# CF ENERGY CORP.
(FORMERLY "CHANGFENG ENERGY INC.")

Report and Consolidated Financial Statements
For the years ended December 31, 2019 and 2018

CF ENERGY CORP.

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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Deloitte. 德勤

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS AND THE BOARD OF DIRECTORS OF CF ENERGY CORP.
(incorporated in Canada with limited liability)

**Opinion**

We have audited the consolidated financial statements of CF Energy Corp (the "Company"). and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of profit and loss and other comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by International Accounting Standard Board ("IASB").

**Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other Information**

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the financial statements does not cover the other information and we do not and will 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS AND THE BOARD OF
DIRECTORS OF CF ENERGY CORP. - continued
(incorporated in Canada with limited liability)

**Other Information** - continued

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is 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 management either intends to liquidate the Group or to cease operations, or has 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 Financial Statements**

Our objectives are to obtain reasonable assurance about whether the 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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.

**Auditor's Responsibilities for the Audit of the Financial Statements** - continued

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

- Conclude on the appropriateness of management's 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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 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.

The engagement partner on the audit resulting in this independent auditor's report is Toy, Jimmy.

Deloitte Touche Tohmatsu

**Deloitte Touche Tohmatsu**
Certified Public Accountants
Hong Kong
April 28, 2020

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| | NOTES | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 5 | 438,021 | 400,515 |
| Cost of sales | | (263,344) | (235,559) |
| Gross profit | | 174,677 | 164,956 |
| Other income | 7 | 1,482 | 4,751 |
| Other gains and losses | 8 | (1,444) | (3,665) |
| Impairment losses under expected loss model, net of reversal | 10 | (379) | 55 |
| Fair value change on put option liability | 13 | - | 22,627 |
| Fair value change on derivative financial instrument | 24 | 541 | - |
| Selling and marketing expenses | | (53,035) | (54,226) |
| General and administrative expenses | | (45,296) | (52,052) |
| Finance costs | 9 | (5,445) | (7,249) |
| Listing expenses | | (2,474) | (7,946) |
| Share of profit (loss) of associates | 22 | 978 | (5,483) |
| Share of loss of a joint venture | 23 | (919) | (827) |
| Loss on disposal of a subsidiary | 50 | (133) | - |
| Loss on disposal of an associate | 22 | (379) | - |
| Deemed gain on acquisition of a subsidiary | 32 | 1,750 | - |
| Profit before tax | | 69,924 | 60,941 |
| Income tax expense | 11 | (22,766) | (25,266) |
| Profit for the year from continuing operations | 12 | 47,158 | 35,675 |
| **Discontinued operation** | | | |
| Profit for the year from discontinued operation | 13 | - | 30,293 |
| Profit and total comprehensive income for the year | | 47,158 | 65,968 |
| Profit and total comprehensive income for the year attributable to owners of the Company | | | |
| - From continuing operations | | 46,998 | 36,514 |
| - From discontinued operation | | - | 21,097 |
| | | 46,998 | 57,611 |
| Profit (loss) and total comprehensive income for the year attributable to non-controlling interests | | | |
| - From continuing operations | | 160 | (839) |
| - From discontinued operation | | - | 9,196 |
| | | 160 | 8,357 |
| | | 47,158 | 65,968 |

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| | NOTE | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|---|
| Total comprehensive income attributable to | | | |
| - Owners of the Company | | 46,998 | 57,611 |
| - Non-controlling interests | | 160 | 8,357 |
| | | 47,158 | 65,968 |
| Earnings per share | | | |
| *From continuing and discontinued operations* | | | |
| - Basic | 16 | RMB0.72 | RMB0.89 |
| - Diluted | 16 | RMB0.71 | RMB0.86 |
| *From continuing operations* | | | |
| - Basic | 16 | RMB0.72 | RMB0.56 |
| - Diluted | 16 | RMB0.71 | RMB0.55 |

CF ENERGY CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AT DECEMBER 31, 2019 AND 2018

| | NOTES | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property and equipment | 17 | 433,200 | 394,809 |
| Right-of-use assets | 19 | 21,353 | - |
| Long-term lease prepayments | 18 | 406 | 11,880 |
| Goodwill | 20 | 1,635 | - |
| Intangible assets | 21 | 10,000 | 4,538 |
| Interests in associates | 22 | 28,229 | 31,628 |
| Interest in a joint venture | 23 | - | 17,169 |
| Amount due from an associate | 31 | 15,802 | 16,152 |
| Amounts due from non-controlling interests of subsidiaries | 31 | 2,062 | 1,705 |
| Long-term deposits and advances | 28 | 16,058 | 10,640 |
| | | 528,745 | 488,521 |
| CURRENT ASSETS | | | |
| Current portion of long-term lease prepayments | 18 | 879 | 1,283 |
| Inventories | 25 | 5,293 | 5,763 |
| Contract assets | 26 | 7,659 | 7,064 |
| Amount due from a joint venture | 31 | - | 144 |
| Trade receivables | 27 | 46,302 | 27,893 |
| Other receivables, prepaid expenses and deposits | 28 | 37,994 | 30,440 |
| Derivative financial instrument | 24 | 541 | - |
| Restricted cash | 29 | 300 | 501 |
| Fixed bank deposits | 29 | 6,000 | 6,000 |
| Bank balances and cash | 29 | 127,990 | 80,494 |
| | | 232,958 | 159,582 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 30 | 71,677 | 65,879 |
| Amount due to an associate | 31 | - | 4,249 |
| Dividend payable to non-controlling interest of a subsidiary | | 1,827 | 1,827 |
| Contract liabilities | 33 | 110,505 | 110,842 |
| Lease liabilities | 36 | 1,651 | - |
| Income tax payable | | 11,097 | 17,269 |
| Short-term bank borrowings | 34 | 10,000 | 20,000 |
| Current portion of long-term debts | 35 | 15,000 | 23,919 |
| | | 221,757 | 243,985 |
| NET CURRENT ASSETS (LIABILITIES) | | 11,201 | (84,403) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 539,946 | 404,118 |

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - continued
AT DECEMBER 31, 2019 AND 2018

| | NOTES | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Long-term debts | 35 | 187,000 | 102,000 |
| Lease liabilities | 36 | 5,872 | - |
| Deferred income - government grants | 37 | 6,981 | 4,692 |
| Deferred tax liabilities | 38 | 12,060 | 10,431 |
| | | 211,913 | 117,123 |
| NET ASSETS | | 328,033 | 286,995 |
| CAPITAL AND RESERVES | | | |
| Share capital | 39 | 69,861 | 69,818 |
| Reserves | | 226,903 | 204,334 |
| Equity attributable to owners of the Company | | 296,764 | 274,152 |
| Non-controlling interests | | 31,269 | 12,843 |
| TOTAL EQUITY | | 328,033 | 286,995 |

The consolidated financial statements on pages 4 to 98 were approved and authorized for issue by the Board of Directors on April 28, 2020 and are signed on its behalf by:

| | |
|---|---|
| YONGBIAO DING | WENCHENG ZHANG |
| YONGBIAO DING<br>DIRECTOR | WENCHENG ZHANG<br>DIRECTOR |

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
# FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Contributed surplus RMB'000 (Note a) | Statutory surplus reserve RMB'000 (Note b) | Other reserves RMB'000 (Note c) | Retained earnings RMB'000 | Subtotal RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| As at January 1, 2018 | 66,689 | 19,298 | 40,060 | - | 91,434 | 217,481 | 6,500 | 223,981 |
| Profit and total comprehensive income for the year | - | - | - | - | 57,611 | 57,611 | 8,357 | 65,968 |
| Dividends declared to non-controlling interests of subsidiaries | - | - | - | - | - | - | (6,507) | (6,507) |
| Dividend recognized as distribution (note 15) | - | - | - | - | (6,671) | (6,671) | - | (6,671) |
| Share cancellation (note 39) | (20) | - | - | - | - | (20) | - | (20) |
| Share-based compensation expense | - | 3,326 | - | - | - | 3,326 | - | 3,326 |
| Options exercised (note 39) | 3,149 | (1,134) | - | - | - | 2,015 | - | 2,015 |
| Options expired/forfeited (note 40) | - | (570) | - | - | 570 | - | - | - |
| Transfer | - | - | 4,696 | - | (4,696) | - | - | - |
| Disposal of a subsidiary (note 14) | - | - | - | - | - | - | 3,203 | 3,203 |
| Deemed disposal of partial equity interest in a subsidiary (note 14) | - | - | - | - | 331 | 331 | (331) | - |
| Disposal of partial equity interest in a subsidiary (note 14) | - | - | - | 79 | - | 79 | 821 | 900 |
| Non-controlling interests arising from incorporation of a subsidiary | - | - | - | - | - | - | 800 | 800 |
| As at December 31, 2018 | 69,818 | 20,920 | 44,756 | 79 | 138,579 | 274,152 | 12,843 | 286,995 |
| Impact of first application of IFRS 16 (note 2.1) | - | - | - | - | (579) | (579) | (387) | (966) |
| As at January 1, 2019 (restated) | 69,818 | 20,920 | 44,756 | 79 | 138,000 | 273,573 | 12,456 | 286,029 |
| Profit and total comprehensive income for the year | - | - | - | - | 46,998 | 46,998 | 160 | 47,158 |
| Dividends declared to non-controlling interests of subsidiaries | - | - | - | - | - | - | (390) | (390) |
| Dividend recognized as distribution (note 15) | - | - | - | - | (19,900) | (19,900) | - | (19,900) |
| Deregistration of a non-wholly subsidiary (note 49) | - | - | - | - | - | - | 133 | 133 |
| Options surrendered (note 40) | - | (3,326) | - | - | - | (3,326) | - | (3,326) |
| Options exercised (note 39) | 43 | (14) | - | - | - | 29 | - | 29 |
| Transfer | - | - | 8,502 | - | (8,502) | - | - | - |
| Capital injection by non-controlling interest (note d) | - | - | - | - | - | - | 1,200 | 1,200 |
| Non-controlling interests arising from acquisition of a subsidiary (note 32) | - | - | - | - | - | - | 18,000 | 18,000 |
| Acquisition of non-controlling interest in a subsidiary (note 14) | - | - | - | (610) | - | (610) | (290) | (900) |
| As at December 31, 2019 | 69,861 | 17,580 | 53,258 | (531) | 156,596 | 296,764 | 31,269 | 328,033 |

Notes:

(a) Contributed surplus comprises capital contribution from shareholders and share-based compensation reserve.

(b) Statutory surplus reserve represents the statutory surplus reserve fund attributable to the Group set up by the subsidiaries in the People's Republic of China (the "PRC"). According to the relevant PRC regulations, the subsidiaries in the PRC are required to appropriate 10% of net profit as reported in the statutory financial statements to the statutory surplus reserve fund, and the statutory surplus reserve fund may be used for making up losses, if any, and increasing registered capital. The maximum amount appropriate to the statutory surplus reserve fund is 50% of the registered capital of the respective PRC subsidiaries. The statutory surplus reserve is not distributable.

(c) Other reserve as of December 31, 2018 represents the surplus between the consideration and the carrying amount attributable to the disposal of 5.4% equity interest in Hebei Riheng Clean Energy Co., Ltd. ("Riheng"), a non wholly-owned subsidiary of the Group, to an independent third party during the year ended December 31, 2018. On September 20, 2019, the Group acquired the remaining 5.4% equity interest in Riheng from the independent third party by waiving the unpaid consideration of RMB900,000 in the acquisition occurred in 2018. Details are set out in note 14.

(d) On November 27, 2019, Sichuan Tianzhiyuan Energy Technology Limited ("Tianzhiyuan"), the non-controlling interest of Meishan Hengtai Tianzhiyuan Energy Co., Ltd. ("Meishan"), a subsidiary of the Company completed the share capital injection of RMB1,200,000. Details are set out in note 50.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit for the year | 47,158 | 65,968 |
| Adjustments for: | | |
| Income tax expense | 22,766 | 25,266 |
| Interest income | (1,144) | (961) |
| Interest expense | 5,445 | 7,249 |
| Depreciation of property and equipment | 17,701 | 18,789 |
| Depreciation of right-of-use assets | 2,747 | - |
| Impairment loss under expected loss model, net of reversal | | |
| - trade receivables | 518 | 328 |
| - contract assets | (139) | (383) |
| Amortization of government grants | (264) | (225) |
| Amortization of long-term lease prepayments | 879 | 1,329 |
| Amortization of intangible assets | 625 | 568 |
| Share of (profit) loss of associates | (978) | 5,483 |
| Share of loss of a joint venture | 919 | 827 |
| Loss on disposal of an associate | 379 | - |
| Loss on disposal of a subsidiary | 133 | - |
| (Reversal of) share-based payments | (3,326) | 3,326 |
| Loss on disposals of property and equipment | 532 | 8 |
| Gain on disposal of a subsidiary (note 13) | - | (30,293) |
| Fair value change on put option liabilities | - | (22,627) |
| Fair value change on derivative financial instrument | (541) | - |
| Deemed gain on acquisition of a subsidiary (note 32) | (1,750) | - |
| Unrealized exchange (gain) loss on monetary items | (144) | 120 |
| Operating cash flows before movements in working capital | 91,516 | 74,772 |
| Decrease (increase) in inventories | 470 | (2,256) |
| (Increase) decrease in trade receivables | (18,927) | 280 |
| Decrease (increase) in other receivables, prepaid expenses and deposits | 718 | (8,535) |
| Decrease in long-term deposits and advances | 2,906 | 4,658 |
| Increase in contract assets | (456) | (151) |
| Decrease in trade and other payables | (8,380) | (11,706) |
| Decrease in contract liabilities | (337) | (5,166) |
| Increase (decrease) in amounts due from related parties | 444 | (3,335) |
| Cash generated from operations | 67,954 | 48,561 |
| Income tax paid | (27,856) | (26,632) |
| Interest paid | (8,458) | (8,407) |
| Interest received | 1,137 | 482 |
| NET CASH FROM OPERATING ACTIVITIES | 32,777 | 14,004 |

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| INVESTING ACTIVITIES | | |
| Deposit paid for acquisition of property and equipment | (117) | (18,355) |
| Acquisition of property and equipment | (12,027) | (43,819) |
| Acquisition of pipelines for relocation projects | (25,521) | (1,691) |
| Acquisition of intangible assets | (1,833) | (549) |
| Lease prepayment paid | - | (290) |
| Investment in an associate | (250) | - |
| Receipt of compensation on pipeline relocation projects | 23,033 | 350 |
| Net cash inflow from disposal of a subsidiary (note 13) | - | 42,114 |
| Advance to a joint venture (note 32) | (24,000) | - |
| Net cash inflow arising from acquisition of a subsidiary (note 32) | 12,819 | - |
| Withdrawal of pledged bank deposits | - | 1,008 |
| Placement of restricted cash | (200) | (501) |
| Withdrawal of restricted cash | 401 | - |
| Placement of fixed bank deposits | (18,000) | (6,000) |
| Withdrawal of fixed bank deposits | 18,000 | - |
| Increase in amount due from non-controlling interest of a subsidiary | - | (5) |
| Decrease in amount due from a related party | - | 2,621 |
| Receipt of government grant relating to assets | 2,553 | - |
| NET CASH USED IN INVESTING ACTIVITIES | (25,142) | (25,117) |
| FINANCING ACTIVITIES | | |
| Dividend paid | (19,900) | (6,671) |
| Dividend paid to non-controlling interests of subsidiaries | (390) | (7,200) |
| Proceeds on exercised share options | 29 | 2,015 |
| Payment for cancellation of shares | - | (20) |
| Repayments of lease liabilities | (5,692) | - |
| Repayment of interest on lease liabilities | (330) | - |
| Repayment of short-term bank borrowings | (20,000) | (50,212) |
| New short-term bank borrowings raised | 10,000 | 20,000 |
| Repayment of long-term debts | (24,000) | (22,000) |
| New long-term debt raised | 100,000 | - |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | 39,717 | (64,088) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 47,352 | (75,201) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | 80,494 | 155,365 |
| Effect of foreign exchange rate changes | 144 | 330 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 127,990 | 80,494 |
| Represented by: | | |
| Bank balances and cash | 127,990 | 80,494 |
| | 127,990 | 80,494 |

## 1. GENERAL

CF Energy Corp. (formerly known as "Changfeng Energy Inc.") (the "Company") is a public limited company originally incorporated under the Canada Business Corporations Act on May 4, 2006 until it changed its incorporation jurisdiction to British Columbia on June 18, 2018 under the Business Corporations Act (British Columbia). Its shares are listed on the TSX Venture Exchange. Following the approval of TSX Venture Exchange for the change of name, the Company changed its name from Changfeng Energy Inc. to CF Energy Corp. effective on April 12, 2019. The registered office of the Company is located at Suite 2600, Three Bentall Center, P.O. BOX 49314, 595 Burrard Street, Vancouver, British Columbia, V7X 1L3, Canada and the head office of the Company is located at 3100 Steeles Ave East, Suite 3008, Markham, Ontario, L3R 8T3, Canada. The principal operations of the Company's business are in the PRC. Its ultimate controlling party is the estate of Mr. Huajun Lin ("Mr. Lin"), who was also an officer and director of the Company until he resigned from such positions with effect from February 22, 2019.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (the "Group") are engaged in the distribution of natural gas for industrial, commercial and residential users in the PRC.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the official currency of the PRC and also the functional currency of the Company.

