

CHANGFENG ENERGY INC.

Report and Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

CHANGFENG ENERGY INC.

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

<u>CONTENTS</u>	<u>PAGE(S)</u>
INDEPENDENT AUDITOR'S REPORT	1 & 3
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	4 & 5
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	6 & 7
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY	8
CONSOLIDATED STATEMENTS OF CASH FLOWS	9 & 10
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	11 - 90

INDEPENDENT AUDITOR'S REPORTTO THE SHAREHOLDERS OF CHANGFENG ENERGY INC.

(incorporated in Canada with limited liability)

Opinion

We have audited the consolidated financial statements of Changfeng Energy Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, 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 Company as at December 31, 2018 and 2017, 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 consolidated 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 consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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 OF CHANGFENG ENERGY INC. - 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CHANGFENG ENERGY INC. - continued
(incorporated in Canada with limited liability)

Auditor's Responsibilities for the Audit of the Consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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



Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 29, 2019

CHANGFENG ENERGY INC.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>NOTES</u>	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Continuing operations			
Revenue	6	400,515	381,965
Cost of sales		<u>(235,559)</u>	<u>(218,526)</u>
Gross profit		164,956	163,439
Other income	8	4,751	1,026
Other gains and losses	9	(3,665)	257
Impairment losses, net of reversal	10	55	180
Fair value change on put option liability	14	22,627	-
Selling and marketing expenses		(54,226)	(48,973)
General and administrative expenses		(52,052)	(54,319)
Finance costs	11	(7,249)	(5,977)
Listing expenses		(7,946)	(381)
Share of loss of associates	21	(5,483)	(6)
Share of loss of a joint venture	22	<u>(827)</u>	<u>(4)</u>
Profit before tax		60,941	55,242
Income tax expense	12	<u>(25,266)</u>	<u>(20,240)</u>
Profit for the year from continuing operations	13	35,675	35,002
Discontinued operation			
Profit (loss) for the year from discontinued operation	14	<u>30,293</u>	<u>(9,158)</u>
Profit for the year		<u>65,968</u>	<u>25,844</u>
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair value gain on			
- Available-for-sale financial assets		-	72
Total comprehensive income for the year		<u>65,968</u>	<u>25,916</u>
Profit (loss) for the year attributable to owners of the Company			
- From continuing operations		36,514	33,292
- From discontinued operation		<u>21,097</u>	<u>(8,261)</u>
		<u>57,611</u>	<u>25,031</u>
(Loss) profit for the year attributable to non-controlling interests			
- From continuing operations		(839)	1,710
- From discontinued operation		<u>9,196</u>	<u>(897)</u>
		<u>8,357</u>	<u>813</u>
		<u>65,968</u>	<u>25,844</u>

CHANGFENG ENERGY INC.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>NOTE</u>	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Total comprehensive income attributable to			
- Owners of the Company		57,611	25,103
- Non-controlling interests		8,357	813
		<u>65,968</u>	<u>25,916</u>
Earnings per share			
<i>From continuing and discontinued operations</i>			
- Basic	17	<u>0.89</u>	<u>0.39</u>
- Diluted	17	<u>0.86</u>	<u>0.39</u>
<i>From continuing operations</i>			
- Basic	17	<u>0.57</u>	<u>0.52</u>
- Diluted	17	<u>0.54</u>	<u>0.52</u>

CHANGFENG ENERGY INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AT DECEMBER 31, 2018 AND 2017

