subsidiaries as disclosed in note 44.

The loans from non-controlling shareholders are unsecured, bear interest at 5% per annum and will be repayable in 2020.

Breakdown of balances with non-controlling shareholders is as follows:

	2018 HK$'000	2017 HK$'000
Loans from non-controlling shareholders		
Sanmax Investment Limited	**275,552**	264,166
Kingfun Investment Limited	**16,675**	16,887
Yada Investment Limited	**15,552**	15,456
	307,779	296,509

29. INVENTORIES

	2018 HK$'000	2017 HK$'000
Conversion parts and gas refueling station equipment	**–**	1,945
CNG	**11**	31
Sub-materials	**–**	658
	11	2,634

30. CONTRACT COSTS

	2018 HK$'000	2017 HK$'000
Pre-contract/setup costs to fulfill contracts relation to land development services incurred to date	**289,918**	148,835

Contract costs capitalised relate to the construction costs in relation to land development services incurred up to date.

31. BANK BALANCES AND CASH

	2018 HK$'000	2017 HK$'000
Bank balances and cash	**40,484**	34,867

At the end of the reporting period, the bank balances and cash of the Group denominated in RMB amounting to HK$39,525,000 (2017: HK$33,239,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

32. TRADE PAYABLES

An aging analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2018 HK$'000	2017 HK$'000
Within 90 days	**7,548**	10,993
91 to 120 days	**1**	5,667
Over 120 days	**1,171**	4,317
	8,720	20,977

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

33. OTHER PAYABLES AND ACCRUALS

	2018 HK$'000	2017 HK$'000
Other payables and accruals	**61,318**	54,927
Loan interest payables to related companies	**37,794**	18,137
Loan interest payables on other borrowings	**742**	–
	99,854	73,064

Other payables and accruals are non-interest-bearing and have an average repayment term of three months to one year.

34. FINANCE LEASE PAYABLE

The Group leases a motor vehicle for its corporate function. This lease is classified as a finance lease and has a remaining lease term of three years. The interests rate undertaking the obligation under finance lease was fixed rate at the contract date of 2.5%.

The finance lease payable was early repaid during the current year.

At 31 December 2018 and 2017, the total future minimum lease payments under the finance lease and their present values were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Amounts payable:				
Within one year	**–**	873	**–**	840
In the second year	**–**	291	**–**	288
In the third year	**–**	–	**–**	–
Total minimum finance lease payments	**–**	1,164	**–**	1,128
Future finance charges	**–**	(36)		
Total net finance lease payable	**–**	1,128		
Portion classified as current liabilities	**–**	(840)		
Non-current portion	**–**	288		

35. CONVERTIBLE BONDS

The convertible bonds issued are split into the liability and equity components and the movements in the convertible bonds are analysed as follows:

	2018 HK$'000	2017 HK$'000
Nominal value		
At 1 January	**191,776**	191,776
Derecognition and transferred during the year	**(191,776)**	–
At 31 December	**–**	191,776

	2018 HK$'000	2017 HK$'000
Liability components		
At 1 January	**182,011**	167,000
Repayment during the year (note a)	**(38,728)**	–
Transfer to other borrowings (notes b & c)	**(140,000)**	–
Interest expense	**15,882**	21,646
Interest paid	**(19,165)**	(6,635)
At 31 December	**–**	182,011
Equity components		
At 1 January	**61,314**	61,314
Transfer to accumulated losses upon maturity of convertible bonds	**(61,314)**	–
At 31 December	**–**	61,314
Convertible bonds, liability components	**–**	182,011
Current portion	**–**	(182,011)
Non-current portion	**–**	–

35. CONVERTIBLE BONDS (continued)

On 6 March 2012 (extended to 6 March 2015), and 17 November 2016, the Group issued convertible bonds with principal amounts of HK$51,776,000, and HK$140,000,000 respectively. The bonds are convertible at the option of the bondholders into ordinary shares at the initial conversion prices of HK$0.23(adjusted), and HK$0.14 per share, respectively, anytime after the issuance of the convertible bonds. Any convertible bond not converted will be redeemed at par in three years, two years, two years and two years, respectively, after the dates of issuance or will be further extended as agreed between the bondholders and the Group. The convertible bonds bear interest at 2%, and 4% per annum, respectively, and are payable semi-annually or annually in arrears or at the maturity date or the conversion date (as the case may be).

(a) On 20 January 2015, the Company and a bondholder, Billirich Investment Limited, entered into a deed of amendment pursuant to which the maturity date of the convertible bond with a principal amount of approximately HK$51,776,000 was extended for three years from 6 March 2015 to 6 March 2018. No other terms and conditions of such convertible bond had been amended. Further details were set out in the Company's circular dated 9 February 2015. On 6 March 2018, the Company redeemed the above convertible bond in full upon maturity. Further details are set out in the Company's announcement dated 6 March 2018.

(b) During the year of 2018, the convertible bonds held by 2 bondholders with total principal amount of HK$56,000,000, which remained unexercised upon maturity in 17 November 2018, has been agreed with the Company to repay on 17 November 2019 with interest at 5.2% per annum. The balances of HK$56,000,000 has been transferred to other borrowings accordingly. The equity portions of the corresponding convertible bonds were released to the accumulated losses in the consolidated statement of changes in equity.