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

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

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

| | |
|---|---|
| IFRS 16 | Leases |
| IFRIC - Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to IFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to IAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to IAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to IFRSs | Annual Improvements to IFRSs 2015 - 2017 Cycle |

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

**New and amendments to IFRSs that are mandatorily effective for the current year** - continued

### *2.1 IFRS 16 Leases*

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded International Accounting Standards 17 *Leases* ("IAS 17"), and the related interpretations.

**Definition of a lease**

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and 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. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after January 1, 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

**As a lessee**

The Group has applied IFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, January 1, 2019

As at January 1, 2019, the Group recognized additional lease liabilities and right-of-use assets at the carrying amounts as if IFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying IFRS 16.C8(b)(i) transition. Any difference at the date of initial application is recognized in the opening retained earnings and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognize right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

**New and amendments to IFRSs that are mandatorily effective for the current year** - continued

***2.1 IFRS 16 Leases*** - continued

**As a lessee** - continued

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of office premises and staff quarters in the PRC was determined on a portfolio basis.

When recognizing the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 4.75%.

| | At January 1, 2019 RMB'000 |
|---|---|
| Operating lease commitments disclosed as at December 31, 2018 | 16,947 |
| Less: Lease not yet commenced at January 1, 2019 (note a) | (7,249) |
| | 9,698 |
| Lease liabilities discounted at relevant incremental borrowing rates | 8,422 |
| Less: Recognition exemption - short-term leases | (1,552) |
| Recognition exemption - low value assets (excluding short-term leases of low value leases) | (22) |
| Practical expedient - leases with lease term ending within 12 months from the date of initial application | (381) |
| Lease liabilities as at January 1, 2019 | 6,467 |
| Analysed as | |
| Current | 1,760 |
| Non-current | 4,707 |
| | 6,467 |

Note:

(a) Pursuant to relevant lease contract which is non-cancellable by the Group as at December 31, 2018, the lease term will commence when the relocation work on the land is completed. Such condition was not fulfilled as at January 1, 2019 and the lease has been subsequently terminated.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

**New and amendments to IFRSs that are mandatorily effective for the current year** - continued

***2.1 IFRS 16 Leases*** - continued

**As a lessee** - continued

The carrying amount of right-of-use assets for own use as at January 1, 2019 comprises the following:

| | Note | Right-of-use assets RMB'000 |
|---|---|---|
| Reclassified from prepaid lease payments | (a) | 10,999 |
| Right-of-use assets relating to operating leases recognized upon application of IFRS 16 | (b) | 6,353 |
| | | 17,352 |

(a) Upon the initial application of IFRS 16, RMB926,000 rental prepayments were reclassified to right-of-use assets. Upfront payments for leasehold lands in the PRC for own used properties were classified as prepaid lease payments as at December 31, 2018, which consist of fixed leasehold prepayment of RMB10,999,000 and variable leasehold prepayment of RMB2,164,000. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB10,401,000 and RMB598,000, respectively which represent the fixed portion of long-term lease prepayments were reclassified to right-of-use assets.

(b) Apart from the adjustments stated in note (a) above, right-of-use assets at the date of initial application also included those recognized for leases previously classified as operating leases applying IAS 17. For such leases, the Group chose, on a lease-by-lease basis, to measure the right-of-use assets at its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application, the amount recognized on this basis was RMB6,353,000 at January 1, 2019. Together with the reclassification amount of prepaid lease payments amounting to RMB10,999,000, the total amount of right-of-use assets is amounted to RMB17,352,000 on January 1, 2019.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

**New and amendments to IFRSs that are mandatorily effective for the current year** - continued

***2.1 IFRS 16 Leases*** - continued

**As a lessee** - continued

The following table summarises the impact of transition to IFRS 16 on retained profit at January 1, 2019.

| | Note | Impact of adopting IFRS 16 at January 1, 2019 RMB'000 |
|---|---|---|
| **Equity attributable to owners of the Company** | | |
| Accumulated differences on depreciation expense on right-of-use assets and interest on lease liabilities since lease commencement | (c) | 579 |
| **Non-controlling interests** | | |
| Accumulated differences on depreciation expense on right-of-use assets and interest on lease liabilities since lease commencement | (c) | 387 |
| Impact at January 1, 2019 | | 966 |

(c) In respect of the right-of-use assets and the lease liabilities recognized upon the initial application of IFRS 16, the accumulated differences on depreciation expense of right-of-use assets and interest expense on lease liabilities with operating lease expenses charged since lease commencement up to January 1, 2019 amounting to RMB966,000 was recognized in equity, in which RMB579,000 loss was attributable to owners of the Company is adjusted to retained earnings, and RMB387,000 loss was attributable to non-controlling interests.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

**New and amendments to IFRSs that are mandatorily effective for the current year** - continued

***2.1 IFRS 16 Leases*** - continued

**As a lessee** - continued

The following adjustments were made to the amounts recognized in the consolidated statement of financial position at January 1, 2019. Line items that were not affected by the changes have not been included.

| | Notes | Carrying amounts previously reported at December 31, 2018 | Adjustments | Carrying amounts under IFRS 16 at January 1, 2019 |
|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 |
| **Non-current Assets** | | | | |
| Long-term lease prepayments | a | 11,880 | (10,401) | 1,479 |
| Right-of-use assets | b | - | 17,352 | 17,352 |
| Deferred tax assets | e | - | 74 | 74 |
| **Current Assets** | | | | |
| Other receivables, prepaid expenses and deposits | a | 30,440 | (926) | 29,514 |
| Current portion of long-term lease prepayments | a | 1,283 | (598) | 685 |
| **Current Liabilities** | | | | |
| Lease liabilities | d | - | 1,760 | 1,760 |
| **Non-current Liabilities** | | | | |
| Lease liabilities | d | - | 4,707 | 4,707 |
| **Capital and reserves** | | | | |
| Retained earnings attributable to owners of the Company | c | 138,579 | (579) | 138,000 |
| Non-controlling interests | c | 12,843 | (387) | 12,456 |

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

**New and amendments to IFRSs that are mandatorily effective for the current year** - continued

***2.1 IFRS 16 Leases*** - continued

**As a lessee** - continued

Notes:

(d) RMB6,467,000 consists of principal repayments and interest repayments were recognized as lease liabilities upon the initial application of IFRS 16, in which RMB1,760,000 is repayable within twelve-months, was therefore classified as current liabilities.

(e) RMB74,000 deferred tax asset is recognized due to the temporary difference arising from the initial application of IFRS 16.

For the purpose of reporting cash flows from operating activities under indirect method for the year ended December 31, 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at January 1, 2019 as disclosed above.

**New and amendments to IFRSs in issue but not yet effective**

Except for the above, the Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| IFRS 17 | Insurance Contracts[1] |
| Amendments to IFRS 3 | Definition of a business[2] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2] |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-Current[4] |
| Amendments to IAS 1 and IAS 8 | Definition of Material[3] |
| Amendments to IFRS 9, IAS 39 and IFRS 7 | Interest Rate Benchmark Reform[3] |

1 Effective for annual periods beginning on or after January 1, 2021
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after January 1, 2020
5 Effective for annual periods beginning on or after January 1, 2022

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in IFRS Standards,* will be effective for annual periods beginning on or after January 1, 2020.

Except for the new and amendments to IFRSs mentioned below, the management of the Company anticipates that the application of all new and amendments to IFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

**Amendments to IAS 1 and IAS 8 *Definition of Material***

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all IFRSs and will be mandatorily effective for the Group's annual period beginning on January 1, 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

**Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in IFRS Standards**

The New Framework:

- reintroduces the terms stewardship and prudence;

- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;

- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;

- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and

- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain IFRSs have been updated to the New Framework, whilst some IFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB.

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IFRS 16 (since January 1, 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorized 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 Group 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 asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of consolidation - continued

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 statements 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.

**Changes in the Group's interests in existing subsidiaries**

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

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognized. A gain or loss is recognized 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 recognized 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 IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Business combinations

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

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

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

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

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

- lease liabilities are recognized and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognized and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Business combinations - continued

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognized in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income and measured under IFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), and additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Goodwill

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Investments in associates and a joint venture

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

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

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

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized 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 recognized immediately in the statements of profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or 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 IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue from contracts with customers

The Group recognizes 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 recognized 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 or 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 recognized at a point in time when the customer obtains control of the distinct good or service.

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

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

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

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

*Input method*

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue from contracts with customers - continued

**Incremental costs of obtaining a contract**

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognizes such costs as an asset if it expects to recover these costs. The asset so recognized is subsequently amortized 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.

Leases

**Definition of a lease (upon application of IFRS 16 in accordance with transitions in note 2)**

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

**The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2)**

*Allocation of consideration to components of a contract*

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

*Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to leases of staff quarters that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis or another systematic basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Leases - continued

**The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2)** - continued

*Right-of-use assets*

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of- use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets a separate line item on the consolidated statement of financial position.

*Refundable rental deposits*

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments* ("IFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

*Lease liabilities*

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Leases - continued

**The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2)** - continued

*Lease liabilities* - continued

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;

- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

- amounts expected to be payable by the Group under residual value guarantees;

- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and

- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognized as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Leases - continued

**The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2)** - continued

*Lease modifications*

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

**The Group as a lessee (prior to 1 January 2019)**

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.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognized as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Lease incentives relating to operating leases are considered as integral part of lease payments, the aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currencies - continued

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

Borrowing costs

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

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalization rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the year in which they are incurred.

Government grants

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

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

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

Retirement benefit costs

Payments to the state-managed retirement benefit schemes are recognized as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Short-term and other long-term employee benefits - continued

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

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognized in the statements of profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

Share-based payments

**Equity-settled share-based payment transactions**

*Share options granted to employees*

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

The fair value of the equity-settled share-based payments determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (contributed surplus). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the contributed surplus. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When the share options are exercised, the amount previously recognized in contributed surplus 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 recognized in contributed surplus will be transferred to retained earnings.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/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 each reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 Income Taxes requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

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

Property and equipment

Property and equipment are tangible assets held for use in the production or supply of goods or services, or for administrative purposes (other than construction-in-progress as described below). Property and equipment are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Property and equipment - continued

Property and equipment (including buildings, pipelines and equipment) in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

*Ownership interests in leasehold land and building*

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values 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 "right-of-use assets" (upon application of IFRS 16) or "prepaid lease payments" (before application of IFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognized so as to write off the cost of assets other than properties under construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

Intangible assets

**Intangible assets acquired separately**

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Intangible assets - continued

**Intangible assets acquired in a business combination**

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses/ revalued amounts, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognized 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 recognized in profit or loss when the asset is derecognized.

Impairment on property and equipment, right-of-use assets, intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property and equipment, right-of-use assets, intangible assets with finite useful lives 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 (if any). Intangible assets with indefinite useful lives and 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 property and equipment, right-of-use assets, 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.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment on property and equipment, right-of-use assets, intangible assets other than goodwill - continued

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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. 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 or the group of cash-generating units. 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 or the group of cash-generating units. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) 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 recognized for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognized 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.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventories are determined on a weighted average cost method. Net realizable value represents the estimated selling price for inventories less costs necessary to make the sale.

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss ("FVTPL")) 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 FVTPL are recognized immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

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

**Financial assets**

*Classification and subsequent measurement of financial assets*

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

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

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

- the financial asset is held within a business model whose objective is achieved by both selling and collecting 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.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application IFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

A financial asset is held as held for trading if:

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Financial assets** - continued

*Classification and subsequent measurement of financial assets* - continued

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

(i) Amortized cost and interest income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost and debt instruments/receivables subsequently measured at FVTOCI. 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 recognized by applying the effective interest rate to the amortized 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 recognized 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) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the "fair value change on derivative instrument" line item.

*Impairment of financial assets and contract assets subject to impairment under IFRS 9*

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, other receivables and deposits, contract assets, amount due from associates and non-controlling interests of subsidiaries, restricted cash, fixed bank deposits and bank balances and cash) which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Financial assets** - continued

*Impairment of financial assets and contract assets subject to impairment under IFRS 9* - continued

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("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. Assessments 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 recognizes lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized 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 and contract assets subject to impairment under IFRS 9* - 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.

(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 reorganization; or
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) the purchase or original of a financial asset at a deep discount that reflects the incurred credit losses.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Financial assets** - continued

*Impairment of financial assets and contract assets subject to impairment under IFRS 9* - 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 recognized 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.

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

- Nature of financial instruments (i.e. the Group's trade receivables, contract assets, deposits and other receivables are each assessed as a separate group) (amount due from a joint venture, an associate and non-controlling interest of subsidiaries are assessed for ECL on individual basis);
- 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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Financial assets** - continued

*Impairment of financial assets and contract assets subject to impairment under IFRS 9* - continued

(v) Measurement and recognition of ECL - continued

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 amortized cost of the financial asset.

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

*Derecognition of financial assets*

The Group derecognizes 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.

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

**Financial liabilities and equity**

*Classification as debt or equity*

Debt and equity instruments issued by a group entity are classified either as 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 recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Financial liabilities and equity** - continued

*Financial liabilities*

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

*Financial liabilities at amortized cost*

Financial liabilities at amortized cost including trade and other payables, dividend payable to non-controlling interests of a subsidiary, short-term bank borrowings and long-term debts are subsequently measured at amortized cost, using the effective interest method.

*Derecognition of financial liabilities*

The Group derecognizes 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 derecognized and the consideration paid and payable is recognized in profit or loss.

**Derivative financial instruments**

Derivatives are initially recognized at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Key sources of estimation uncertainty

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

**Revenue recognition**

The Group applies input method in estimating the performance obligations satisfied of IFRS 15. The Group recognizes contract revenue and profit of gas connection contracts according to the management's estimation of the total outcome of the project as well as the percentage of completion of construction works. Estimated construction revenue is determined in accordance with the terms set out in the relevant contract. Construction cost which mainly comprise sub-contracting charges and costs of materials are estimated by the management on the basis of quotations from time to time provided by the major contractors/suppliers/vendors involved and the experience of the management. The management of the Company reviews and revises the estimates of both contract revenue and costs for the construction contract as the contract progresses. For the year ended December 31, 2019, gas connection contract revenue from continuing operations is RMB131,076,000 (2018: RMB126,852,000).

**Provision of ECL for trade receivables and contract assets**

The Group uses a provision matrix to calculate ECL for trade receivables and contract assets. The provision rates are based on internal credit ratings as groupings of various debtors that have similar credit risk characteristics. The provision matrix is based on the Group's historical default rates taking into consideration of reasonable and supportable forward-looking information that is 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.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and contract assets are disclosed in notes 26, 27 and 42(b).