	<u>NOTES</u>	<u>2018</u> RMB'000	<u>2017</u> RMB'000
NON-CURRENT ASSETS			
Property and equipment	18	394,809	349,006
Long-term lease prepayments	19	11,880	12,946
Intangible assets	20	4,538	4,557
Interests in associates	21	31,628	4,651
Interest in a joint venture	22	17,169	17,996
Amount due from an associate	30	12,852	-
Amounts due from non-controlling interests of subsidiaries	30	1,705	-
Long-term deposits and advances	27	10,640	8,665
Deferred tax assets	36	-	7,712
		<u>485,221</u>	<u>405,533</u>
CURRENT ASSETS			
Current portion of long-term lease prepayments	19	1,283	1,256
Inventories	23	5,763	3,507
Contract assets	24	7,064	-
Amounts due from customers for contract work	25	-	6,530
Amounts due from related parties	30	3,444	2,765
Trade receivables	26	27,893	28,501
Other receivables, prepaid expenses and deposits	27	30,440	21,009
Pledged bank deposits	28	-	1,008
Restricted cash	28	501	-
Fixed bank deposits	28	6,000	-
Bank balances and cash	28	80,494	150,711
		<u>162,882</u>	<u>215,287</u>
Assets classified as held-for-sale	14	-	105,886
		<u>162,882</u>	<u>321,173</u>
CURRENT LIABILITIES			
Trade and other payables	29	65,879	104,382
Amount due to the ultimate controlling shareholder	30	-	109
Amount due to an associate	30	4,249	4,249
Dividend payable to non-controlling interests of a subsidiary		1,827	2,520
Contract liabilities	31	110,842	-
Receipts in advance from customers	32	-	82,631
Amounts due to customers for contract work	25	-	33,377
Income tax payable		17,269	22,212
Short-term bank borrowings	33	20,000	49,760
Current portion of long-term debts	34	23,919	22,000
		<u>243,985</u>	<u>321,240</u>
Liabilities associated with assets classified as held-for-sale	14	-	42,445
		<u>243,985</u>	<u>363,685</u>
NET CURRENT LIABILITIES		<u>(81,103)</u>	<u>(42,512)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>404,118</u>	<u>363,021</u>

CHANGFENG ENERGY INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - continued
AT DECEMBER 31, 2018 AND 2017

	<u>NOTES</u>	<u>2018</u> RMB'000	<u>2017</u> RMB'000
NON-CURRENT LIABILITIES			
Long-term debts	34	102,000	125,758
Deferred income - government grants	35	4,692	4,917
Deferred tax liabilities	36	10,431	8,365
		<u>117,123</u>	<u>139,040</u>
NET ASSETS		<u>286,995</u>	<u>223,981</u>
CAPITAL AND RESERVES			
Share capital	37	69,818	66,689
Reserves		<u>204,334</u>	<u>150,792</u>
Equity attributable to owners of the Company		274,152	217,481
Non-controlling interests		<u>12,843</u>	<u>6,500</u>
TOTAL EQUITY		<u>286,995</u>	<u>223,981</u>

The consolidated financial statements on pages 4 to 90 were approved and authorized for issue by the Board of Directors on March 29, 2019 and are signed on its behalf by:

YONGBIAO DING
YONGBIAO DING
DIRECTOR

WENCHENG ZHANG
WENCHENG ZHANG
DIRECTOR

CHANGFENG ENERGY INC.

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	Attributable to owners of the Company							Non-controlling interests RMB'000	Total RMB'000
	Share capital RMB'000	Contributed surplus RMB'000 (Note a)	Statutory surplus reserve RMB'000 (Note b)	Investment revaluation reserve RMB'000	Other reserve RMB'000 (Note c)	Retained earnings RMB'000	Sub-total RMB'000		
As at January 1, 2017	60,277	13,765	32,957	(129)	-	76,537	183,407	8,603	192,010
Profit for the year	-	-	-	-	-	25,031	25,031	813	25,844
Fair value gain on available-for-sale financial assets	-	-	-	72	-	-	72	-	72
Total comprehensive income for the year	-	-	-	72	-	25,031	25,103	813	25,916
Dividends declared to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	(2,916)	(2,916)
Dividend recognized as distribution (note 16)	-	-	-	-	-	(3,321)	(3,321)	-	(3,321)
Share cancellation (note 37)	(172)	-	-	-	-	-	(172)	-	(172)
Share-based compensation expense	-	4,485	-	-	-	-	4,485	-	4,485
Options exercised (note 38)	6,584	(2,662)	-	-	-	-	3,922	-	3,922
Options expired/forfeited (note 38)	-	(290)	-	-	-	290	-	-	-
Transfer	-	-	7,103	-	-	(7,103)	-	-	-
Deemed contributions from ultimate controlling shareholder (note 30)	-	4,000	-	-	-	-	4,000	-	4,000
Reclassification upon disposal of available-for-sale financial assets	-	-	-	57	-	-	57	-	57
As at December 31, 2017	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 16)	-	-	-	-	-	(6,671)	(6,671)	-	(6,671)
Share cancellation (note 37)	(20)	-	-	-	-	-	(20)	-	(20)
Share-based compensation expense	-	3,326	-	-	-	-	3,326	-	3,326
Options exercised (note 38)	3,149	(1,134)	-	-	-	-	2,015	-	2,015
Options expired/forfeited (note 38)	-	(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 15)	-	-	-	-	-	331	331	(331)	-
Disposal of partial equity interest in a subsidiary (Note 15)	-	-	-	-	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