(c) As at the date of this report, the Company is still negotiating with the bondholders of convertible bonds with principal amount of HK$84,000,000, which remained unexercised upon maturity in 17 November 2018 for further repayment arrangement. The balances is considered as past due and repayable on demand. It is transferred to other borrowings accordingly. The equity portions of the corresponding convertible bonds were released to the accumulated losses in the consolidated statement of changes in equity.

The fair values of the liability components were estimated at the issuance dates using equivalent market interest rates for similar bonds without a conversion option. The residual amounts were assigned as the equity components and are included in shareholders' equity.

36. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018				2017			
	Variable interest rate (%)	Fixed interest rate (%)	Maturity	HK$'000	Variable interest rate (%)	Fixed interest rate (%)	Maturity	HK$'000
Current								
Bank borrowings – unsecured	N/A	4.75–6.9	2019	280,440	N/A	4.8–7.0	2018	250,052
Bank borrowings – secured (a)	4.41–5.94	N/A	2019	66,213	4.8–7.7	N/A	2018	149,100
Other borrowing – unsecured (c)	N/A	5.2	2019	48,000	N/A	Nil	2018	7,200
Other borrowing – unsecured (c)	N/A	4	On demand	84,000	N/A	–	–	–
Other borrowing – secured (b)	N/A	36	On demand	8,920	N/A	24	On demand	9,389
				487,573				415,741
Non-current								
Bank borrowings – unsecured	–	–	–	–	–	5.3	2019	58,800
Bank borrowings – secured (a)	4.41–5.94	N/A	2020–2032	1,196,598	4.8–7.7	N/A	2019–2032	1,319,230
				1,196,598				1,378,030
				1,684,171				1,793,771

36. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	2018 HK$'000	2017 HK$'000
Analysed into:		
Bank borrowings repayable:		
Within one year	**346,653**	399,152
In the second year	**62,936**	118,507
In the third to fifth year, inclusive	**260,992**	301,923
Over five years	**872,670**	957,600
	1,543,251	1,777,182
Other borrowings repayable:		
Within one year	**48,000**	7,200
The carrying amounts of the other borrowings that contain a repayment on demand clause (shown under current liabilities) but repayable:		
Within one year	**92,920**	9,389
	140,920	16,589
	1,684,171	1,793,771

Notes:

(a) Certain of the bank borrowings are secured by (i) the pledge of the Group's investment properties with a carrying amount of HK$1,687,200,000 (2017: HK$2,026,000,000) (note 16); and (ii) pledges of the Group's finance lease receivables with an aggregate carrying amount of HK$31,147,000 (2017: HK$33,106,000) (note 24).

(b) The Group's other borrowing is secured by certain trade receivables with an aggregate carrying amounts of HK$1,757,000 (2017: HK$1,880,000) (note 25), bears interests at 36% per annum (2017: 24% per annum) and is repayable on demand.

(c) Please refer to note (c) in note 35 for details.

(d) All bank borrowings are denominated in RMB and other borrowings are denominated in RMB and HK$.

37. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Temporary difference in respect of intangible assets HK$'000	Withholding taxes HK$'000	Total HK$'000
Deferred tax liabilities at 1 January 2017	241,000	3,161	244,161
Deferred tax credited to profit or loss during the year	–	(2,428)	(2,428)
Deferred tax liabilities at 31 December 2017 and 1 January 2018	241,000	733	241,733
Deferred tax credited to profit or loss during the year	(105,954)	(9)	(105,963)
Deferred tax liabilities at 31 December 2018	135,046	724	135,770

At 31 December 2018, the Group had estimated tax losses arising in Hong Kong of approximately HK$146,235,000 (2017: HK$146,235,000) and in Mainland China of approximately HK$432,476,000 (2017: HK$325,816,000), which have not yet been agreed by the relevant local tax authorities, that are available indefinitely and for five years, respectively, for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses, as in the opinion of the directors, they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2018, the Group has deductible temporary differences of approximately HK$41,684,000 (2017: 9,976,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be against which the deductible temporary differences can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. For the year ended 31 December 2018, deferred tax liabilities were provided based on the forecasted dividend payout because the directors believe that certain PRC subsidiaries would not pay out all their earnings as dividends.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

38. SHARE CAPITAL

Shares

	2018 HK$'000	2017 HK$'000
Issued and fully paid:		
5,943,745,741 ordinary shares	**2,234,815**	2,234,815

All the shares issued during the year rank pari passu in all respects with the existing shares.

A summary of movements in the Company's share capital is as follows:

	Number of share in issue	Share capital HK$'000	Total HK$'000
At 1 January 2017, 31 December 2017 and 31 December 2018	5,943,745,741	2,234,815	2,234,815

Share options

Details of the Company's share option scheme and the share options issued under the Company's expired share option scheme are included in note 39 to the financial statements.

39. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, customers of the Group, the Company's shareholders, and any non-controlling shareholder in the Company's subsidiaries. The Scheme became effective on 15 April 2005 and expired on 14 April 2015 upon the expiry of the 10-year period. No further options was granted but in all other aspects, the provisions of the Scheme shall remain in full force and effect, for options which were granted during the life of the Scheme, and may continue to be exercisable in accordance with their respective terms of issue.