5. REVENUE

(i) Disaggregation of revenue from contracts with customers

## Continuing operations

| Segments | Gas distribution utility: Gas sales RMB'000 | Gas distribution utility: Pipeline installation and connection RMB'000 | Subtotal RMB'000 | CNG vehicle refuelling RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| | For the year ended December 31, 2019 | | | | |
| **Types of goods and services** | | | | | |
| Gas distribution utility | | | | | |
| - Gas supply | 243,738 | - | 243,738 | - | 243,738 |
| - Pipeline installation and connection | - | 131,076 | 131,076 | - | 131,076 |
| | 243,738 | 131,076 | 374,814 | - | 374,814 |
| CNG vehicles refuelling stations | | | | | |
| - CNG refuelling | - | - | - | 63,207 | 63,207 |
| **Total** | 243,738 | 131,076 | 374,814 | 63,207 | 438,021 |
| **Geographical markets in the PRC** | | | | | |
| Sanya City, Hainan Province | 206,109 | 131,076 | 337,185 | 44,642 | 381,827 |
| Shijiazhuang City, Heibei Province | 33,104 | - | 33,104 | - | 33,104 |
| Changsha City, Hunan Province | - | - | - | 18,565 | 18,565 |
| Other cities | 4,525 | - | 4,525 | - | 4,525 |
| **Total** | 243,738 | 131,076 | 374,814 | 63,207 | 438,021 |
| **Timing of revenue recognition** | | | | | |
| A point in time | 243,738 | - | 243,738 | 63,207 | 306,945 |
| Over time | - | 131,076 | 131,076 | - | 131,076 |
| **Total** | 243,738 | 131,076 | 374,814 | 63,207 | 438,021 |

5. REVENUE - continued

(i) Disaggregation of revenue from contracts with customers - continued

**Continuing operations** - continued

| | For the year ended December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Gas distribution utility | | | CNG | |
| Segments | Gas sales | Pipeline installation and connection | Subtotal | vehicle refuelling | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Types of goods and services** | | | | | |
| Gas distribution utility | | | | | |
| - Gas supply | 212,966 | - | 212,966 | - | 212,966 |
| - Pipeline installation and connection | - | 126,852 | 126,852 | - | 126,852 |
| | 212,966 | 126,852 | 339,818 | - | 339,818 |
| CNG vehicles refuelling stations | | | | | |
| - CNG refuelling | - | - | - | 60,697 | 60,697 |
| **Total** | 212,966 | 126,852 | 339,818 | 60,697 | 400,515 |
| **Geographical markets in the PRC** | | | | | |
| Sanya City, Hainan Province | 203,403 | 126,852 | 330,255 | 39,369 | 369,624 |
| Shijiazhuang City, Heibei Province | 9,028 | - | 9,028 | - | 9,028 |
| Changsha City, Hunan Province | - | - | - | 21,328 | 21,328 |
| Other cities | 535 | - | 535 | - | 535 |
| **Total** | 212,966 | 126,852 | 339,818 | 60,697 | 400,515 |
| **Timing of revenue recognition** | | | | | |
| A point in time | 212,966 | - | 212,966 | 60,697 | 273,663 |
| Over time | - | 126,852 | 126,852 | - | 126,852 |
| **Total** | 212,966 | 126,852 | 339,818 | 60,697 | 400,515 |

(ii) Performance obligations for contracts with customers

a) Revenue from natural gas supply

The Group supplies gas to residential, commercial and industrial consumers in the PRC. The Group receives integrated circuit cards ("IC cards") deposits from residential customers in advance before they consume the natural gas and this will give rise to contract liabilities. Monthly invoices will be issued to industrial and commercial customers based on the actual usage and the price of gas. Revenue from natural gas supply is recognized at a point in time when the customers consume the natural gas.

5. REVENUE - continued

(ii) Performance obligations for contracts with customers - continued

b) Revenue from CNG vehicle refuelling

The Group operates two natural gas refuelling stations in Sanya City, Hainan Province and Changsha City, Hunan Province, respectively. The Group receives IC card deposits from customers in advance before they purchase the natural gas at the natural gas refuelling stations and this will give rise to contract liabilities. Revenue from CNG vehicle refuelling is recognized at a point of time when the gas refuels to customers' vehicle.

c) Revenue from natural gas pipeline installation and connection services

The Group provides natural gas pipeline installation and connection services under contracts with customers. Such contracts are entered into before the contracting services begin.

The services are recognized as a performance obligation satisfied over time as the Group creates or enhances an asset that the customer controls as the asset is created or enhanced. Revenue from natural gas pipeline connection is recognized based on the stage of completion of the contract using input method.

The Group's natural gas pipeline installation and connection contracts include payment schedules which require stage payments over the construction/installation period once certain specified milestones are reached. The Group requires certain customers to provide upfront deposits ranging from 30% to 70% of total contract amount, when the Group receives a deposit before construction commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognized on the specific contract equals to or exceeds the amount of the deposits.

A contract asset, net of contract liability related to the same contract, is recognized over the period in which the construction/installation services are performed, representing the Group's right to consideration for the services performed because the rights are conditioned on the Group's future performance in achieving specified milestones. The contract assets are transferred to trade receivables when the rights become unconditional.

5. REVENUE - continued

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

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at December 31, 2019 and 2018 and the expected timing of recognizing revenue are as follows:

| | Pipeline installation and connection | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Within one year | 114,470 | 101,133 |
| More than one year but not more than two years | 128,759 | 22,668 |
| More than two years | 38,221 | 15,037 |
| | 281,450 | 138,838 |

Contracts for gas distribution services typically have terms in which the Group bills a fixed price for each gas volume used by the customers on a monthly basis. The Group recognizes revenue according to gas consumption by customers.

6. OPERATING SEGMENTS

Information is reported to the Chief Executive Officer of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of each segment performance.

The CODM reviews operating results and financial information for each sub-group of operating companies separately. Accordingly, each sub-group of operating companies in the PRC is identified as an operating segment. Those operating segments are aggregated into gas distribution utility segment and CNG vehicle refuelling segment respectively for segment reporting purpose after taking into account that those operating segments are operating in similar business model with similar target group of customers, similar products and services and similar methods used to distribute their products and under the similar regulatory environment.

Specifically, the Group's reportable segments under IFRS 8 *Operating Segments* are as follows:

(a) Gas distribution utility which includes gas sales and pipeline installation and connection; and

(b) CNG vehicles refueling.

6. OPERATING SEGMENTS - continued

The gas distribution utility segment:

(i) provides gas pipeline installation and connection services and delivers natural gas to residential, commercial and industrial customers through its pipeline networks and associated facilities in Sanya City, Hainan Province in the PRC; and

(ii) delivers natural gas to industrial customers through storage facilities in Shijiazhuang City, Hebei Province in the PRC.

The Group's other reportable segment is CNG vehicles refuelling, which operates CNG vehicle refueling stations to supply gas for taxicabs and public transportation vehicles in the PRC.

**Segments revenues and results**

The following is an analysis of Group's revenue and results from continuing operations by reportable segments:

For the year ended December 31, 2019

**Continuing operations**

| | Gas distribution utility RMB'000 | CNG vehicle refuelling RMB'000 | Consolidated RMB'000 |
|---|---|---|---|
| Segment revenue | 389,639 | 64,368 | 454,007 |
| Inter-segment revenue | (14,825) | (1,161) | (15,986) |
| **Revenue from external customers** | 374,814 | 63,207 | 438,021 |
| **Segment profit** | 78,432 | 5,830 | 84,262 |
| Share of profit of associates | | | 978 |
| Share of loss of a joint venture | | | (919) |
| Listing expenses | | | (2,474) |
| Fair value change on derivative financial instrument | | | 541 |
| Unallocated income | | | 618 |
| Unallocated expenses | | | (14,320) |
| Loss on disposal of a subsidiary | | | (133) |
| Loss on disposal of an associate | | | (379) |
| Deemed gain on acquisition of a subsidiary | | | 1,750 |
| **Profit before tax** | | | 69,924 |

6. OPERATING SEGMENTS - continued

**Segments revenues and results** - continued

For the year ended December 31, 2018

**Continuing operations**

| | Gas distribution utility RMB'000 | CNG vehicle refuelling RMB'000 | Consolidated RMB'000 |
|---|---|---|---|
| Segment revenue | 355,331 | 60,697 | 416,028 |
| Inter-segment revenue | (15,513) | - | (15,513) |
| **Revenue from external customers** | 339,818 | 60,697 | 400,515 |
| **Segment profit** | 56,423 | 12,968 | 69,391 |
| Share of loss of associates | | | (5,483) |
| Share of loss of a joint venture | | | (827) |
| Fair value change on put option liability | | | 22,627 |
| Listing expenses | | | (7,946) |
| Unallocated income | | | 2,500 |
| Unallocated expenses | | | (19,321) |
| **Profit before tax** | | | 60,941 |

**Other segment information**

For the year ended December 31, 2019

**Continuing operations**

Amounts included in the measure of segment profit:

| | Gas distribution utility RMB'000 | CNG vehicle refuelling RMB'000 | Unallocated RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|
| Depreciation of property and equipment | 15,510 | 1,256 | 935 | 17,701 |
| Depreciation of right-of-use assets | 871 | 950 | 926 | 2,747 |
| Amortization of government grant | 264 | - | - | 264 |
| Amortization of intangible assets | 625 | - | - | 625 |
| Loss on disposals of property and equipment | 5 | 527 | - | 532 |
| Impairment (reversal) of impairment losses on trade receivables | 830 | (312) | - | 518 |
| Reversal of impairment loss on contract assets | (139) | - | - | (139) |
| Release of long-term lease prepayments | - | 879 | - | 879 |
| Interest income from bank deposits, an associate and non-controlling interest of a subsidiary | (559) | (154) | (431) | (1,144) |
| Finance costs | 5,108 | 269 | 68 | 5,445 |

6. OPERATING SEGMENT - continued

**Other segment information** - continued

For the year ended December 31, 2018

**Continuing operations**

Amounts included in the measure of segment profit:

| | Gas distribution utility RMB'000 | CNG vehicles refuelling RMB'000 | Unallocated RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|
| Depreciation of property and equipment | 17,163 | 1,277 | 349 | 18,789 |
| Amortization of government grant | 225 | - | - | 225 |
| Amortization of intangible assets | 568 | - | - | 568 |
| Loss on disposals of property and equipment | 8 | - | - | 8 |
| Impairment losses on trade receivables | 313 | 4 | 11 | 328 |
| Reversal of impairment loss on contract assets | (383) | - | - | (383) |
| Release of long-term lease prepayments | 333 | 996 | - | 1,329 |
| Interest income from bank deposits and an associate | (229) | (202) | (530) | (961) |
| Finance costs | 6,952 | - | 297 | 7,249 |

**Geographical information**

The Group's operations are substantially based in the PRC and all significant non-current assets of the Group are located in the PRC. Therefore, no further analysis of geographical information is presented.

**Information about major customers**

No single customer accounted for more than 10% of the Group's sales in both years or trade receivables at December 31, 2019 and 2018.

7. OTHER INCOME

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **Continuing operations** | | |
| Interest income from bank deposits | 730 | 482 |
| Interest income from an associate (note 31) | 357 | 479 |
| Interest income from non-controlling interest of a subsidiary (note 31) | 57 | - |
| Service fee from an associate (note 31) | - | 3,300 |
| Others | 338 | 490 |
| | 1,482 | 4,751 |

## 8. OTHER GAINS AND LOSSES

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| **Continuing operations** | | |
| Exchange loss | (13) | (396) |
| Loss on disposal of property and equipment | (532) | (8) |
| Donations | (708) | (3,237) |
| Others | (191) | (24) |
| | (1,444) | (3,665) |

## 9. FINANCE COSTS

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| **Continuing operations** | | |
| Interest on lease liabilities | 330 | - |
| Interest expense on short-term bank borrowings and long-term debts | 8,539 | 8,902 |
| Less: amounts capitalized in cost of property and equipment | (3,424) | (1,653) |
| | 5,445 | 7,249 |

Borrowing costs capitalized arose on the general borrowing pool and are calculated by applying a capitalization rate of 4% per annum to expenditure on qualifying assets.

## 10. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| **Continuing operations** | | |
| Impairment losses (recognized) reversed on: | | |
| - Trade receivables | (518) | (328) |
| - Contract assets | 139 | 383 |
| | (379) | 55 |

Details of impairment assessment are set out in note 42(b).

## 11. INCOME TAX EXPENSE

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **Continuing operations** | | |
| Current tax: | | |
| PRC Enterprise Income Tax ("EIT") | 20,361 | 20,718 |
| PRC withholding EIT | 3,268 | 2,590 |
| | 23,629 | 23,308 |
| Over provision in prior year | (1,945) | (1,619) |
| | 21,684 | 21,689 |
| Deferred tax expense (note 38) | 1,082 | 3,577 |
| | 22,766 | 25,266 |
| **Discontinued operation (note 13)** | | |
| Deferred tax expense | - | 6,201 |

The Company was incorporated in Canada and is therefore subject to Canadian federal and Ontario statutory income tax at a rate of 26.5% (2018: 26.5%) on assessable profits in Canada during the reporting period.

A subsidiary, Hainan Energy Ltd., was incorporated in the British Virgin Islands and tax exempted under the laws of the British Virgin Islands.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% during the reporting period (2018: 25%).

The income tax expense for the year can be reconciled to the profit before tax from continuing operations as follows:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Profit before tax (from continuing operations) | 69,924 | 60,941 |
| Tax at Canadian federal and Ontario statutory income tax rate of 26.5% | 18,530 | 16,149 |
| Tax effect of expenses not deductible for tax purposes | 1,211 | 2,233 |
| Effect of difference in tax rates of entities operating in other jurisdictions | (1,339) | (1,525) |
| Tax effect of tax losses and deductible temporary differences not recognized | 3,984 | 4,629 |
| Over provision in prior year | (1,945) | (108) |
| PRC withholding EIT | 3,268 | 2,590 |
| Deferred tax on undistributed earnings in the PRC | (594) | 1,456 |
| Other | (349) | (158) |
| Income tax expense for the year (relating to continuing operations) | 22,766 | 25,266 |

## 12. PROFIT FOR THE YEAR

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Profit for the year from continuing operations has been arrived at after charging the following: | | |
| Directors' remuneration | 470 | 375 |
| Other staff costs | 48,045 | 42,992 |
| Staff retirement benefit scheme contribution | 7,546 | 5,983 |
| (Reversal of) share-based payments | (3,326) | 3,326 |
| Total staff costs | 52,735 | 52,676 |
| Auditors' remuneration | 2,630 | 3,636 |
| Release of variable lease prepayments | 879 | 1,329 |
| Cost of inventories recognized as expense in cost of sales | 171,871 | 141,298 |
| Contract costs recognized as expense in cost of sales | 34,332 | 34,886 |
| Depreciation of property and equipment | 17,701 | 18,789 |
| Depreciation of right-of-use assets | 2,747 | - |
| Amortization of intangible assets (included in cost of sales) | 625 | 568 |
| Total depreciation and amortization | 21,073 | 19,357 |

The Group pursued its plan to undertake an initial public offering ("IPO") on The Stock Exchange of Hong Kong Limited ("HKEX") as a secondary listing as announced in April 2018. In July 2018, the Group further announced the expected IPO completion date would be first half of 2019.

In January 2019, the board of directors of the Company ("the Board") has decided to suspend the IPO plan given the volatile marketing conditions in the Hong Kong market.

The Group has engaged third parties to provide professional services in relation to the IPO preparation works. Listing expenses in the amount of RMB2,474,000 (2018: RMB7,946,000) have been incurred throughout the year ended December 31, 2019.

## 13. DISCONTINUED OPERATION

On November 22, 2017, the Group entered into an equity restructuring agreement (the "Agreement") to dispose of in aggregate 50.2% effective interest in Pingxiang Xinao Changfeng Gas Co., Ltd. ("Pingxiang Xinao CF"), to Xinao Gas Development Co. Ltd. and Xinao Gas (China) Investment Co., Ltd. (collectively referred to "Xinao Gas") (the "Disposal"). Pingxiang Xinao CF carried out the distribution of natural gas for industrial, commercial and residential users in Pingxiang City, Jiangxi Province in the PRC.

13. DISCONTINUED OPERATION - continued

The terms of the Agreement included the following:

(i) A 60%-owned subsidiary of the Group will dispose its 24.5% interest in Pingxiang Xinao CF (effectively 14.7% owned by the Group) to Xinao Gas at a consideration of RMB34,090,000;

(ii) upon the completion of step (i), a wholly-owned subsidiary of the Group and Xinao Gas will make capital contribution of RMB16,900,000 and RMB49,400,000 respectively, resulting in a dilution of the Group's effective interest in Pingxiang Xinao CF from 75.5% to 40%; and

(iii) upon the completion of step (ii), Pingxiang Xinao CF will repay an outstanding loan of RMB46,768,000 to the Group.