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 represents the surplus between the consideration and the carrying amount attributable to 5.4% equity interests 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. Details are set out in note 15.

CHANGFENG ENERGY INC.CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Profit for the year	65,968	25,844
Adjustments for:		
Income tax expense	25,266	20,240
Interest income	(961)	(750)
Interest expense	7,249	6,127
Depreciation of property and equipment	18,789	17,978
Impairment loss, net of reversal		
- trade receivables	328	(180)
- contract assets	(383)	-
Amortization of government grants	(225)	(237)
Amortization of long-term lease prepayments	1,329	1,368
Amortization of intangible assets	568	456
Share of loss of associates	5,483	6
Share of loss of a joint venture	827	4
Share-based compensation expense	3,326	4,485
Loss (gain) on disposals of property and equipment	8	(84)
Loss on disposal of available-for-sale financial assets	-	57
Gain on disposal of a subsidiary (note 14)	(30,293)	-
Fair value change on put option liability	(22,627)	-
Unrealized exchange loss (gain) on monetary items	120	(440)
Operating cash flows before movements in working capital	74,772	74,874
Increase in inventories	(2,256)	(2,348)
Decrease (increase) in trade receivables	280	(4,080)
Increase in other receivables, prepaid expenses and deposits	(9,221)	(11,417)
Decrease (increase) in long-term deposits and advances	3,653	(2,536)
Increase in amounts due from (to) customers		
for contract work	-	(46,156)
Increase in contract assets	(151)	-
(Decrease) increase in trade and other payables	(11,706)	27,188
Increase in receipts in advance from customers	-	67,085
Decrease in contract liabilities	(5,166)	-
(Decrease) increase in amounts due to related parties	(3,335)	109
Cash generated from operations	46,870	102,719
Interest paid	(8,407)	(9,823)
Interest income received	482	750
Income tax paid	(26,632)	(18,191)
NET CASH FROM OPERATING ACTIVITIES	<u>12,313</u>	<u>75,455</u>

CHANGFENG ENERGY INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
	RMB'000	RMB'000
INVESTING ACTIVITIES		
Deposit paid for acquisition of property and equipment	(18,355)	(2,358)
Receipt in advance from disposal of a subsidiary	-	30,847
Acquisition of property and equipment	(43,819)	(61,642)
Acquisition of intangible assets	(549)	(1,509)
Lease prepayment paid	(290)	-
Investment in a joint venture	-	(18,000)
Proceeds from disposal of property and equipment	-	895
Receipt of demolition compensation	-	7,517
Receipt of compensation on pipeline relocation	350	1,710
Repayment of other receivable from a former joint venture	-	2,000
Net cash inflow from disposal of a subsidiary (note 14)	42,114	-
Placement of pledged bank deposits	-	(3)
Withdrawal of pledged bank deposits	1,008	-
Placement of restricted cash	(501)	-
Placement of fixed bank deposits	(6,000)	-
Proceed from disposal of available-for-sale financial assets	-	798
Increase in amount due from non-controlling interest of a subsidiary	(5)	-
Decrease in amount due from a related party	2,621	-
NET CASH USED IN INVESTING ACTIVITIES	<u>(23,426)</u>	<u>(39,745)</u>
FINANCING ACTIVITIES		
Dividend paid	(6,671)	(3,321)
Dividend paid to non-controlling interests of subsidiaries	(7,200)	(396)
Proceeds on exercised share options	2,015	3,922
Payment for cancellation of shares	(20)	(172)
Repayment of short-term bank borrowings	(50,212)	(30,000)
New short-term bank borrowings raised	20,000	40,000
Repayment of long-term debts	(22,000)	(28,000)
New long-term debt raised	-	21,250
Repayment to the ultimate controlling shareholder	-	(36,000)
Increase in amount due from a related party	-	(2,765)
Advance from Xinao Gas (note 14)	-	13,000
NET CASH USED IN FINANCING ACTIVITIES	<u>(64,088)</u>	<u>(22,482)</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(75,201)</u>	<u>13,228</u>
CASH AND CASH EQUIVALENTS AT BEGINNING		
OF THE YEAR	155,365	142,377
Effect of foreign exchange rate changes	330	(240)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>80,494</u>	<u>155,365</u>
Represented by:		
Bank balances and cash	80,494	150,711
Cash and cash equivalents included in assets classified as held-for-sale	-	4,654
	<u>80,494</u>	<u>155,365</u>