For the sake of the continuity of a share option scheme for the Company to provide incentives and/or reward to the eligible participants including directors, business or joint venture partners, contractors, agents or representatives, consultants, advisers, suppliers, producers or licensors, customers, licensees or sub-licensees, distributors, landlords or tenants or sub-tenants of the Company, or any person who, in the sole discretion of the Board, has contributed or may contribute to the Company. The Shareholders passed an ordinary resolution at the annual general meeting of the Company held on 25 June 2015 to approve the adoption of the new share option scheme (the "New Share Option Scheme") for 10 years period from its adoption date in substantially similar terms as those of the Scheme. Under the terms of the New Share Option Scheme, the Directors may, at their discretion, offer any eligible participants options to subscribe for shares subject to the terms and conditions stipulated in the New Share Option Scheme.

39. SHARE OPTION SCHEME (continued)

The maximum number of unexercised share options permitted to be granted under the New Share Option Scheme up to the date of this annual report is 593,624,574, that is, upon their exercise, equivalent to 10% of the shares of the Company in issue as at the date of the Company's annual general meeting on 25 June 2015. The maximum number of shares issuable under share options to each eligible participant in the New Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and ends on a date which is not later than ten years from the date of grant of the share options but subject to the provisions for early termination of the New Share Option Scheme.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The movements in share options under the Scheme during the year are as follows:

	2018		2017	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**0.23**	**215,230**	0.23	215,230
Lapsed during the year	**0.23**	**(8,980)**	–	–
At 31 December	**0.23**	**206,250**	0.23	215,230

39. SHARE OPTION SCHEME (continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2018

Number of options '000	**Grantees**	**Exercise price* HK$ per share**	**Exercisable period**
206,250	Employees and consultants	0.227	31-8-2010 to 30-8-2020
206,250			

2017

Number of options '000	Grantees	Exercise price* HK$ per share	Exercisable period
206,250	Employees and consultants	0.227	31-8-2010 to 30-8-2020
4,490	Former Director	0.236	13-6-2013 to 12-6-2022
4,490	Former Director	0.236	13-6-2014 to 12-6-2022
215,230			

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of equity-settled share options granted during 2012 was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2012
Historical volatility (%)	50.33
Risk-free interest rate (%)	1.067
Expected exercise multiple	2
Expected life of options (year)	10
Share price at grant date (HK$ per share)	0.236

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not be the actual outcome.

At the end of the reporting period, the Company had 206,250,000 (2017: 215,230,000) share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 206,250,000 (2017: 215,230,000) additional ordinary shares of the Company and additional share capital of HK$46,819,000 (2017: HK$48,938,000) (before issue expenses).

39. SHARE OPTION SCHEME (continued)

No other feature of the options granted was incorporated into the measurement of fair value.

At the date of approval of these financial statements, the Company had 206,250,000 (2017: 215,230,000) share options outstanding under the Scheme, which represented approximately 3.5% (2017: 3.6%) of the Company's shares in issue as at that date.

40. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 50 of the financial statements.

The Group's reserve funds represent the Group's share of the statutory surplus reserve funds of certain subsidiaries operating as co-operative joint ventures/foreign investment enterprises in Mainland China. Pursuant to these subsidiaries' articles of association and the PRC Company Law, each of these subsidiaries shall make an allocation from its profit after tax at the rate of 10% to the statutory surplus reserve fund, until such reserve reaches 50% of its registered capital. Part of the statutory surplus reserve may be capitalised as the subsidiaries' registered capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital of the subsidiaries. The statutory reserve is non-distributable other than in the event of liquidation.

The special capital reserve represents the undertaking given by the Company (the "Undertaking") in connection with the capital reduction during the year ended 31 March 2000. The special capital reserve shall not be treated as realised profits and shall be treated as an undistributable reserve as long as there shall remain any outstanding debts or claims which were in existence on the date of the cancellation of the shares of the Company pursuant to the capital reduction, provided that the amount of the reserve may be reduced by the amount of any future increase in the share capital and the share premium account. Any part of the reserve so reduced is released from the terms of the Undertaking and the Company may apply that part so released as a distributable reserve.

The capital reserve represents the excess of consideration over the proportion of net assets held by non-controlling shareholders from the partial disposal of Spotwin Investment Limited, an indirect non-wholly-owned subsidiary of the Group in previous years.

41. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its buildings and investment properties under non-cancellable operating lease arrangements, with leases negotiated for terms ranging from one to five years.