The Agreement also contains a put option which is exercisable by Xinao Gas's discretion if: a) Pingxiang Xinao CF fails to sign a concession agreement issued by the Ministry of Housing and Urban-Rural Development of the PRC ("Concession Agreement"); or b) the operation of Pingxiang Xinao CF is suspended as a result of failing to sign the Concession Agreement, the Group committed to repay Xinao Gas the full amount of the infused capital of RMB83,490,000 and repurchase its 60% interest in Pingxiang Xinao CF within two years from the completion date of step (ii) (the "Put Option").

All the above-mentioned steps in the Agreement were entered into at the same time. Based on the terms and conditions of the Agreement, the occurrence of one step was dependent on the occurrence of the former step. The Group accounted for the abovementioned steps in the Agreement as a single transaction which would cause the Group to lose control over Pingxiang Xinao CF. The management of the Group considered Pingxiang Xinao CF was a discontinued operation of the Group as it represented a separate geographical location of business operated in Pingxiang City.

The Disposal was completed in January 2018. At the date of the Disposal, the fair value of the Put Option was RMB22,627,000. During the year ended December 31, 2018, Pingxiang Xinao CF repaid the loan of RMB46,768,000 to the Group and the gain on disposal was RMB30,293,000, net of related income tax expense of RMB6,201,000.

Subsequent to the Disposal, the Group's interest in Pingxiang Xinao CF decreased from 90.2% to 40%. The management of the Company considered the Group has significant influence over Pingxiang Xinao CF and therefore Pingxiang Xinao CF is classified as an associate of the Group. Details of interests in associates are set out in note 22.

Put Option liability

| | RMB'000 |
|---|---|
| Put Option at the date of the Disposal | (22,627) |
| Fair value change | 22,627 |
| At December 31, 2018 | - |

13. DISCONTINUED OPERATION - continued

The fair value of the Put Option at the date of the Disposal was arrived at on the basis of valuations carried out by GW Financial Advisory Services Limited, a firm of independent qualified professional valuers not connected with the Group.

In July 2018, Pingxiang Xinao CF signed a supplementary agreement with Xiangdong District Government of Pingxiang, Jiangxi province, in the PRC (the "Supplementary Agreement"). The Supplementary Agreement states that the new concessionary right for natural gas pipeline distribution has been approved and Concessionary Agreement will be issued to Pingxiang Xinao CF within 30 days following the signing of the Supplementary Agreement. On September 6, 2018, Pingxiang Xinao CF signed the Concessionary Agreement with Xiangdong District Government of Pingxiang, Jiangxi province and obtain the concessionary right for natural gas pipeline distribution.

As a result, management of the Group concluded that there was no Put Option liability as at December 31, 2018. A fair value gain on Put Option liability of RMB22,627,000 was recognized during the year ended December 31, 2018.

The profit from the discontinued operation for the preceding period is analyzed as follows:

| | January 1, 2018 to January 5, 2018 RMB'000 |
|---|---|
| Gain on disposal of Pingxiang Xinao CF | 36,494 |
| Income tax expense related to the gain on disposal | (6,201) |
| | 30,293 |

13. DISCONTINUED OPERATION - continued

| | RMB'000 |
|---|---|
| **Deemed gain on disposal of Pingxiang Xinao CF** | |
| Consideration received and receivable | 17,190 |
| Net liabilities disposed of | 12,674 |
| Fair value of retained interest | 32,460 |
| Put Option liability at date of disposal | (22,627) |
| Non-controlling interests | (3,203) |
| Deemed gain on disposal | 36,494 |
| Income tax expense | (6,201) |
| Net deemed gain on disposal | 30,293 |

| | |
|---|---|
| **Net cash inflow arising on the disposal:** | |
| Repayment from Pingxiang Xinao CF (step (iii)) | 46,768 |
| Cash and cash equivalents of Pingxiang Xinao CF deemed disposed of | (4,654) |
| | 42,114 |

14. ACQUISITION AND DISPOSAL OF PARTIAL INTEREST OF SUBSIDIARIES

On May 16, 2018, Sanya Changfeng New Energy Investment Co., Ltd. ("Sanya CF NEI") transferred 100% equity interests in Zhaoqing Gaoyao Hengtai Natural Gas Co. Ltd ("Gaoyao"), a wholly-owned subsidiary, to Zhuhai Henghui Energy Co. Ltd ("Zhuhai Henghui"), a non wholly-owned subsidiary, for a consideration of RMB10,000,000. As a result, the Group deemed to have disposed of 39% effective interest in Gaoyao and retained its effective interests of 61% over Gaoyao without losing control. An aggregate amount of RMB331,000 was transferred to non-controlling interest as at December 31, 2018.

On August 3, 2018, Hunan CNPC New Energy Investment Co., Ltd. ("Hunan CNPC NEI") disposed of 9% equity interest in Riheng, a non wholly-owned subsidiary, to Hebei Ruiheng Clean Energy Co., Ltd. ("Ruiheng"), an independent third party, for a consideration of RMB900,000. As a result, the Group disposed of 5.4% effective interest in Riheng and retained its effective interests of 54.6% over Riheng without losing control. The Group recognized a gain of RMB79,000 as other reserve as at December 31, 2018.

On September 20, 2019, Hunan CNPC NEI acquired the 9% equity interest from the non-controlling interest in Riheng previously disposed to Ruiheng during the year ended December 31, 2018 by waiving the consideration of RMB900,000. As a result, the Group's effective interest in Riheng increased to 60%, the difference between RMB900,000 and the carrying amount of Riheng attributable to the non-controlling interests in the amount of RMB610,000 has been recognized as other reserve as at December 31, 2019.

## 15. DIVIDENDS

Dividends for ordinary shareholders of the Company recognized as distribution during the year:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| 2017 Interim | | |
| - Second instalment of Canadian dollar ("CAD") 0.01 cent, or equivalent to RMB0.05 per share (note a) | - | 3,041 |
| 2018 Interim | | |
| - First instalment of CAD0.01, equivalent to RMB0.05 per share (note b) | - | 3,630 |
| - Second instalment of CAD0.01, equivalent to RMB0.05 per share (note c) | 3,500 | - |
| 2018 Special dividend | | |
| - CAD0.02, equivalent to RMB0.1 per share (note d) | 12,900 | - |
| 2019 Interim | | |
| - First instalment of CAD 0.01, equivalent to RMB0.05 per share (note e) | 3,500 | - |
| | 19,900 | 6,671 |

Notes:

(a) The second instalment of the interim dividend in respect of the year ended December 31, 2017 was CAD605,000, equivalent to RMB3,041,000.

(b) The first instalment of the interim dividend in respect of the year ended December 31, 2018 was CAD652,000, equivalent to RMB3,630,000.

(c) The second instalment of the interim dividend in respect of the year ended December 31, 2018 was CAD691,000, equivalent to RMB3,500,000.

(d) A special dividend in respect of the year ended December 31, 2018 was CAD2,547,000, equivalent to RMB12,900,000.

(e) The first instalment of the interim dividend in respect of the year ended December 31, 2019 was CAD691,000, equivalent to RMB3,500,000.

## 16. EARNINGS PER SHARE

From continuing and discontinued operations

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| *Earnings* | | |
| Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share | 46,998 | 57,611 |

| | 2019 | 2018 |
|---|---|---|
| *Number of shares* | | |
| Weighted average number of shares for the purpose of basic earnings per share | 65,249,922 | 64,996,775 |
| Effect of dilutive potential shares: | | |
| Share options issued by the Company | 1,045,952 | 1,874,207 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 66,295,874 | 66,870,982 |
| Basic earnings per share (note) | RMB0.72 | RMB0.89 |
| | CAD0.14 | CAD0.17 |
| Diluted earnings per share (note) | RMB0.71 | RMB0.86 |
| | CAD0.14 | CAD0.17 |

Note: The CAD figures presented above are shown for reference only and have been arrived at based on the exchange rate of RMB1.0000 to CAD0.1922 for the year ended December 31, 2019 and RMB1.0000 to CAD0.1961 for the year ended December 31, 2018, being the average exchange rate that prevailed during the respective years.

16. EARNINGS PER SHARE - continued

From continuing and discontinued operations - continued

The computation of diluted earnings per share for the year ended December 31, 2018 did not assume the exercise of 2,440,000 share options issued by the Company because the exercise price of those options was higher than the average market price for 2018.

The 2,440,000 share options granted in 2018 were subsequently forfeited by the grantees during the year ended December 31, 2019. Details are set out in note 40.

From continuing operations

The calculations of the basic and diluted earnings per share from continuing operations attributable to owners of the Company is based on the following data:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share | 46,998 | 57,611 |
| Less: Profit for the year from discontinued operation attributable to owners of the Company | - | 21,097 |
| Earnings for the purpose of basic earnings per share from continuing operations | 46,998 | 36,514 |

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

From discontinued operation

Basic and diluted earnings per share for the discontinued operation is RMB0.32 cent, or equivalent to CAD0.06 cent, per share in 2018, calculated based on the profit for the year from the discontinued operation of RMB21,097,000 and the denominators detailed above for both basic and diluted earnings per share.

## 17. PROPERTY AND EQUIPMENT

| | Buildings RMB'000 | Pipelines RMB'000 | Motor vehicles RMB'000 | Furniture and equipment RMB'000 | Leasehold improvements RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| COST | | | | | | | |
| At January 1, 2018 | 26,027 | 314,201 | 16,178 | 41,033 | 3,973 | 86,822 | 488,234 |
| Additions | 9 | 247 | 423 | 6,468 | 604 | 56,849 | 64,600 |
| Disposals | - | - | (14) | (539) | - | - | (553) |
| Transfer | - | 44,255 | - | - | - | (44,255) | - |
| At December 31, 2018 | 26,036 | 358,703 | 16,587 | 46,962 | 4,577 | 99,416 | 552,281 |
| Additions | - | 12,279 | 577 | 585 | 215 | 11,076 | 24,732 |
| Acquisition of a subsidiary (note 32) | - | - | 267 | 468 | - | 31,157 | 31,892 |
| Disposals and written off | - | - | (898) | (755) | (1,333) | (189) | (3,175) |
| Transfer | 10,385 | 30,762 | - | 2,241 | - | (43,388) | - |
| At December 31, 2019 | 36,421 | 401,744 | 16,533 | 49,501 | 3,459 | 98,072 | 605,730 |
| DEPRECIATION | | | | | | | |
| At January 1, 2018 | 3,835 | 100,033 | 10,304 | 23,239 | 1,817 | - | 139,228 |
| Provided for the year | 657 | 10,757 | 1,232 | 5,582 | 561 | - | 18,789 |
| Disposals | - | - | (14) | (531) | - | - | (545) |
| At December 31, 2018 | 4,492 | 110,790 | 11,522 | 28,290 | 2,378 | - | 157,472 |
| Provided for the year | 648 | 12,686 | 1,174 | 2,525 | 668 | - | 17,701 |
| Disposals and written off | - | - | (892) | (756) | (995) | - | (2,643) |
| At December 31, 2019 | 5,140 | 123,476 | 11,804 | 30,059 | 2,051 | - | 172,530 |
| NET BOOK VALUE | | | | | | | |
| At December 31, 2019 | 31,281 | 278,268 | 4,729 | 19,442 | 1,408 | 98,072 | 433,200 |
| At December 31, 2018 | 21,544 | 247,913 | 5,065 | 18,672 | 2,199 | 99,416 | 394,809 |

The above items of property and equipment, other than construction in progress, after taking into account their estimated residual value, are depreciated on a straight-line basis at the following useful life:

| | |
|---|---|
| Buildings | 30 - 35 years |
| Pipelines | 30 - 35 years |
| Motor vehicles | 3 - 10 years |
| Furniture and equipment | 3 - 20 years |
| Leasehold improvements | 9 - 18 years |

The Group has pledged certain pipelines and related equipment with a net book value of approximately RMB49,267,000 (2018: RMB51,788,000) to a bank to secure the RMB78,000,000 (2018: RMB80,000,000) long-term debts granted to the Group.

## 18. LONG-TERM LEASE PREPAYMENTS

The Group's prepaid lease payments comprise leasehold land in the PRC and are analyzed for reporting purposes as follows:

| | 31.12.2019 RMB'000 | 1.1.2019 RMB'000 | 31.12.2018 RMB'000 |
|---|---|---|---|
| Current assets | 879 | 685 | 1,283 |
| Non-current assets | 406 | 1,479 | 11,880 |
| | 1,285 | 2,164 | 13,163 |

18. LONG-TERM LEASE PREPAYMENTS - continued

As at December 31, 2018, the long-term lease prepayments represented prepaid lease payments for lands in the PRC. Leases of lands are negotiated for a term of 5 to 50 years. Upon application of IFRS 16 on January 1, 2019, the leasehold land prepayments of RMB10,999,000, which represents the fixed amount paid of the right-of-use for lands, are reclassified to right-of-use assets. The remaining portion of lease prepayments represents lease prepayments for variable lease payments. Details of the variable lease payments are set out in note 19.

19. RIGHT-OF-USE ASSETS

| | Leasehold properties RMB'000 | Leased lands RMB'000 | Total RMB'000 |
|---|---|---|---|
| **As at January 1, 2019** | | | |
| Carrying amount | 3,008 | 14,344 | 17,352 |
| **As at December 31, 2019** | | | |
| Carrying amount | 4,221 | 17,132 | 21,353 |
| **For the year ended December 31, 2019** | | | |
| Depreciation charge | (1,754) | (993) | (2,747) |
| Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of IFRS 16 | | | 2,125 |
| Expense relating to leases of low-value assets, excluding short-term leases of low value assets | | | 70 |
| Total cash outflow for lease | | | 4,215 |
| Additions to right-of-use assets | | | 6,748 |

For both years, the Group leases various offices and staff quarters for its operations. Lease contracts are entered into for fixed term of 1 year to 11 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group also leases lands in the PRC for gas utility distribution and gas stations. Other than a land lease in Hunan province, the PRC, the land leases are usually prepaid upfront. Terms of the land leases are ranging from 5 to 50 years.

The Group regularly entered into short-term leases for staff quarters. As at December 31, 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense are disclosed in note 2.

*Variable lease payments*

Lease of a land for a CNG vehicle refueling station contains both fixed lease payments and variable lease payments that are based on the volume of gas refueled by customers. Variable lease payments not included in the measurement of lease liabilities for the year ended December 31, 2019 amounting to RMB1,285,000.

## 20. GOODWILL

| | Acquisition of EDF CF RMB'000 |
|---|---|
| **COST** | |
| At January 1, 2019 | - |
| Arising on acquisition of a subsidiary (note 32) | 1,635 |
| At December 31, 2019 | 1,635 |
| **IMPAIRMENT** | |
| At January 1, 2019 and December 31, 2019 | - |
| **NET BOOK VALUE** | |
| At December 31, 2019 | 1,635 |

During the year ended December 31, 2019, management of the Group determines that there is no impairment on the goodwill arising on acquisition of a subsidiary.

## 21. INTANGIBLE ASSETS

| | Gas purchase contract and supply rights RMB'000 | Software RMB'000 | Exclusive operating right RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **COST** | | | | | |
| At January 1, 2018 | 2,150 | 3,699 | - | 520 | 6,369 |
| Additions | - | 549 | - | - | 549 |
| At December 31, 2018 | 2,150 | 4,248 | - | 520 | 6,918 |
| Additions | - | 1,833 | - | - | 1,833 |
| Acquisition of a subsidiary (note 32) | - | 1,769 | 2,485 | - | 4,254 |
| At December 31, 2019 | 2,150 | 7,850 | 2,485 | 520 | 13,005 |
| **AMORTIZATION** | | | | | |
| At January 1, 2018 | 1,036 | 746 | - | 30 | 1,812 |
| Charge for the year | 115 | 402 | - | 51 | 568 |
| At December 31, 2018 | 1,151 | 1,148 | - | 81 | 2,380 |
| Charge for the year | 115 | 459 | - | 51 | 625 |
| At December 31, 2019 | 1,266 | 1,607 | - | 132 | 3,005 |
| **NET BOOK VALUE** | | | | | |
| At December 31, 2019 | 884 | 6,243 | 2,485 | 388 | 10,000 |
| At December 31, 2018 | 999 | 3,100 | - | 439 | 4,538 |

## 21. INTANGIBLE ASSETS - continued

The above intangible assets have finite useful lives. Such intangible assets are amortized on a straight-line basis over the following periods:

| | |
|---|---|
| Gas purchase contract and supply rights | Over the contractual useful life of 2 to 17.5 years commencing from the initial delivery of gas |
| Software | 10 years |
| Exclusive operating right | 27 years |
| Others | 10 years |

## 22. INTERESTS IN ASSOCIATES

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Cost of investments in associates - unlisted | 32,710 | 37,460 |
| Share of post-acquisition losses and other comprehensive expenses | (4,481) | (5,832) |
| | 28,229 | 31,628 |

Details of the Group's associates as at December 31, 2019 and 2018 are as follows:

| Name of entity | Country of incorporation/ registration | Principal place of business | Paid-up capital 2019 RMB'000 | Paid-up capital 2018 RMB'000 | Proportion of ownership interest held by the Group 2019 | Proportion of ownership interest held by the Group 2018 | Proportion of voting rights held by the Group 2019 | Proportion of voting rights held by the Group 2018 | Principal activity |
|---|---|---|---|---|---|---|---|---|---|
| Pingxiang Xinao CF | The PRC | The PRC | 32,460 | 32,460 | 40% | 40% | 40% | 40% | Gas sales and distribution and pipeline installation and connection |
| Sichuan Xiangshu Petrochemical Co., Ltd (Note a) 四川湘蜀石油化工有限公司 ("Xiangshu") (note a) | The PRC | The PRC | 250 | - | 23.2% | N/A | 23.2% | N/A | Refined oil sales and distribution |
| Xiangtan Shin-Ko Energy Co., Ltd.* (Note b) 湘潭市長豐深冷能源有限公司 ("Shin-Ko Energy") (note b) | The PRC | The PRC | - | - | - | 50% | - | 50% | Operating liquefied natural gas ("LNG") storage facility |

* The English name of the associates are for identification purpose only.

Notes:

(a) On August 26, 2019, Hunan CNPC Energy Co., Ltd ("Hunan CF CNPC"), a non-wholly owned subsidiary of the Group entered into an agreement with two independent third parties to establish Xiangshu, which sells and distributes refined oil in the PRC. The registered share capital of Xiangshu is RMB10,000,000. Hunan CF CNPC has a 40% ownership with the right to appoint two out of five members to the board of directors according to the agreement. As a result, the effective interest held by the Group is 23.2%, management of the Group considers that the Group has significant influence over Xiangshu and therefore it is classified as an associate of the Group.

(b) In the prior year, the Group hold 50% of the issued share capital of Shin-Ko Energy. However, under the shareholders' agreement, the other shareholders controlled the composition of the board of directors of Shin-Ko Energy and therefore had the control over Shin-Ko Energy. Management of the Group considered that the Group had significant influence over Shin-Ko Energy through its representation on the Board of Directors and it was therefore classified as an associate of the Group.

On February 20, 2019, the deregistration of Shin-Ko Energy was completed. The loss on disposal of Shin-Ko Energy of RMB379,000 and the share of loss of RMB2,000 were recognized in the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2019, respectively.

22. INTERESTS IN ASSOCIATES - continued

All of the associates are accounted for using the equity method in these consolidated financial statements.

**Summarized financial information of Pingxiang Xinao CF**

Summarized financial information in respect of Pingxiang Xinao CF is set out below. The Summarized financial information below represents amounts shown in Pingxiang Xinao CF's financial statements prepared in accordance with IFRSs.

Pingxiang Xinao CF

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Current assets | 25,734 | 22,528 |
| Non-current assets | 126,339 | 100,886 |
| Current liabilities | 107,561 | 81,354 |
| Non-current liabilities | 2,088 | 2,088 |

| | January1, 2019 to December 31, 2019<br>RMB'000 | January 6, 2018 to December 31, 2018<br>RMB'000 |
|---|---|---|
| Revenue | 121,817 | 106,131 |
| Profit (loss) for the year | 2,451 | (13,655) |
| Total comprehensive income (expense) for the year (period) | 2,451 | (13,655) |

Reconciliation of the above summarized financial information to the carrying amount of the Group's interest in Pingxiang Xinao CF recognized in the consolidated financial statements:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Net assets of Pingxiang Xinao CF | 42,424 | 39,972 |
| Proportion of the Group's interest in Pingxiang Xinao CF | 40% | 40% |
| | 16,970 | 15,989 |
| Add: Fair value adjustment | 11,009 | 11,009 |
| Carrying amount of the Group's interest in Pingxiang Xinao CF | 27,979 | 26,998 |

## 23. INTEREST IN A JOINT VENTURE

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Cost of investment in a joint venture - unlisted | - | 18,000 |
| Share of post-acquisition losses and other comprehensive expenses | - | (831) |
| | - | 17,169 |

Details of the Group's investment in a joint venture as at December 31, 2019 and 2018 are as follows:

| Name of entity | Country of incorporation/ registration | Principal place of business | Paid-up capital | | Proportion of ownership interest held by the Group | | Proportion of voting rights held by the Group | | Principal activity |
|---|---|---|---|---|---|---|---|---|---|
| | | | 2019<br>RMB'000 | 2018<br>RMB'000 | 2019 | 2018 | 2019 | 2018 | |
| EDF Changfeng (sanya) energy Co., Ltd ("EDF CF") 法電長豐(三亞)能源有限公司 | The PRC | The PRC | 42,000 | 18,000 | 70%<br>(note 32) | 50% | 70%<br>(note 32) | 50% | Design, construction and operation of a network of cooling and hot water supply |

* The English name of the joint venture is for identification purpose only.

On November 6, 2017, the Group entered into an agreement with EDF (China) Holding Ltd ("EDF China"), an independent third party, to incorporate a joint venture to jointly pursue the integrated energy system program in Sanya City, Hainan Province, the PRC. EDF CF was incorporated on November 9, 2017. The Group holds 50% of the issued paid-in capital of EDF CF and maintains 50% voting right in EDF CF. Based on the articles of association of EDF CF, more than 50% vote is required to pass the decision on relevant activities of EDF CF by the board of directors of EDF CF. Management of the Group considers that the Group jointly control EDF CF with EDF China and it is therefore classified as a joint venture of the Group.

On December 26, 2019, the Group entered into an agreement with EDF China and agreed that the Group shall inject an additional share capital of EDF CF amounting to RMB24,000,000. As a result, the Group holds 70% of the issued paid in capital of EDF CF. Based on the Amendment (II) to articles of association of EDF CF, the Group is entitled to nominate 4 out of 6 board of directors of EDF CF, which represents more than 50% of the voting rights in EDF CF. The acquisition was completed on December 26, 2019.

Management of the Group considers that the Group has control over EDF CF and such control is obtained upon the completion of the restructuring filing process at the local business and commercial bureau and the process was completed on December 31, 2019. EDF CF became a non-wholly-owned subsidiary of the Group as at December 26, 2019. Details of the acquisition of EDF CF are set out in note 32.

**Summarized financial information of EDF CF**

Summarized financial information in respect of EDF CF is set out below. The summarized financial information below represents amounts shown in the EDF CF joint venture financial statements prepared in accordance with IFRSs.

The joint venture is accounted for using the equity method in these consolidated financial statements.

23. INTEREST IN A JOINT VENTURE - continued

**Summarized financial information of EDF CF** - continued

EDF CF

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Current assets | N/A | 14,152 |
| Non-current assets | N/A | 23,463 |
| Current liabilities | N/A | 3,277 |

The above amounts of assets and liabilities include the following:

| | | |
|---|---|---|
| Cash and cash equivalents | N/A | 5,076 |

| | 1.1.2019 to 26.12.2019<br>RMB'000 | 1.1.2018 to 31.1.2018<br>RMB'000 |
|---|---|---|
| Revenue | - | - |
| Loss for the period/year | (1,837) | (1,654) |
| The Group's share of loss in EDF CF | (919) | (827) |

Reconciliation of the above summarized financial information to the carrying amount of the interest in EDF CF recognized in these consolidated financial statements:

| | 2018<br>RMB'000 |
|---|---|
| Net assets of EDF CF | 34,338 |
| Proportion of the Group's ownership interest in EDF CF | 50% |
| Carrying amount of the Group's interest in EDF CF | 17,169 |

24. DERIVATIVE FINANCIAL INSTRUMENT

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Derivative financial assets | 541 | - |

In 2007, Mr. Lin, advanced loans in the aggregate amount of RMB40,000,000 to the Group pursuant to a subordination and forbearance agreement dated April 27, 2007 (the "Subordination and Forbearance Agreement"). On May 25, 2017, the Group entered into a loan discharge agreement with Mr. Lin ("Loan Discharge Agreement") to repay an aggregate amount of RMB36,000,000 and the Group's obligation stated in the Subordination and Forbearance Agreement, has been fully discharged. Accordingly, the remaining RMB4,000,000 was recognized as shareholder's contribution.

In addition, the Loan Discharge Agreement provided that if the IPO has not been completed on or prior to June 28, 2019, the Group shall have the right for a period of 90 days following June 28, 2019 to require Mr. Lin, directly or indirectly, to subscribe for common shares of the Company on the TSX Venture Exchange, in the amount of RMB36,000,000 or its CAD equivalent. The subscription price for such common shares shall be the volume-weighted average price of the common shares of the Company in the period of 30 calendar days preceding June 28, 2019 on the TSX Venture Exchange.

As the IPO was not completed on or prior to June 28, 2019. On July 26, 2019, the Company announced that the Board determined to exercise the Company's option pursuant to the Loan Discharge Agreement to require the estate of Mr. Lin (the "Estate") to subscribe for an aggregate amount of CAD6,862,000 (approximately RMB36,000,000) in common shares of the Company at a price of CAD0.68 per common share. Following the subscription, based on the prevailing exchange rate of June 28, 2019, the number of shares to be issued is 10,090,568. The management of the Group considered that the share subscription is a forward contract. As at December 31, 2019, the market price of the common shares of the Company was CAD0.67 and the closing exchange rate of RMB to CAD as at December 31, 2019 was RMB1.0000 to CAD0.1865 as at December 31, 2019.

25. INVENTORIES

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Construction materials | 4,511 | 4,717 |
| Gas appliances, meters and spare parts | 138 | 326 |
| Natural gas for sale | 644 | 720 |
| | 5,293 | 5,763 |

As at December 31, 2019, no inventories (2018: nil) were written down to the lower of cost and net realizable value. No reversal of any write down were recorded during the year ended December 31, 2019 (2018: nil).

## 26. CONTRACT ASSETS

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Contract assets from pipeline construction works | 7,685 | 7,229 |
| Less: Allowance for credit losses | (26) | (165) |
| | 7,659 | 7,064 |

As at January 1, 2018, contract assets amounted to RMB6,530,000.

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

Typical payment terms which impact on the amount of contract assets recognized are as follows:

*Construction contracts of pipeline construction works*

The Group's construction contracts include payment schedules which require stage payments over the construction period once certain specified milestones are reached. The Group requires certain customers to provide upfront deposits ranging from 30% to 70% of total contract amount as part of its credit risk management policies. The Group typically transfer the contract assets to trade receivables when the performance obligation of the construction works satisfied.

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

Details of the impairment assessment are set out in note 42.

## 27. TRADE RECEIVABLES

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Trade receivables | | |
| - Gas sales | 24,089 | 20,787 |
| - Pipeline installation and connection | 25,792 | 10,167 |
| | 49,881 | 30,954 |
| Less: Allowance for credit losses | (3,579) | (3,061) |
| | 46,302 | 27,893 |

As at January 1, 2018, trade receivables from contracts with customers amounted to RMB28,501,000.

As at December 31, 2019 and 2018, no trade receivables balances are past due as at the reporting date.

Details of impairment assessment of trade and other receivables are set out in note 42.

## 28. OTHER RECEIVABLES, PREPAID EXPENSES AND DEPOSITS

| | 31.12.2019<br>RMB'000 | 1.1.2019<br>RMB'000 | 31.12.2018<br>RMB'000 |
|---|---|---|---|
| Pipeline relocation receivables (note) | 12,157 | 9,669 | 9,669 |
| Deposits paid for acquisition of property and equipment | 12,303 | 3,033 | 3,033 |
| Prepayments for gas purchase | 8,286 | 4,119 | 4,119 |
| Rental prepayment | - | - | 926 |
| Rental deposits | 1,288 | 1,798 | 1,798 |
| VAT recoverable | 14,519 | 12,877 | 12,877 |
| Receivables from Xinao Gas on disposal of Pingxiang Xinao CF | 3,243 | 3,243 | 3,243 |
| Deferred share issue costs | - | 1,402 | 1,402 |
| Other prepayments and deposits | 2,256 | 4,013 | 4,013 |
| | 54,052 | 40,154 | 41,080 |
| Analyzed for reporting purposes as follows: | | | |
| - Current assets | 37,994 | 29,514 | 30,440 |
| - Non-current assets | 16,058 | 10,640 | 10,640 |
| | 54,052 | 40,154 | 41,080 |

Rental prepayment were adjusted upon the initial application of IFRS 16. Details of the adjustments are set out in note 2.

Note: During the year ended December 31, 2019 and 2018, due to the change in city planning, local government notified the Group to relocate its gas pipelines for complying with the revised city plan and agreed that the local government would compensate part of the costs incurred by the Group as a result of the notified relocation. At December 31, 2019, the balances incurred are approximately RMB12,157,000 (2018: RMB9,669,000) on construction of new pipelines as a result of the relocation notices. The Group expected RMB9,100,000 (2018: RMB2,667,000) would be refunded by the local government in 2020 with the remaining balance of RMB3,057,000 (2018: RMB7,002,000) to be refunded beyond 2020.

Details of impairment assessment of other receivables and deposits are set out in note 42.

## 29. BANK BALANCES AND CASH/RESTRICTED CASH/FIXED BANK DEPOSITS

Bank balances and restricted cash carried market interest rates which ranged from 0.30% to 1.55% per annum as at December 31, 2019 (2018: 0.30% to 1.55%).

Fixed bank deposits with original maturity more than three months but less than six months amounting to RMB6,000,000 as at December 31, 2019 (2018: RMB6,000,000) carry interest at fixed rate of 1.75% per annum (2018: 1.75% per annum).

Details of impairment assessment of bank balances and cash, restricted cash and fixed bank deposits are set out in note 42.

## 30. TRADE AND OTHER PAYABLES

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Trade and construction payables | 24,581 | 33,502 |
| Security deposit received from customers for natural gas supplies | 5,241 | 5,372 |
| Payable on property and equipment acquisition | 17,265 | 7,984 |
| Accrued wages and staff benefits | 16,210 | 11,012 |
| Compensation payable for land acquisition | 2,906 | 2,906 |
| Other tax payables | 1,008 | 1,550 |
| Other payables and accrued expenses | 4,466 | 3,553 |
| | 71,677 | 65,879 |

The average credit period on purchase of natural gas and construction payable to construct pipeline ranges from 5 to 30 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

## 31. RELATED PARTY BALANCES/TRANSACTIONS DISCLOSURE

During the year, the Group entered into the following transactions and balances with related parties:

| Name of related party | Relationship | Nature of transactions | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|---|
| **Transactions** | | | | |
| Pingxiang Xinao CF | Associate | Interest income | 357 | 479 |
| | | Service fee income (note a) | N/A | 3,300 |
| Sichuan Tianzhiyuan Energy Technology Limited ("Tianzhiyuan") | Non-controlling interest of a subsidiary | Interest income | 57 | N/A |
| | | Consulting fee | (500) | N/A |

31. RELATED PARTY BALANCES/TRANSACTIONS DISCLOSURE - continued

The following balances were outstanding from/(to) related parties at the end of the reporting period:

| Name of related party | Relationship | Terms | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|---|
| **Balances** | | | | |
| Shin-Ko Energy | Associate | Non-trade, unsecured, non-interest bearing and repayable on demand | N/A | (4,249) |
| Pingxiang Xinao CF | Associate | Non-trade, unsecured and interest bearing (note b) | 12,802 | 12,852 |
| | | Trade, unsecured, non-interest bearing (note a) | 3,000 | 3,300 |
| EDF CF | Joint venture | Non-trade, unsecured, interest bearing and repayable on demand | N/A | 144 |
| Ruiheng | Non-controlling interest of a subsidiary | Non-trade, unsecured, non-interest bearing and repayable on demand | N/A | 905 |
| Tianzhiyuan | Non-controlling interest of a subsidiary | Non-trade, unsecured, interest bearing and repayable on demand (note c) | 2,062 | 800 |

Notes:

(a) The balance represents amount due from Pingxiang Xinao CF amounted of RMB3,300,000 after signing of the Concessionary Agreement with Xiangdong District Government of Pingxiang, Jiangxi province and obtain the concessionary right for natural gas pipeline distribution. Details of the disposal are set out in note 13. In the opinion of the management of the Company, the outstanding balance is not expected to be repaid within 12 months after the end of reporting period and therefore the amount is classified as non-current asset.