At 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018 **HK$'000**	2017 HK$'000
Within one year	**2,727**	1,455
In the second to fifth year, inclusive	**1,452**	2,728
	4,179	4,183

41. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases certain of its office premises, land, buildings and staff quarters under non-cancellable operating lease arrangements. Leases for properties are negotiated for terms ranging between one to twenty years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**4,593**	6,166
In the second to fifth year, inclusive	**2,453**	11,030
After five years	**–**	280
	7,046	17,476

42. COMMITMENTS

In addition to the operating lease commitments detailed in note 41(b) above, the Group had the following capital commitments as at the end of the reporting period:

	2018 HK$'000	2017 HK$'000
Contracted, but not provided for		
Property, plant and equipment	**3,543**	21,028

43. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2018 HK$'000	2017 HK$'000
Interest expenses to related companies	(i)	**28,216**	14,675
Interest expenses to non-controlling shareholders	(ii)	**11,385**	11,385
Interest income from joint ventures	(iii)	**7,360**	12,726

Notes:

(i) The interest expenses paid to related companies whose ultimate holding company is one of the Company's substantial shareholders were charged at an interest rate ranging from 5% to 5.8% per annum.

(ii) The interest expenses paid to non-controlling shareholders were charged at interest rate of 5% per annum.

(iii) The interest income received from joint ventures was changed at interest rates of 4% per annum.

(b) Other transactions and outstanding balances with related parties:

Details of the Group's balances with joint ventures, non-controlling shareholders and related companies are included in the respective notes to the financial statements.

(c) Compensation of key management personnel of the Group:

	2018 HK$'000	2017 HK$'000
Short term employee benefits	**899**	344
Total compensation paid to key management personnel	**899**	344

Further details of directors' and chief executives' emoluments are included in note 11 to the financial statements.

44. DISPOSAL OF SUBSIDIARIES

(a) On 11 April 2018 and 15 November 2018, the Group entered into share transfer agreements with individual third parties for the disposal of: 1) Jetco Innovations Limited, Shandong Sinogas Company Limited and its subsidiaries and associates (collectively referred to as "Shandong") and 2) Sino Gas Group Hong Kong Limited, Sinogas (Xuzhou) Cleanly Fuel Co., Limited, Xuzhou Sinogas Bus Fuel Company Limited, Xuchang Sinogas Company Limited, Lucky Success Group Limited, Tide Link International Limited and Xuzhou Zhongyou Huijin Gas Company Limited (collectively referred to as "Xuzhou") respectively. The net (liabilities)/assets disposed are as follows:

	Notes	**Shandong HK$'000**	**Xuzhou HK$'000**	**Total HK$'000**
Net (liabilities)/assets disposed of:				
Property, plant and equipment	14	6,473	7,591	14,064
Prepaid land lease payments		1,384	10,719	12,103
Inventories		1,869	553	2,422
Trade receivables		7,906	214	8,120
Prepayments, deposits and other receivables		955	13,127	14,082
Balances with non-controlling shareholders		–	246	246
Balances with fellow subsidiaries, net		11,460	1,517	12,977
Bank balances and cash		2,635	1,379	4,014
Trade payables		(11,866)	(196)	(12,062)
Other payables and accruals		(34,385)	(5,924)	(40,309)
Bank and other borrowings		–	(7,910)	(7,910)
		(13,569)	21,316	7,747
Gain on disposal of subsidiaries:				
Consideration received		29,325	17,337	46,662
Net liabilities/(assets) disposal of		13,569	(21,316)	(7,747)
Non-controlling interest		–	5,923	5,923
Attributable goodwill	17	–	(2,786)	(2,786)
Cumulative exchange differences reclassified from equity to profit or loss on lost of control of the subsidiaries		9,401	1,207	10,608
		52,295	365	52,660
Satisfied by:				
Cash		29,325	15,820	45,145
Waiver of intercompany debts		–	1,517	1,517
		29,325	17,337	46,662

44. DISPOSAL OF SUBSIDIARIES (continued)

(a) (continued)

An analysis of the cash flows in respect of the disposal of subsidiaries is as follows:

	2018 HK$'000
Cash consideration	**45,145**
Bank balances and cash disposed of	**(4,014)**
Net inflow of cash and cash equivalents included in cash flows from investing activities	**41,131**

(b) During the year ended 31 December 2017, the Group entered into share transfer agreements with individual third parties for the disposal of several subsidiaries. The net assets disposed of were as follows:

	Notes	2017 HK$'000
Net assets disposed of:		
Property, plant and equipment	14	9,024
Inventories		1,027
Trade receivables		3,098
Prepayments, deposits and other receivables		10,680
Balances with fellow subsidiaries, net		11,501
Bank balances and cash		2,846
Trade payables		(4,262)
Other payables and accruals		(21,496)
		12,418
Gain on disposal of subsidiaries:		
Consideration received		39,269
Net assets disposed of		(12,418)
Attributable goodwill		(6,634)
Cumulative exchange differences reclassified from equity to profit or loss on lost of control of the subsidiaries		7,525
		27,742
Satisfied by:		
Cash		27,768
Waiver of intercompany debts		11,501
		39,269

44. DISPOSAL OF SUBSIDIARIES (continued)

(b) (continued)

An analysis of the cash flows in respect of the disposal of subsidiaries is as follows:

	2017 HK$'000
Cash consideration	27,768
Bank balances and cash disposed of	(2,846)
Net inflow of cash and cash equivalents included in cash flows from investing activities	24,922

45. CAPITAL RISK MANAGEMENT

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

The Group monitors capital using a gearing ratio, which is net debt divided by adjusted capital plus net debt. The Group's policy is to maintain the gearing ratio below 100%. Net debt includes interest-bearing bank and other borrowings, finance lease payable, loans from related companies, trade and other payables, accruals, loans from non-controlling shareholders, amounts due to joint ventures and the liability component of convertible bonds less cash and bank balances. Capital represents the equity attributable to owners of the Company.