(b) The balance represents loan to Pingxiang Xinao CF bearing interest at 4.35% per annum, amounted to RMB12,802,000 as at December 31, 2019 (2018:RMB12,852,000).

(c) The balance represents the loan to Tianzhiyuan as unsettled capital injected into Meishan bearing interest at 5.88% per annum amounted to RMB2,000,000.

Details of impairment assessment of the respective amounts due from an associate, a joint venture and non-controlling interests of subsidiaries are set out in note 42.

## 32. ACQUISITION OF A SUBSIDIARY

On December 26, 2019, the Group entered into an agreement with EDF China to inject additional capital in EDF CF, a former 50% joint venture of the Group, amounting to RMB24,000,000. Following the completion of the capital injection, the Group holds 70% of equity interest in EDF CF and it became a non wholly-owned subsidiary of the Company.

**Assets acquired and liabilities recognized at the date of acquisition are as follow:**

| | 2019<br>RMB'000 |
|---|---|
| Long-term deposits and advances | 12,152 |
| Property and equipment (note 17) | 31,892 |
| Intangible assets (note 21) | 4,254 |
| Other receivables, prepaid expenses and deposits | 2,765 |
| Bank balances and cash | 12,819 |
| Trade and other payables | (4,896) |
| Deferred tax liability (note 38) | (621) |
| Amount due to the Group (note) | (24,000) |
| Fair value of net assets acquired | 34,365 |
| **Goodwill arising on acquisition:** | |
| Non-controlling interests | 18,000 |
| Fair value of interest in a joint venture previously held at date of acquisition | 18,000 |
| Less: net assets acquired | (34,365) |
| Goodwill (note 20) | 1,635 |
| Fair value of previously held interest | 18,000 |
| Less: carry amount of interest in a joint venture | (16,250) |
| Deemed gain on acquisition of EDF CF | 1,750 |
| Net cash inflow: | |
| Cash and cash equivalent balances acquired | 12,819 |

Note: The Group advanced RMB24,000,000 into EDF CF prior to the acquisition date, the advance was converted into paid in capital of EDF CF upon the acquisition date.

## 33. CONTRACT LIABILITIES

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Pipeline installation and connection projects | 57,002 | 40,868 |
| Receipts in advance from customers | | |
| - Pipeline installation and connection projects prior to commencement | 32,495 | 47,439 |
| - Natural gas sales | 21,008 | 22,535 |
| | 110,505 | 110,842 |

As at January 1, 2018, contract liabilities amounting to RMB116,008,000.

During the year ended December 31, 2019, RMB22,535,000 (2018: RMB16,060,000) and RMB54,951,000 (2018: RMB62,598,000) of carried-forward contract liabilities arose from natural gas sales and pipeline installation and connection projects has been recognized as revenue, respectively.

## 34. SHORT-TERM BANK BORROWINGS

The Group's short-term bank borrowings comprise:

| Lenders | Secured/ unsecured | Contractual interest rate | Effective interest rate 2019 | Effective interest rate 2018 | Carrying amounts 2019 RMB'000 | Carrying amounts 2018 RMB'000 |
|---|---|---|---|---|---|---|
| Bank of China, Sanya | Secured | Fixed interest rate at 4.4% | 4.4% | 4.4% | 10,000 | 20,000 |

Note: The short-term loan from Bank of China, Sanya is secured by 60% of the equity interest in Sanya Changfeng Offshore Natural Gas Distribution Co., Ltd. ("CF China"), the gas connection and gas supply rights of CF China and the trade receivables from 2012 to 2022 of CF China and Sanya Changfeng Offshore Natural Gas Engineering Construction Co., Ltd. ("CF Engineering").

## 35. LONG-TERM DEBTS

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Bank borrowings | | |
| - Secured, with variable rate | 202,000 | 125,919 |
| The carrying amounts of the above borrowings are repayable:* | | |
| Within one year | 15,000 | 24,000 |
| Within a period of more than one year, but not exceeding two years | 33,000 | 10,000 |
| Within a period of more than two years, but not exceeding five years | 126,000 | 50,000 |
| Within a period of more than five years | 28,000 | 42,000 |
| | 202,000 | 126,000 |
| Less: Unamortized transaction costs | - | (81) |
| | 202,000 | 125,919 |
| Less: Amounts due within one year shown under current liabilities | (15,000) | (23,919) |
| Amounts shown under non-current liabilities | 187,000 | 102,000 |

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The Group's long-term debts comprise:

| Lenders | Secured/ unsecured | Contractual interest rate | Effective interest rate 2019 | Effective interest rate 2018 | Carrying amount 2019 RMB'000 | Carrying amount 2018 RMB'000 | Notes |
|---|---|---|---|---|---|---|---|
| Bank of China, Sanya | Secured | 5-year People's Bank of China ("PBOC") benchmark borrowing rate, repricing every 6 months | 4.9% | 4.9% | - | 19,919 | (a) |
| Bank of China, Sanya | Secured | 110% of 5-year PBOC benchmark borrowing rate, repricing every 6 months | 5.4% | 5.4% | 24,000 | 26,000 | (b) |
| Bank of China, Sanya | Secured | 10-year PBOC benchmark borrowing rate, repricing every 12 months | 4.9% | 4.9% | 78,000 | 80,000 | (c) |
| Bank of China, Sanya | Secured | 5-year PBOC benchmark borrowing rate, repricing every 12 months | 4.75% | - | 100,000 | - | (d) |
| Total long-term debts | | | | | 202,000 | 125,919 | |

35. LONG-TERM DEBTS - continued

Notes:

(a) The term loan from Bank of China, Sanya with an original principal amount of RMB100,000,000 was drawn upon in 2010. The loan was secured by 60% of the equity interest in CF China together with the gas connection and gas supply rights of CF China. The loan was repayable semi-annually by instalments and has been fully repaid in 2019.

(b) In 2013, the Group entered into an agreement with Bank of China, Sanya to secure a bank loan facility in the amount of RMB40,000,000. The bank loan facility was used to fund continued construction of pipeline and associated facilities of the Haitang Bay project in Sanya City, the PRC. The loan is secured by 60% of the equity interest in CF China together with the gas connection and gas supply rights of CF China and the trade receivables from 2012 to 2022 of CF China and CF Engineering. The loan is repayable semi-annually by instalments and will be fully repaid in 2023.

(c) In 2016, the Group entered into an agreement with Bank of China, Sanya to secure a bank loan facility in the amount of RMB80,000,000. The bank loan facility was used to fund continued construction of pipeline and associated facilities of the Haitang Bay project in Sanya City, the PRC. The loan has a 10-year term from the date of the first initial withdrawal. The loan is secured by the gas connection and gas supply rights of CF China, the trade receivables of CF China and CF Engineering and certain property and equipment with carrying amount of RMB92,557,000 (2018: RMB76,505,000). The loan began repayment from 2019 and will be fully repaid by 2025.

(d) In 2019, the Group entered into an agreement with Bank of China, Sanya to secure a bank loan facility in the amount of RMB100,000,000. The bank loan facility was used to finance the purchase of gas. The loan has a 5-year term from the date of the first initial withdrawal. The loan is secured by the gas connection and gas supply rights of CF China and the trade receivables of CF China and CF Engineering. The loan will begin repayment from 2020 and will be fully repaid by 2023.

36. LEASE LIABILITIES

| | 2019<br>RMB'000 |
|---|---|
| **Lease liabilities payable:** | |
| Within one year | 1,651 |
| Within a period of more than one year but not more than two years | 1,334 |
| Within a period of more than two years but not more than five years | 2,562 |
| Within a period of more than five years | 1,976 |
| | 7,523 |
| Less: Amount due for settlement within 12 months shown under current liabilities | (1,651) |
| Amount due for settlement after 12 months shown under non-current liabilities | 5,872 |

## 37. DEFERRED INCOME - GOVERNMENT GRANTS

The Group received RMB5,269,000 and RMB2,553,000 in government grants to fund the construction of certain items of property and equipment for the Group's operation in Sanya City in 2012 and 2019. These government grants were recognized as a long-term liability and will be recognized in the consolidated statement of profit or loss over the expected useful lives of these property and equipment when these property and equipment are ready for use. As of December 31, 2019, part of the property and equipment are ready for use and RMB264,000 (2018: RMB225,000) is recognized as other income. As at December 31, 2019, the government grants of RMB6,981,000 was recognized as a non-current liability (2018: RMB4,692,000).

## 38. DEFERRED TAX LIABILITIES

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Deferred tax liabilities | 12,060 | 10,431 |

The following are the major deferred tax liabilities recognized and movements thereon during the current and prior year:

| | Property and equipment<br>RMB'000 | Accrued receivables on gas sales<br>RMB'000 | Receipts in advance and deferred income<br>RMB'000 | Receipt in advance from disposal of a subsidiary<br>RMB'000 | Withholding tax on undistributed earnings<br>RMB'000 | Intangible assets<br>RMB'000 | Right-of-use assets and lease liabilities<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|---|---|---|
| At January 1, 2018 | (10,654) | (1,013) | 3,836 | 7,712 | (534) | - | - | (653) |
| Credit (charge) to profit or loss | (1,491) | (194) | 1,075 | (7,712) | (1,456) | - | - | (9,778) |
| At December 31, 2018 | (12,145) | (1,207) | 4,911 | - | (1,990) | - | - | (10,431) |
| Adjustments (note 2) | - | - | - | - | - | - | 74 | 74 |
| As at January 1, 2019 (restated) | (12,145) | (1,207) | 4,911 | - | (1,990) | - | 74 | (10,357) |
| Acquisition of a subsidiary (note 32) | - | - | - | - | - | (621) | - | (621) |
| Credit (charge) to profit or loss | (2,477) | (106) | 907 | - | 594 | - | - | (1,082) |
| At December 31, 2019 | (14,622) | (1,313) | 5,818 | - | (1,396) | (621) | 74 | (12,060) |

Under EIT law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided in respect of temporary differences attributable to retained earnings of the PRC subsidiaries amounting to RMB227,183,000 at December 31, 2019 (2018: RMB168,705,000), as the Group is able to control the timing of the reversal of the temporary differences.

## 38. DEFERRED TAX LIABILITIES - continued

At the end of the reporting period, the Group has the following unused tax losses and deductible temporary differences available for offset against future profits:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Loss carried forward | 137,804 | 122,896 |
| Deductible temporary differences | 2,119 | 1,993 |
| | 139,923 | 124,889 |

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom. Included in unrecognized tax losses are losses of RMB50,985,000 (December 31, 2018: RMB42,643,000) that will fully expire in 2022 and RMB86,819,000 (December 31, 2018: RMB80,253,000) that will fully expire in 2037. Other losses may be carried forward indefinitely.

## 39. SHARE CAPITAL

**Share capital of the Company**

| | Number of shares | Amount<br>RMB'000 |
|---|---|---|
| Common shares | | |
| Issued and fully paid: | | |
| At January 1, 2018 | 64,345,035 | 66,689 |
| Exercised options | 919,120 | 3,149 |
| Share cancellation (note) | (16,000) | (20) |
| At December 31, 2018 | 65,248,155 | 69,818 |
| Exercised options | 15,000 | 43 |
| At December 31, 2019 | 65,263,155 | 69,861 |

Note: On March 29, 2018, one of the shareholders cancelled the shares due to personal reasons. The Board approved the cancellation of the shares.

## 40. SHARE-BASED COMPENSATION

The share option scheme of the Company (the "Option Scheme") were adopted for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest. Under the Option Scheme, the Board may grant options to eligible participants including employees, senior officers and directors (including executive and non-executive directors) of the Company or any of its subsidiaries, and any suppliers, consultants and advisers who will contribute or have contributed to the Group to subscribe for shares in the Company.

Under the Option Scheme, the Company may grant share options to directors, senior officers, employees and consultant, and is authorized to issue options to subscribe for up to a maximum of 6,600,000 shares of the Company, which represented 10% of the issued and outstanding shares of the Company at the date of adoption of the Share Option. The Board or such other persons designated by the Board, administers the option scheme and determines the vesting and terms of each award.

At the annual general meeting of the Company held on July 26, 2019, the shareholders of the Company approved the resolution for the amendments to the existing Option Scheme from the "fixed" option plan to a "rolling" option plan whereby (i) options can be granted to subscribe for up to a maximum number of shares of the Company equal to 10% of the issued and outstanding shares of the Company from time to time; and (ii) subject to the maximum referred to in (i) above, options granted and exercised can be re-granted under the scheme.

The following table discloses movement of share options held by directors and employees during the respective financial years.

For the year ended December 31, 2019

| | | | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Category of grantees | Date of grant | Vesting conditions | Exercisable period | Exercise price per share | Outstanding at 1.1.2019 | Granted during the year | Exercised during the year | Expired/ cancelled during the year | Outstanding at 12.31.2019 |
| Directors, officers and Chinese management | July 31, 2015 | Immediately | 31.7.2015 to 30.7.2020 | CAD0.36 | 235,000 | - | (15,000) | - | 220,000 |
| Chinese employees and management | April 10, 2017 | Immediately | 10.4.2018 to 9.4.2022 | CAD0.40 | 1,250,000 | - | - | - | 1,250,000 |
| Chinese employees and management | August 10, 2017 | Immediately | 10.8.2018 to 9.8.2025 | CAD0.63 | 1,800,000 | - | - | - | 1,800,000 |
| Chinese employees and management | August 18, 2017 | Immediately | 18.8.2018 to 17.8.2025 | CAD0.65 | 500,000 | - | - | - | 500,000 |
| Employees and management | April 13, 2018 | (i) Immediately vested from the day following the successful IPO<br>(ii) Employees and management serves the Group until successful IPO | 3 years from the day following the successful IPO | CAD1.09 | 2,240,000 | - | - | (2,240,000) | - |
| Consultant | April 13, 2018 | (i) Immediately vested from the day following the successful IPO<br>(ii) Consultant serves the Group until successful IPO | 5 years from the day following the successful IPO | CAD1.09 | 200,000 | - | - | (200,000) | - |
| | | | | | 6,225,000 | - | (15,000) | (2,440,000) | 3,770,000 |
| Weighted average exercise price (CAD) | | | | | 0.76 | - | 0.36 | 1.09 | 0.54 |

## 40. SHARE-BASED COMPENSATION - continued

For the year ended December 31, 2018

| Category of grantees | Date of grant | Vesting conditions | Exercisable period | Exercise price per share | Number of share options: Outstanding at 1.1.2018 | Granted during the year | Exercised during the year | Expired/ cancelled during the year | Outstanding at 12.31.2018 |
|---|---|---|---|---|---|---|---|---|---|
| Directors, officers and Chinese management | August 26, 2013 | Immediately vest for 1/3 grant, | 26.8.2013 to 25.8.2019 | CAD0.35 | 965,150 | - | (574,120) | (391,030) | - |
| | | first anniversary vest for 1/3 grant and second | 26.8.2014 to 25.8.2019 | CAD0.35 | | | | | |
| | | anniversary vest for 1/3 grant | 26.8.2015 to 25.8.2019 | CAD0.35 | | | | | |
| Directors, officers and Chinese management | July 31, 2015 | Immediately | 31.7.2015 to 30.7.2020 | CAD0.36 | 375,000 | - | (45,000) | (95,000) | 235,000 |
| Chinese employees and management | April 10, 2017 | Immediately | 10.4.2018 to 9.4.2022 | CAD0.40 | 1,300,000 | - | (50,000) | - | 1,250,000 |
| Chinese employees and management | August 10, 2017 | Immediately | 10.8.2018 to 9.8.2025 | CAD0.63 | 1,850,000 | - | (50,000) | - | 1,800,000 |
| Chinese employees and management | August 18, 2017 | Immediately | 18.8.2018 to 17.8.2025 | CAD0.65 | 700,000 | - | (200,000) | - | 500,000 |
| Employees and management | April 13, 2018 | (i) Immediately vested from the day following the successful IPO | 3 years from the day following the successful IPO | CAD1.09 | - | 2,240,000 | - | - | 2,240,000 |
| | | (ii) Employees and management serves the Group until successful IPO | | | | | | | |
| Consultant | April 13, 2018 | (i) Immediately vested from the day following the successful IPO | 5 years from the day following the successful IPO | CAD1.09 | - | 200,000 | - | - | 200,000 |
| | | (ii) Consultant serves the Group until IPO successful IPO | | | | | | | |
| | | | | | 5,190,150 | 2,440,000 | (919,120) | (486,030) | 6,225,000 |
| Weighted average exercise price (CAD) | | | | | 0.50 | 1.09 | 0.43 | 0.35 | 0.76 |

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise was CAD0.62 in 2019 (2018: CAD1.09).

Fair value of share options granted to directors and employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's contributed surplus. The IPO has not been completed on or prior to June 28, 2019. As a result, a total of 2,440,000 share options previously granted to the employees, management and consultant were forfeited and the Group reversed share-based compensation expense of RMB3,326,000 for the year ended December 31, 2019 (2018: recognized RMB3,326,000) in relation to share options granted by the Company.

The number of share options exercisable as at December 31, 2019 was 3,770,000 (2018: 3,785,000).

40. SHARE-BASED COMPENSATION - continued

**2018 Option**

On April 13, 2018, a total of 2,240,000 and 200,000 share options were granted to employees and management and consultant, respectively. The estimated fair values of the options determined at the dates of grant were RMB2,982,000 and RMB344,000, respectively.

The options granted are to be vested from the day immediately following the successful IPO.

These fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

| | For employees and management April 13, 2018 | For consultant April 13, 2018 |
|---|---|---|
| Share price at the date of grant | CAD1.07 | CAD1.07 |
| Exercise price | CAD1.09 | CAD1.09 |
| Expected volatility | 33.85% | 34.06% |
| Expected life | 3.72 years | 5.72 years |
| Risk-free rate | 2.07% | 2.15% |
| Expected dividend yield | 0.67% | 0.45% |
| Fair value per option | CAD0.26 | CAD0.34 |

The risk-free rate is based on Canadian bond yields according to the expected life of the share options grant.

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 3 and 5 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the management of the Company's best estimate. The value of an option varies with different variables of certain subjective assumptions.

## 41. CAPITAL RISK MANAGEMENT

The Group considers its capital structure to consist of share capital, contributed surplus, retained earnings, short-term bank borrowings and long-term debts. The Group's objectives are to maintain an effective structure that supports its ability to explore strategic business development opportunities in the PRC and to maintain a flexible capital structure that optimizes the costs of capital at an acceptable risk level. The Group manages its capital structure and makes adjustments to it, based on the funds available to the Group. The Board does not establish quantitative return-on-capital criteria for management, but rather is responsible for overseeing the process undertaken by management to sustain future development of its business.

The Group's strategy is to satisfy its liquidity needs using cash on hand, cash flows generated from operating activities and through credit lines. Gas supply revenue, gas connection revenue, available cash balances, drawdowns on credit lines and long-term bank debts are the Group's principal sources of capital used to pay for operating expenses and capital expenditures in its business.

The Group reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of its operations, is reasonable. The Group monitors its compliance with all of its capital requirements, including financial covenants and non-financial covenants relating to the credit lines and bank loans, as applicable. As at December 31, 2019, the Company was in compliance with all of its covenants.

There were no changes in the Group's approach to capital management during the year ended December 31, 2019.

During the year ended December 31, 2019, dividend in the amount of RMB19,900,000 (2018: RMB6,671,000) was declared and paid to the shareholders.

## 42. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| **Financial assets** | | |
| Financial assets at amortized cost | 213,856 | 145,791 |
| Derivative financial instrument | 541 | - |
| **Financial liabilities** | | |
| Liabilities measured at amortized cost | 260,988 | 198,394 |

42. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, pipeline relocation receivables, receivables from Xinao Gas, amounts due from an associate, a joint venture and non-controlling interests of subsidiaries, restricted cash, fixed bank deposits, bank balances and cash, derivative financial instrument, trade and other payables, dividend payable to non-controlling interests of a subsidiary, amount due to an associate, short-term bank borrowings, long-term debts and lease liabilities. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (foreign exchange risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risk**

***Foreign exchange risk***

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. With the majority of the Group's businesses transacted in RMB, the aforesaid currencies are determined as the functional currencies of the Company and its subsidiaries.

The Company and its subsidiaries have foreign currency: bank balances and cash other payables, which expose them to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| United States Dollars ("US$") | - | - | 151 | 152 |
| CAD | (211) | (188) | 2,239 | 1,797 |
| Hong Kong Dollars ("HKD") | - | - | 631 | 10 |

*Sensitivity analysis*

The management of the Company considers that the exposure to fluctuations in exchange rate of US$, CAD and HKD against RMB are not significant and thus no sensitivity analysis is presented.

42. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

**Market risk** - continued

***Interest rate risk***

Interest rate risk is the risk that changes in interest rates will affect the Group's income or value of or cash flows related to its financial instruments. The Group is exposed to interest rate risk arising from its bank balances, pledged bank deposits, restricted cash, fixed bank deposits, long-term debts, short-term bank borrowings and lease liabilities. The Group is exposed to fair value interest rate risk in relation to fixed-rate short-term bank borrowings (see notes 34 and 35 for details of these borrowings). The Group's interest rate on its long-term debts are based upon the prescribed lending rate of the PBOC, which is subject to fluctuation, and may result in an increase or decrease in interest expense. The Group does not use derivative instruments to reduce its exposure to interest rate risk.

By excluding the impact of interest capitalization, 1% increase or decrease in the interest rate would have had the following impact on the Group's profit for the year:

| | Impact on profit for the year | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Interest rate + 1% | 541 | 287 |
| Interest rate - 1% | (541) | (287) |

**Credit risk and impairment assessment**

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade receivables, contract assets, other receivables, restricted cash, fixed bank deposits, bank balances and amounts due from an associate, joint ventures and non-controlling interest of a subsidiary. Other than the security deposits collected from certain customers from gas sales, the Group does not hold any other collateral or other credit enhancements to cover its credit risks associated with its financial assets.

As at December 31, 2019 and 2018, the Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at December 31, 2019 and 2018 in relation to each class of recognized financial assets is the carrying amount of those financial assets as stated in the consolidated statement of financial position.

42. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

**Credit risk and impairment assessment** - continued

Other than concentration of credit risk on bank balances which are deposited with several banks in the PRC and Canada with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, and spread across diverse industries and geographical areas.

*Trade receivables and contract assets arising from contracts with customers*

In order to minimize the credit risk of trade receivables and contract assets, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. The Group performs impairment assessment under ECL model based on provision matrix. Trade receivables and contract assets are grouped under different provision matrix by nature of products and services based on credit risk characteristics by reference to repayment histories for recurring customers and current past due exposure for the new customers, impairment loss, net of reversal of RMB379,000 (2018: reversal of impairment loss of RMB55,000) is recognized for the year ended December 31, 2019. Details of the quantitative disclosures are set out below in this note.

*Bank balances/fixed bank deposits/restricted cash*

The credit risks on bank balances, fixed bank deposits and restricted cash are limited because the counterparties are banks/financial institutions with high credit ratings assigned by international credit-rating agencies. The Group assessed 12m ECL for bank balances, fixed bank deposits and restricted cash by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on bank balances, fixed bank deposits and restricted cash is considered to be insignificant. No expected credit loss was recognized as the amount involved is insignificant.

*Amounts due from an associate, a joint venture and non-controlling interests of a subsidiary*

The Group regularly monitors the business performance of the associates and joint venture. The Group's credit risks in these balances are mitigated through the value of the assets held by these entities and the power to participate or jointly control the relevant activities of these entities. The directors of the Company consider that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. No expected credit loss was recognized as the amount involved is insignificant.

42. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

**Credit risk and impairment assessment** - continued

*Other receivables*

For other receivables and deposits, the directors of the Company make periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the year ended December 31, 2019 and 2018, the Group assessed the ECL for other receivables and deposits were insignificant and thus no loss allowance was recognized.

The Group's internal credit risk grading assessment comprises the following categories:

| Internal credit rating | Description | Trade receivables/ contract assets | Other financial assets/other items |
|---|---|---|---|
| Low risk | The counterparty has a low risk of default and does not have any past-due amounts | Lifetime ECL - not credit-impaired | 12-month ECL |
| Normal risk | Debtor frequently repays after due dates but usually settle in full | Lifetime ECL - not credit-impaired | 12-month ECL |
| High risk | 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 |

## 42. FINANCIAL INSTRUMENTS - continued

### (b) Financial risk management objectives and policies - continued

**Credit risk and impairment assessment** - continued

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

| | Notes | External credit rating | Internal credit rating | 12-month or lifetime ECL | Gross carrying amount 2019 | | Gross carrying amount 2018 | |
|---|---|---|---|---|---|---|---|---|
| | | | | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Financial assets at amortized cost** | | | | | | | | |
| Trade receivables - Gas sales | 27 | N/A | (note a) | Lifetime ECL (Provision Matrix) | | | | |
| | | | | - Low risk | 22,022 | | 19,942 | |
| | | | | - Normal risk | 1,584 | | 356 | |
| | | | | - High risk | 2 | | 8 | |
| | | | | | 23,608 | | 20,306 | |
| | | | Loss | Credit-impaired | 481 | 24,089 | 481 | 20,787 |
| Trade receivables - Pipeline installation and connection | 27 | N/A | (note b) | Lifetime ECL (Provision Matrix) | | | | |
| | | | | - Low risk | 17,968 | | 5,293 | |
| | | | | - Normal risk | 3,744 | | 4,247 | |
| | | | | - High risk | 4,080 | 25,792 | 627 | 10,167 |
| Pipeline relocation receivables | 28 | N/A | N/A | 12m ECL | | 12,157 | | 9,669 |
| Receivables from Xinao Gas on disposal of Pingxiang Xinao CF | 28 | N/A | N/A | 12m ECL | | 3,243 | | 3,243 |
| Bank balances | 29 | N/A | N/A | 12m ECL | | 127,804 | | 80,207 |
| Fixed bank deposits | 29 | N/A | N/A | 12m ECL | | 6,000 | | 6,000 |
| Restricted cash | 29 | N/A | N/A | 12m ECL | | 300 | | 501 |
| Amount due from an associate | 31 | N/A | N/A | 12m ECL | | 15,802 | | 16,152 |
| Amount due from a joint venture | 31 | N/A | N/A | 12m ECL | | - | | 144 |
| Amounts due from non-controlling interests of subsidiaries | 31 | N/A | N/A | 12m ECL | | 2,062 | | 1,705 |
| **Other items** | | | | | | | | |
| Contract assets | 26 | N/A | (note b) | Lifetime ECL (Provision Matrix) | | 7,685 | | 7,229 |

Note: For trade receivables and contract assets, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with credit-impaired amounting to RMB481,000 (2018: RMB481,000) for the year ended December 31, 2019, the Group determines the expected credit losses on these items by using a provision matrix, grouped by past due status and internal credit rating.

42. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

**Credit risk and impairment assessment** - continued

*Trade receivables and contract assets*

*Note (a): provision matrix - debtors' aging (gas sales)*

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to natural gas sales and CNG vehicles refuelling station operation 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. The Group received security deposits from certain customers before the supply of natural gas. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at December 31, 2019 and 2018 within lifetime ECL (not credit impaired).

Gross carrying amount

| | Average loss rate | Trade receivables 2019 RMB'000 | Trade receivables 2018 RMB'000 |
|---|---|---|---|
| Current (not past due) | 0.2% | 22,022 | 19,942 |
| 1 - 90 days past due | 0.7% | 1,584 | 356 |
| More than 90 days past due | 100% | 2 | 8 |
| | | 23,608 | 20,306 |

*Note(b): Provision matrix - internal credit rating (pipeline installation and connection)*

The Group applies internal credit rating for its customers in relation to its pipeline connection and construction operation. The following table provides information about the exposure to credit risk for trade receivables contract assets which are assessed based on provision matrix as at December 31, 2019 and 2018 within lifetime ECL (not credit impaired).

Gross carrying amount

| Internal credit rating | Loss rate range | Trade receivables 2019 RMB'000 | Trade receivables 2018 RMB'000 | Contract assets 2019 RMB'000 | Contract assets 2018 RMB'000 |
|---|---|---|---|---|---|
| A++ to A-: Low risk | 0 - 10% | 17,968 | 5,293 | 7,556 | 7,229 |
| B to B-: Normal risk | 20 - 30% | 3,744 | 4,247 | 129 | - |
| Lower than B-: High risk | 50 - 100% | 4,080 | 627 | - | - |
| | | 25,792 | 10,167 | 7,685 | 7,229 |

42. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

**Credit risk and impairment assessment** - continued

*Trade receivables and contract assets* - continued

*Note(b): Provision matrix - internal credit rating (pipeline installation and connection)* - 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 of the Group to ensure relevant information about specific debtors is updated. The contract assets have substantially the same risk characteristics as the trade receivables for the same type of contracts. The Group has therefore concluded that the loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

The following table shows the movement in lifetime ECL that has been recognized for trade receivables and contract assets under the simplified approach.

Trade receivables

| | Lifetime ECL (not credit-impaired) RMB'000 | Lifetime ECL (credit-impaired) RMB'000 | Total RMB'000 |
|---|---|---|---|
| As at January 1, 2018 | - | 2,733 | 2,733 |
| Impairment losses recognized | 2,580 | 481 | 3,061 |
| Impairment losses reversed | - | (2,733) | (2,733) |
| As at December 31, 2018 | 2,580 | 481 | 3,061 |
| Impairment losses recognized | 1,383 | - | 1,383 |
| Impairment losses reversed | (865) | - | (865) |
| As at December 31, 2019 | 3,098 | 481 | 3,579 |

Contract assets

| | Lifetime ECL (not credit-impaired) RMB'000 | Lifetime ECL (credit-impaired) RMB'000 | Total RMB'000 |
|---|---|---|---|
| As at January 1, 2018 | - | - | - |
| Transfer from amounts due from customers for contract work | - | 548 | 548 |
| Impairment losses recognized | 165 | - | 165 |
| Impairment losses reversed | - | (548) | (548) |
| As at December 31, 2018 | 165 | - | 165 |
| Impairment losses recognized | 26 | - | 26 |
| Impairment losses reversed | (165) | - | (165) |
| As at December 31, 2019 | 26 | - | 26 |

42. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

**Credit risk and impairment assessment** - continued

*Trade receivables and contract assets* - continued

*Note(b): Provision matrix - internal credit rating (pipeline installation and connection)* - continued

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

**Liquidity risk**

In management of the liquidity risk, the Group monitors and maintains levels of cash and cash equivalents deemed adequate by management of the Group to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The contractual maturities of the Group's long-term debts are described in note 35 and the remaining financial liabilities, consisting of trade payables, amounts due to an associate, dividend payable to non-controlling interests of a subsidiary and short-term bank borrowings, are expected to be realized within one year.