45. CAPITAL RISK MANAGEMENT (continued)

The gearing ratios as at the end of the reporting periods were as follows:

	2018 HK$'000	2017 HK$'000
Trade payables	**8,720**	20,977
Other payables and accruals	**99,854**	73,064
Finance lease payable	**–**	1,128
Loans from joint ventures	**8,736**	9,196
Loans from related companies	**564,982**	372,253
Loans from non-controlling shareholders	**307,779**	296,509
Interest-bearing bank and other borrowings	**1,684,171**	1,793,771
Convertible bonds – the liability component	**–**	182,011
Total debt	**2,674,242**	2,748,909
Less: Bank balances and cash	**(40,484)**	(34,867)
Net debt	**2,633,758**	2,714,042
Equity attributable to owners of the Company	**82,651**	684,837
Adjusted capital and net debt	**2,716,409**	3,398,879
Gearing ratio	**97.0%**	79.9%

46. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
Financial assets at amortised cost	**361,713**	–
Equity instrument at FVTOCI	**16,622**	–
Loans and receivables (including cash and cash equivalents)	**–**	463,236
Available for sale investment	**–**	58,733
Financial liabilities		
Amortised costs	**2,662,829**	2,742,956

46. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, convertible bonds, loans from related companies and non-controlling shareholders and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, trade payables and finance lease receivables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group's transactions were mainly conducted in the functional currency of the respective group entities.

The carrying amounts of the Group's intra-group balances and loans from related companies denominated in currencies other than the functional currency of the relevant group entities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States Dollars ("US$")	**43,200**	43,200	**147,253**	147,253
RMB	**828,198**	214,354	**290,000**	225,000

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposures should the need arise.

Sensitivity analysis

The Group is mainly exposed to the fluctuation of relevant foreign currency against HK$.

The following table details the Group's sensitivity to a 5% increase and decrease in the relevant foreign currency against the functional currency of the relevant group entities. 5% represents the reasonably possible change in foreign exchange rates if currency risk is to be assessed by key management. The sensitivity analysis includes only outstanding relevant foreign currency denominated monetary items, except US$ as the directors of the Company consider that the Group's exposure to US$ is insignificant on the ground that HK$ is pegged to US$. The sensitivity analysis adjusts their translation at the year end for a 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in pre-tax loss where the relevant foreign currency weakens 5% against HK$. For a 5% strengthening of the relevant foreign currency against HK$, there would be an equal and opposite impact on the loss.

	2018	2017
	HK$'000	HK$'000
RMB impact	**26,910**	(532)

46. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment risk assessment

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties was the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Trade receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix.

The Group's concentration of credit risk by geographical locations is all in the PRC, which accounted for 100% of the total debtors for both years. The Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers.

Although the bank balances are concentrated on certain counterparties, the credit risk on liquid funds are limited because the counterparties are either state-owned banks in the PRC or banks with high credit ratings and quality.

Other than the concentration of the credit risk on trade receivables and bank balances, the Group do not have any other significant concentration of credit risk.

46. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment risk assessment (continued)

Trade receivables arising from contracts with customers (continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables and finance lease receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2018	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount HK$'000
Financial assets at amortised cost					
Amounts due from joint ventures	20	N/A	(Note 1a)	12m ECL	158,640
Bank balances	31	AA+ to A	N/A	12m ECL	40,404
Other receivables	26	N/A	(Note 1b)	12m ECL	42,152
			Loss	Credit-impaired	26,763
Promissory note receivable	27	N/A	(Note 1a)	12m ECL	89,000
Trade receivables	25	N/A	(Note 2)	Lifetime ECL (provision matrix)	3,720
		N/A	Doubtful	Lifetime ECL (individual assessment)	59,421
		N/A	Loss	Credit-impaired	1,949
Other items					
Finance lease receivables	24	N/A	(Note 2)	Lifetime ECL (provision matrix)	31,147

46. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment risk assessment (continued)

1. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Not past due/ No fixed repayment terms HK$'000
Amounts due from joint ventures	158,640
Other receivables	42,152
Promissory note receivable	89,000

   a. The credit risk on amounts due from joint ventures and promissory note receivable is low because these balances are not past due and have good repayment history. Accordingly, the amount of ECL is immaterial on these balances.

   b. For other receivables, except for balances that are credit impaired, the credit risk on the remaining balances is low as they are not past due and have good repayment history. Accordingly, the amount of ECL is immaterial.

2. For trade receivables and finance lease receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by past due status.

Provision matrix — debtors' aging

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its business on selling CNG and petroleum products and provision of finance lease respectively. It is because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.

For trade receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired), the credit risk is low because the balances are not past due. The amount of ECL is immaterial based on the estimated loss rates.

For finance lease receivables, the credit risk is low because the balances are not past due and the counterparties have secured the leases with deposits paid to the Group which reduces the exposure at default. The amount of ECL is immaterial based on the estimated loss rates.

46. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment risk assessment (continued)

Provision matrix — debtors' aging (continued)

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2018, impairment allowance of HK$31,704,000 was made on debtors with significant gross balances of HK$59,421,000 which are assessed individually.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
As at 1 January 2018	–	2,112	2,112
Changes due to financial instruments recognised as at 1 January:			
– Impairment losses recognised (Note)	31,704	–	31,704
– Disposal of subsidiaries	–	(291)	(291)
Exchange adjustments	–	128	128
As at 31 December 2018	31,704	1,949	33,653

Note:

Increase in lifetime ECL (not credit-impaired) was due to significant delay in repayment for two significant balances trade debtors with total gross carrying amounts of HK$59,421,000. Management has based on the past repayment pattern with forward looking information to determine the provision rate of ECL for these two debtors.

The following table shows the movement in lifetime ECL that has been recognised for other receivables.

	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
As at 1 January 2018	46,752	46,752
Changes due to financial instruments recognised as at 1 January:		
– Impairment losses recognised	5,390	5,390
– Disposal of subsidiaries	(23,661)	(23,661)
Exchange adjustments	(1,718)	(1,718)
As at 31 December 2018	26,763	26,763

46. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings, convertible bonds, finance leases and other fund raising activities in the capital market. The Group has detailed operating plans for future development and will also consider arranging necessary financing through fund raising activities in the capital market.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2018							
	Weighted average interest rate	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables	N/A	–	7,548	1,172	–	–	8,720	8,720
Other payables	N/A	–	88,441	–	–	–	88,441	88,441
Loans from joint ventures	N/A	8,736	–	–	–	–	8,736	8,736
Loans from non-controlling shareholders	5	–	–	–	353,946	–	353,946	307,779
Loans from related companies	5.67	–	–	–	645,168	–	645,168	564,982
Interest-bearing bank and other borrowings	5.36	93,920	25,273	468,442	381,362	1,060,596	2,029,593	1,684,171
		102,656	121,262	469,614	1,380,476	1,060,596	3,134,604	2,662,829

	2017							
	Weighted average interest rate	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables	N/A	–	10,993	9,984	–	–	20,977	20,977
Convertible bonds	3.44	–	51,216	130,795	–	–	182,011	182,011
Other payables	N/A	–	–	67,111	–	–	67,111	67,111
Loans from joint ventures	N/A	9,196	–	–	–	–	9,196	9,196
Finance lease payable	2.5	–	206	634	288	–	1,128	1,128
Loans from non-controlling shareholders	5	–	–	–	311,334	–	311,334	296,509
Loans from related companies	5.67	–	–	–	396,653	–	396,653	372,253
Interest-bearing bank and other borrowings	4.58	9,489	15,557	350,755	560,182	1,154,021	2,090,004	1,793,771
		18,685	77,972	559,279	1,268,457	1,154,021	3,078,414	2,742,956

46. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Other borrowings with a repayment on demand clause are included in the "on demand" time band in the above maturity analysis. As at 31 December 2018, the aggregate carrying amounts of these other loans amounted to HK$92,920,000 (31 December 2017: HK$9,389,000). Taking into account the Group's financial position, the directors do not believe that it is probable that the lenders will exercise their discretionary rights to demand immediate repayment. The directors believe that such other loans will be repaid within one year after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

	Maturity Analysis — Other borrowings with a repayment on demand clause based on scheduled repayments					
	Less than 3 months	**3–less than 12 months**	**1–5 years**	**Over 5 years**	**Total undiscounted cash outflows**	**Carrying amount**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2018	**93,920**	**–**	**–**	**–**	**93,920**	**92,920**
31 December 2017	9,489	–	–	–	9,489	9,389

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings, other borrowings, loans from non-controlling shareholders and loans from related companies. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and borrowings. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and RMB loan interest rate issued by the People's Bank of China arising from the Group's RMB denominated borrowings. The Group aims at keeping borrowings at variable rates. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

46. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Interest rate risk (continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2017: 50 basis points) increase or decrease in variable-rate bank borrowings are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Bank balances are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

A 50 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates on variable-rate bank borrowings had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2018 would have decreased/increased by approximately HK$4,736,000 (2017: HK$5,506,000).

(c) Fair value and fair value hierarchy of financial instruments

Management has assessed that the fair values of trade receivables, cash and bank balances, trade payables, financial liabilities included in other payables and accruals, current portions of financial assets included in deposits and other receivables, finance lease receivables, promissory notes receivable, finance lease payable, loans from related companies, interest-bearing bank and other borrowings, amounts due from/to joint ventures, and amounts due from non-controlling shareholders approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amounts at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of finance lease receivables, finance lease payable, loans from related companies, loans from non-controlling shareholders and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for the non-current portion of interest-bearing bank and other borrowings as at 31 December 2018 was assessed to be insignificant. The fair value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

The fair value of the listed equity investment is based on quoted market prices.

46. FINANCIAL INSTRUMENTS (continued)

(c) Fair value and fair value hierarchy of financial instruments (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Asset measured at fair value:

As at 31 December 2018

		Fair value measurement using		
	Note	**Quoted prices in active markets (Level 1) HK$'000**	**Significant observable inputs (Level 2) HK$'000**	**Total HK$'000**
Equity instrument at FVTOCI	21	**16,622**	**–**	**16,622**

As at 31 December 2017

		Fair value measurement using		
	Note	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Total HK$'000
AFS investment	22	58,733	–	58,733

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 for financial assets (2017: Nil).

47. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Convertible bonds HK$'000	Finance lease payable HK$'000	Interest-bearing bank and other borrowings HK$'000	Loans from non-controlling shareholders HK$'000	Loans from related companies HK$'000	Loan interests payable to related companies and other borrowings HK$'000	Total HK$'000
At 1 January 2017	167,000	1,929	1,746,568	285,124	357,578	2,309	2,560,508
Financing cash flows	(6,635)	(873)	(150,452)	–	–	–	(157,960)
Foreign exchange movement	–	–	112,745	–	14,675	1,153	128,573
Interest expense	21,646	72	80,521	11,385	–	14,675	128,299
Amortisation of finance costs	–	–	4,389	–	–	–	4,389
At 31 December 2017	182,011	1,128	1,793,771	296,509	372,253	18,137	2,663,809
Financing cash flows	(57,893)	(1,155)	(242,316)	–	202,459	(8,807)	(107,712)
Transfer to other borrowings	(140,000)	–	140,000	–	–	–	–
Foreign exchange movement	–	–	(78,724)	(115)	(9,730)	(601)	(89,170)
Interest expense	15,882	27	69,965	11,385	–	29,065	126,324
Amortisation of finance costs	–	–	1,475	–	–	–	1,475
At 31 December 2018	–	–	1,684,171	307,779	564,982	37,794	2,594,726

48. PRINCIPAL SUBSIDIARIES

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of ownership and voting power interest to the Company: Directly 2018 %	Directly 2017 %	Indirectly 2018 %	Indirectly 2017 %	Principal activities
Excellent Top Group Limited	British Virgin Islands	US$1	**100**	100	**–**	–	Investment holding
Chengdu Sheng Yuan Natural Gas Company Limited*^+	PRC/ Mainland China	RMB5,000,000	**–**	–	**38.5 (note a)**	38.5	Operation of gas refueling stations
Chengdu Sinogas Company Limited^+	PRC/ Mainland China	HK$20,000,000	**–**	–	**70**	70	Operation of gas refueling stations
Chuang Jie Ran Qi (Chengdu) Company Limited^+	PRC/ Mainland China	HK$30,000,000	**–**	–	**91**	91	Operation of gas refueling stations
Guangdong Zi Yu Tai Finance Leasing Company Limited#+	PRC/ Mainland China	US$100,000,000	**–**	–	**100**	100	Provision of finance lease and loan services
Ontex Enterprises Limited*+	British Virgin Islands/Hong Kong	US$100	**–**	–	**60**	60	Provision of land development and sale of construction materials
Shenzhen Sinogas Environmental Technology Co., Limited#+	PRC/ Mainland China	RMB20,000,000	**–**	–	**100**	100	Investment holding
Spotwin Investment Limited*+	British Virgin Islands/Hong Kong	US$100	**–**	–	**49.5 (note b)**	49.5	Provision of land development and sale of construction materials

48. PRINCIPAL SUBSIDIARIES (continued)

* These companies are subsidiaries of non-wholly-owned subsidiaries of the Company and are accordingly accounted for as subsidiaries by virtue of the Company's control in the boards of directors of these companies.

^ These subsidiaries are registered as co-operative joint ventures under PRC law.

These subsidiaries are registered as wholly-foreign-owned enterprises under PRC law.

+ The statutory financial statements of the subsidiaries were not audited by Deloitte Touche Tohmatsu or another member firm of the Deloitte Touche Tohmatsu global network.

Notes:

(a) Since the group holds 70% of the issued share capital of Chengdu Sinogas Company Limited, which holds 55% of the issued share capital of Chengdu Sheng Yuan Natural Gas Company Limited, so the group control the composition of the board of the directors of Chengdu Sheng Yuan Natural Gas Company Limited. Therefore it is classified as a subsidiary of the Group.

(b) Since the group holds 60% of the issued share capital of Ontex Enterprises Limited, which directly and indirectly holds 32.5% and 50% of the issued share capital of Spotwin Investment Limited respectively, so the group control the composition of the board of the directors of Ontex Enterprises Limited. Therefore it is classified as a subsidiary of the Group.

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

None of the subsidiaries had issued any debt securities at the end of this year.

During the year, the Group entered into share transfer agreements with third party purchasers, to sell 100% interest in the issued share capital of certain wholly-owned subsidiaries. Details of the disposal are set out in note 44(a) to the financial statements.

The table below details of non-wholly owned subsidiary of the Group that have material non-controlling interests.

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		31/12/2018	31/12/2017	**31/12/2018 HK$'000**	31/12/2017 HK$'000	**31/12/2018 HK$'000**	31/12/2017 HK$'000
Ontex Enterprises Limited	British Virgin Islands	**50.5%**	50.5%	**(181,075)**	(9,562)	**179,844**	360,919
Individually immaterial subsidiaries with non-controlling interests	PRC/Mainland China			**1,663**	(6,230)	**12,941**	19,340
				179,412	15,792	**192,785**	380,259

48. PRINCIPAL SUBSIDIARIES (continued)

Summarised financial information in respect of the Group's subsidiaries that has material non-controlling interests is set out below.