The following tables detail the Group's remaining contractual maturity for its financial liabilities and lease liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest rates are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

| | Weighted average effective interest rate | On demand or less than 3 months | 3 months to 1 year | 1 - 5 years | >5 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|
| | % | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 2019 | | | | | | | |
| Trade and other payables | - | 47,161 | - | - | - | 47,161 | 47,161 |
| Dividend payable to non-controlling interests of a subsidiary | - | 1,827 | - | - | - | 1,827 | 1,827 |
| Bank borrowings | | | | | | | |
| - fixed rate | 4.4% | 109 | 10,326 | - | - | 10,435 | 10,000 |
| - variable rate | 5.0% | 3,433 | 18,050 | 103,620 | 112,908 | 238,011 | 202,000 |
| Lease liabilities | 4.8% | 495 | 1,490 | 2,661 | 3,683 | 8,329 | 7,523 |
| At December 31, 2019 | | 53,025 | 29,866 | 106,281 | 116,591 | 305,763 | 268,511 |

| | Weighted average effective interest rate | On demand or less than 3 months | 3 months to 1 year | 1 - 5 years | >5 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|
| | % | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 2018 | | | | | | | |
| Trade and other payables | - | 46,399 | - | - | - | 46,399 | 46,399 |
| Amounts due to an associate | - | 4,249 | - | - | - | 4,249 | 4,249 |
| Dividend payable to non-controlling interests of a subsidiary | - | 1,827 | - | - | - | 1,827 | 1,827 |
| Bank borrowings | | | | | | | |
| - fixed rate | 4.4% | 218 | 20,217 | - | - | 20,435 | 20,000 |
| - variable rate | 5.0% | 1,473 | 28,650 | 65,731 | 60,754 | 156,608 | 125,919 |
| At December 31, 2018 | | 54,166 | 48,867 | 65,731 | 60,754 | 229,518 | 198,394 |

42. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There was no transfers between different levels during both years.

| Financial assets/ financial liabilities | Fair value as at 31/12/2019 | 31/12/2018 | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|---|---|---|
| 1) Derivative financial instruments | Asset - RMB541,000 | Nil | Level 2 | Discounted cash flow The fair value is calculated by subtracting the present value of the initial forward price from the spot rate. |
| 2) Put option liability | Nil | Nil | Level 3 | In estimating the fair value put option liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages qualified third party valuers to perform the valuation. The management of the Group works closely with the qualified third party valuers to establish the appropriate valuation techniques and inputs to the model. |

42. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments

**Reconciliation of Level 3 fair value measurements of put option liability**

The total gains or losses for the year ended December 31, 2018 included a realised gain of RMB22,627,000 relating to put option liability that are measured at fair value. Such fair value gains or losses are included in 'fair value change on put option liability'.

| | Put option liability<br>RMB'000 |
|---|---|
| At January 1, 2018 | - |
| Initial recognition | (22,627) |
| Fair value changes in profit or loss | 22,627 |
| At December 31, 2018 and 2019 | - |

**Fair value measurements and valuation processes**

*Derivative financial instruments*

The Group owns a right to require the estate of Mr. Lin to subscribe an aggregate amount of RMB36,000,000 (approximately CAD6,862,000 based on the prevailing exchange rate) in common shares of the Company at a price of CAD0.68 per share. The IPO has not been completed on or prior to June 28, 2019. The management of the Group considered that the share subscription is a derivative financial instrument. As at December 31, 2019, the market price of the common share is CAD0.67 and the closing exchange rate for RMB1.0000 to CAD0.1865 for the year ended December 31, 2019. The derivative financial instrument is classified as financial assets at FVTPL and is measured at fair value at reporting date

The management of the Group determines the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of derivative financial instrument, the Group uses discounted cash flow method by subtracting the present value of the initial forward price from the spot rate.

43. SEASONALITY OF OPERATIONS

Seasonality can impact the Group's natural gas distribution sales. The Group's current operations are primarily located in Sanya City, an international tourist destination in the PRC's only tropical province. Sanya City attracts more tourists from December to February in the subsequent year than the rest of the year.

The Group's natural gas sales are higher during this high tourism season, as a large portion of the Group's natural gas sales are made to hotels and restaurants. Seasonality can also impact the Group's CNG retail station sales due to vehicles being in need of more gas during the peak seasons for air-conditioning.

## 44. OPERATING LEASES

**The Group as lessee**

Minimum lease payments paid under operating leases during the reporting period:

| | 2018 RMB'000 |
|---|---|
| Staff quarters, offices and lands | 3,659 |

At the end of each reporting period, the Group's commitments for future minimum lease payments under non-cancellable operating leases fall due as follows:

| | 2018 RMB'000 |
|---|---|
| Within one year | 3,300 |
| In the second to fifth year inclusive | 5,800 |
| Over five years | 7,847 |
| | 16,947 |

## 45. CAPITAL COMMITMENTS

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Capital expenditure in respect of the acquisition of property and equipment and the construction of pipelines under development contracted for but not provided in the consolidated financial statements | 182,810 | 26,058 |

## 46. 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.

## 46. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES - continued

| | Dividend payable RMB'000 | Dividend payable to non-controlling interests of subsidiaries RMB'000 | Short-term bank borrowings RMB'000 | Long-term debts RMB'000 | Lease liabilities RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At January 1, 2018 | - | 2,520 | 49,760 | 147,758 | - | 200,038 |
| Financing cash flows | (6,671) | (7,200) | (30,212) | (22,000) | - | (66,083) |
| Non-cash transactions: | | | | | | |
| Amortized transaction costs | - | - | - | 161 | - | 161 |
| Dividend declared | 6,671 | 6,507 | - | - | - | 13,178 |
| Effect of foreign exchange rate change | - | - | 452 | - | - | 452 |
| At December 31, 2018 | - | 1,827 | 20,000 | 125,919 | - | 147,746 |
| Adjustment upon application of IFRS 16 | - | - | - | - | 6,467 | 6,467 |
| At January 1, 2019 (restated) | - | 1,827 | 20,000 | 125,919 | 6,467 | 154,213 |
| Financing cash flows | (19,900) | (390) | (10,000) | 76,000 | (6,022) | 39,688 |
| Non-cash transactions: | | | | | | |
| Amortized transaction costs | - | - | - | 81 | - | 81 |
| Dividend declared | 19,900 | - | - | - | - | 19,900 |
| Dividend declared to non-controlling interests of subsidiaries | - | 390 | - | - | - | 390 |
| New leases entered | - | - | - | - | 6,748 | 6,748 |
| Interest expenses | - | - | - | - | 330 | 330 |
| At December 31, 2019 | - | 1,827 | 10,000 | 202,000 | 7,523 | 221,350 |

## 47. RELATED PARTY DISCLOSURES

Apart from details of the balances and transactions with related parties disclosed in note 31 to the consolidated statement of financial position and other details disclosed elsewhere in the consolidated financial statements, the Group has not entered into any significant transactions with related parties during both years.

**Compensation of key management personnel**

The remuneration of directors and other members of key management of the Group during the reporting period are as follows:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Short-term benefits | 3,178 | 2,808 |
| Share-based payments | (2,168) | 1,387 |
| | 1,010 | 4,195 |

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

## 48. PLEDGE OF OR RESTRICTIONS OF ASSETS

**Pledge of assets**

The Group's borrowings had been secured by the pledge of the Group's assets and the carrying amounts of the respective assets are as follows:

| | 31/12/2019<br>RMB'000 | 31/12/2018<br>RMB'000 |
|---|---|---|
| Property, plant and equipment | 49,267 | 51,788 |
| Trade receivables | 42,224 | 24,717 |
| | 91,491 | 76,505 |

# 49. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

## 49a. General information of subsidiaries

Details of the Group's subsidiaries at the end of the reporting period are set out below.

| Name of Subsidiary | Place of incorporation/ operations | Registered capital | Issued and fully paid | Proportion ownership interest held by the Company 2019 | 2018 | Proportion of voting power held by the Company 2019 | 2018 | Principal activities |
|---|---|---|---|---|---|---|---|---|
| Hainan Energy Ltd. ("HEL") | British Virgin Islands | US$910,001 | US$910,001 | 100% | 100% | 100% | 100% | Investment holding |
| Indirectly owned by the Company: | | | | | | | | |
| CF China | The PRC | US$10,481,120 | US$10,481,120 | 100% | 100% | 100% | 100% | Gas sales and distribution |
| CF Engineering | The PRC | RMB20,000,000 | RMB20,000,000 | 99.4% | 99.4% | 99.4% | 99.4% | Gas pipeline installation and connection |
| Sanya CF NEI | The PRC | RMB100,000,000 | RMB100,000,000 | 100% | 100% | 100% | 100% | Investment holding |
| Sanya Changfeng Offshore Natural Gas Design Co., Ltd. ("CF Design") | The PRC | RMB1,000,000 | RMB1,000,000 | 100% | 100% | 100% | 100% | Pipeline connection design |
| Human CNPC Energy Co., Ltd ("Hunan CF CNPC") | The PRC | RMB10,000,000 | RMB5,000,000 | 58% | 58% | 58% | 58% | CNG refuelling station |
| Hunan CNPC NEI | The PRC | RMB5,000,000 | RMB5,000,000 | 60% | 60% | 60% | 60% | Investment holding |
| Xiangtan Changfeng Natural Gas Co., Ltd. ("Xiangtan CF") (note b) | The PRC | RMB10,000,000 | RMB2,000,000 | N/A | 51% | N/A | 51% | Inactive |
| Gaoyao | The PRC | RMB10,000,000 | RMB10,000,000 | 61% | 61% | 61% | 61% | Gas sales and distribution and pipeline installation and connection |
| Sanya Changfeng Clean Energy Co., Ltd. | The PRC | RMB10,000,000 | RMB10,000,000 | 100% | 100% | 100% | 100% | CNG refueling station |
| Zhuhai Changfeng Energy Import & Export Co., Ltd. | The PRC | RMB10,000,000 | - | 100% | 100% | 100% | 100% | Investment holding |
| Sanya Changfeng World Energy Forum Co., Ltd. | The PRC | RMB10,000,000 | RMB3,000,000 | 100% | 100% | 100% | 100% | Management service |
| Sanya Changfeng International Natural Gas Trading Co., Ltd. | The PRC | RMB50,000,000 | RMB1,000,000 | 100% | 100% | 100% | 100% | Gas-related technology development |
| Zhaoqing Gaoyao Changheng Xinmingzhu Energy Co., Ltd. | The PRC | RMB50,000,000 | - | 98% | 98% | 98% | 98% | Gas and CNG distribution |
| Riheng (note a) | The PRC | RMB10,000,000 | RMB10,000,000 | 60% | 54.6% | 60% | 54.6% | Gas distribution |
| Zhuhai Henghui | The PRC | RMB10,000,000 | RMB7,500,000 | 61% | 61% | 61% | 61% | Gas sales and distribution and pipeline installation and construction |
| Meishan | The PRC | RMB10,000,000 | RMB8,800,000 | 71.6% | 71.6% | 71.6% | 71.6% | Gas sales and distribution and pipeline installation and construction |
| Hainan Hengtai Energy Co., Ltd. | The PRC | RMB5,000,000 | RMB4,000,000 | 80% | 80% | 80% | 80% | Gas sales and distribution and pipeline installation and construction |
| Hainan Huapu Energy Co., Ltd | The PRC | RMB100,000,000 | - | 100% | N/A | 100& | N/A | Inactive |
| CF Energy Group (Hainan) Co., Ltd | The PRC | RMB100,000,000 | - | 100% | N/A | 100% | N/A | Inactive |
| CF Energy (Hong Kong) Limited | Hong Kong | HKD1 | HKD1 | 100% | 100% | 100% | 100% | Investment holding and trading |
| EDF CF (note 32) | The PRC | RMB100,000,000 | RMB60,000,000 | 70% | - | 67% | - | Design, construction and operation of a net work of cooling and hot water supply |

Notes:

(a) On September 20, 2019, Hunan CNPC NEI re-acquired the 9% equity interest in Riheng previously disposed to Ruiheng in 2018 by waiving the consideration amount of RMB900,000. As a result, the Group's effective interest in Riheng increased to 60%. Details are set out in note 14.

(b) The subsidiary was deregistered on February 20, 2019.

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY - continued

**49b. Details of non-wholly owned subsidiaries that have material non-controlling interests**

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

| Name of subsidiary | Place of incorporation registration/ operation | Proportion of ownership interests and voting rights held by non-controlling interests | | Profit and total comprehensive income for the year allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | 2019 | 2018 | 2019 | 2018 | 31.12.2019 | 31.12.2018 |
| | | | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| EDF CF (note 32) | The PRC | 70% | N/A | - | - | 16,250 | - |
| Hunan CF CNPC | The PRC | 42% | 42% | 1,093 | 1,207 | 10,309 | 9,603 |
| Hunan CNPC NEI | The PRC | 40% | 40% | (885) | 7,871 | 3,031 | 4,206 |
| Individual immaterial subsidiaries with non-controlling interests | | | | (48) | (721) | 1,679 | (966) |
| | | | | 160 | 8,357 | 31,269 | 12,843 |

Summarized financial information in respect of the subsidiaries that has material non-controlling interests is set out below. The Summarized financial information below represents amounts before intragroup elimination.

**Hunan CF CNPC**

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Current assets | 22,056 | 20,185 |
| Non-current assets | 7,809 | 3,551 |
| Current liabilities | 1,255 | 872 |
| Non-current liabilities | 4,108 | - |
| Equity attributed to the owners of the Hunan CF CNPC | 14,193 | 13,261 |
| Non-controlling interests of Hunan CF CNPC | 10,309 | 9,603 |
| Revenue | 18,886 | 21,328 |
| Expenses | 16,283 | 18,455 |
| Profit and total comprehensive income for the year | 2,603 | 2,873 |
| Profit and total comprehensive income for the year attributable to the owners of Hunan CF CNPC | 1,510 | 1,666 |
| Profit and total comprehensive income for the year attributable to non-controlling interests | 1,093 | 1,207 |
| Dividend declared to non-controlling interests | - | - |

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY - continued

**49b. Details of non-wholly owned subsidiaries that have material non-controlling interests** - continued

**Hunan CF CNPC** - continued

| | 31.12.2019 RMB'000 | 31.12.2018 RMB'000 |
|---|---|---|
| Net cash inflow from operating activities | 3,698 | 4,183 |
| Net cash outflow from investing activities | (10,841) | (939) |
| Net cash outflow from financing activities | (200) | (5,833) |
| Net cash outflow | (7,343) | (2,589) |

**Hunan CNPC NEI**

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Current assets | 7,142 | 10,831 |
| Non-current assets | 10,643 | 11,086 |
| Current liabilities | 8,305 | 9,776 |
| Equity attributed to the owners of the Hunan CNPC NEI | 6,449 | 7,935 |
| Non-controlling interests of Hunan CNPC NEI | 2,644 | 3,704 |
| Non-controlling interests of Hunan CNPC NEI's subsidiary | 387 | 502 |
| Revenue | 33,104 | 9,028 |
| Gain on disposal of discontinued operation | - | 29,190 |
| Expenses | 35,142 | 18,062 |
| (Loss) profit and total comprehensive (expense) income for the year | (2,038) | 20,156 |
| (Loss) profit and total comprehensive (expense) income attributable to owners of Hunan CNPC NEI | (1,153) | 12,285 |
| (Loss) profit and total comprehensive (expense) income attributable to non-controlling interests of Hunan CNPC NEI | (770) | 8,191 |
| Loss and total comprehensive expense attributable to non-controlling interests of Hunan CNPC NEI's subsidiary | (115) | (320) |
| | (2,038) | 20,156 |
| Dividend declared to non-controlling interests | - | 6,507 |

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY - continued

**49b. Details of non-wholly owned subsidiaries that have material non-controlling interests** - continued

**Hunan CNPC NEI** - continued

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Net cash outflow from operating activities | (1,413) | (8,296) |
| Net cash outflow from investing activities | (841) | (12,300) |
| Net cash inflow (outflow) from financing activities | 5 | (4,778) |
| Net cash outflow | (2,249) | (25,374) |

**EDF CF**

| | 2019<br>RMB'000 |
|---|---|
| Current assets | 15,584 |
| Non-current assets | 45,812 |
| Current liabilities | 4,896 |
| Equity attributed to the owners of EDF CF | 40,250 |
| Non-controlling interests of EDF CF | 16,250 |

50. MAJOR NON-CASH TRANSACTIONS

On November 27, 2019, Tianzhiyuan, the non-controlling interests of Meishan, subsidiary of the Company, has completed the share capital injection of RMB1,200,000. The consideration of the capital injection by Tianzhiyuan was settled via loan from Sanya CF NEI, subsidiary of the Company.

51. EVENT AFTER THE REPORTING PERIOD

The outbreak of the novel coronavirus (the "COVID-19") since January 2020 has been affecting China as well as other countries in the world. As a result of the COVID-19, the Group has experienced a significant drop in its business across all business segments in the first quarter of 2020 due to quarantine and travel restrictions in China. Such impact is expected to continue into the 2020 year. It is premature to estimate the extent of the impact the virus may possibly have on our business moving forward as it is dependent on the continuing containment status in China, speed of economic recovery and visitors returning to Sanya for holidays.