The summarised financial information below represents amounts before intragroup eliminations.

	31/12/2018 HK$'000	31/12/2017 HK$'000
Ontex Enterprises Limited and its subsidiaries		
Current assets	**400,012**	536,634
Non-current assets	**580,633**	1,004,807
Current liabilities	**(760,486)**	(797,282)
Non-current liabilities	**(190,457)**	(355,327)
Equity attributable to owners of the Company	**(150,142)**	27,913
Non-controlling interests	**179,844**	360,919
Revenue	**—**	2,200
Expenses	**(359,130)**	(20,727)
Loss and total comprehensive expense for the year	**(359,130)**	(18,527)
Loss and total comprehensive expense attributable to the non-controlling interests	**(181,075)**	(9,562)

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	**141**	1,102
Investments in subsidiaries	**76,599**	94,779
Due from subsidiaries	**794,659**	868,635
Other asset	**2,680**	2,680
	874,079	967,196
CURRENT ASSETS		
Prepayments, deposits and other receivables	**1,349**	1,457
Due from subsidiaries	**627,465**	482,018
Due from joint ventures	**130**	128
Bank balances and cash	**707**	1,047
	629,651	484,650
CURRENT LIABILITIES		
Other payables and accruals	**39,975**	22,016
Finance lease payable	**–**	840
Convertible bonds	**–**	182,011
Interest-bearing bank and other borrowings	**132,000**	–
Due to subsidiaries	**94,510**	49,993
	266,485	254,860

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

	2018 HK$'000	2017 HK$'000
NET CURRENT ASSETS	**363,166**	229,790
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,237,245**	1,196,986
NON-CURRENT LIABILITIES		
Finance lease payable	–	288
Loans from related companies	**509,943**	372,253
Loan from a non-controlling shareholder	**252,367**	240,983
	762,310	613,524
NET ASSETS	**474,935**	583,462
CAPITAL AND RESERVE		
Share capital	**2,234,815**	2,234,815
Equity component of convertible bonds	–	61,314
Other reserves	**(1,759,880)**	(1,712,667)
	474,935	583,462

Wang Ying
Director

Mu Yan
Director

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share option reserve HK$'000	Equity component of convertible bonds HK$'000	Special capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017	15,098	61,314	823,357	(2,100,686)	(1,200,917)
Loss and total comprehensive expense for the year	–	–	–	(450,436)	(450,436)
At 31 December 2017 and 1 January 2018	15,098	61,314	823,357	(2,551,122)	(1,651,353)
Loss and total comprehensive expense for the year	–	–	–	(108,527)	(108,527)
Transfer to accumulated losses upon maturity of convertible bonds	–	(61,314)	–	61,314	–
Transfer upon forfeiture of options	(984)	–	–	984	–
At 31 December 2018	14,114	–	823,357	(2,597,351)	(1,759,880)

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 3 to the consolidated financial statements. The amount will be transferred to the accumulated losses when the related options are exercised or forfeited, or expire.

50. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current year's presentation.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2019.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements is set out below. This summary is not part of the audited financial statements.

RESULTS

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**139,822**	252,606	357,628	1,236,123	1,619,742
LOSS BEFORE TAX	**(801,112)**	(310,186)	(264,316)	(266,930)	(56,428)
Income tax credit/(expense)	**104,629**	(8,249)	(1,030)	(11,161)	(15,727)
LOSS FOR THE YEAR	**(696,483)**	(318,435)	(265,346)	(278,091)	(72,155)
Attributable to:					
Owners of the Company	**(517,071)**	(302,643)	(259,711)	(294,968)	(79,799)
Non-controlling interests	**(179,412)**	(15,792)	(5,635)	16,877	7,644
	(696,483)	(318,435)	(265,346)	(278,091)	(72,155)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**3,088,674**	4,058,098	4,292,751	4,979,131	3,864,552
Total liabilities	**(2,813,238)**	(2,993,002)	(2,960,235)	(3,304,122)	(2,397,548)
Non-controlling interests	**(192,785)**	(380,259)	(394,577)	(387,443)	(360,120)
	82,651	684,837	937,939	1,287,566	1,106,884

PARTICULARS OF INVESTMENT PROPERTIES

Details of the investment properties at the end of the reporting period are as follows:

Location	Use	Tenure	Attributable interest of the Group
Rooms 808–809, Jinma Building, Xue Qing Road, Hai Dian District, Beijing	Office	Medium term lease	100%
Rooms 101–102, 699 Xinhua Road, Xinhua Ja Li Building, Shanghai	Office	Medium term lease	100%
Rooms 103–106, 699 Xinhua Road, Xinhua Ja Li Building, Shanghai	Office	Medium term lease	100%
Rooms 201–208, 699 Xinhua Road, Xinhua Ja Li Building, Shanghai	Office	Medium term lease	100%
Block B, Tower 17, International Shipping Service Center, No. 18 Gong Ping Road, Shanghai	Office and carpark	Medium term lease	100%