1. GENERAL

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. The registered office of the Company is located at Suite 2600, Three Bentall Centre, P.O. BOX 49314, 595 Burrad Street, Vancouver, British Columbia, V7X 1L3, Canada, and the principal operations of its business are in China. 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 also the functional currency of the Company.

On November 22, 2017, the Group entered into an equity restructuring agreement to dispose of its 50.2% effective interest in a subsidiary, Pingxiang Changfeng Natural Gas Co., Ltd. ("Pingxiang CF"). Details of the disposal are set out in note 14.

The assets and liabilities attributable to Pingxiang CF have been classified as a discontinued operation held-for-sale and are presented separately in the consolidated statement of financial position which was completed on January 5, 2018. As such, loss for the year ended December 31, 2017 from Pingxiang CF has been presented as loss for the year from discontinued operation and is presented separately in the consolidated statement of profit or loss and comprehensive income.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2018, the Group's current liabilities exceeded its current assets by RMB81,103,000. In view of these circumstances, management of the Group has given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. Management is satisfied that the Group will have sufficient financial resources to meet its financial obligations including the capital commitments as disclosed in Note 43. Taking into account the Group's cash flow projection, including the term facility, the Group's ability to renew or refinance the banking facilities upon maturity and the Group's future capital expenditure in respect of its non-cancellable capital commitments, management considers that it has sufficient working capital to meet in full its financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly, the consolidated financial statements have been prepared on a going concern basis.

3. 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 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014 - 2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

Except as described below, the application of the above amendments to IFRSs 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.

3.1 IFRS 15 Revenue from Contracts with Customers

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

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

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

- natural gas pipeline installation and connection services
- natural gas supply
- compressed natural gas ("CNG") vehicle refueling stations

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in notes 6 and 4, respectively.

3. 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

3.1 IFRS 15 Revenue from Contracts with Customers - continued

Summary of effects arising from initial application of IFRS 15

The initial application of IFRS 15 on January 1, 2018 had no material impact on the consolidated statement of profit or loss and other comprehensive income of the Group with regards to revenue recognition.

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

	<u>Notes</u>	Carrying amounts previously reported at <u>December 31, 2017</u> RMB'000	<u>Reclassifications</u> RMB'000	Carrying amounts under IFRS 15 at <u>January 1, 2018</u> RMB'000
Current Assets				
Amounts due from customers				
for contract work	a	6,530	(6,530)	-
Contract assets	a	-	6,530	6,530
		<u> </u>	<u> </u>	<u> </u>
Current liabilities				
Amounts due to customers				
for contract work	a	33,377	(33,377)	-
Contract liabilities	a & b	-	116,008	116,008
Receipts in advance from customers	b	82,631	(82,631)	-
		<u> </u>	<u> </u>	<u> </u>

Notes:

- (a) In relation to natural gas pipeline installation and connection construction contracts previously accounted under IAS 11, the Group applies input method in estimating the performance obligations satisfied up to date of initial application of IFRS 15. RMB6,530,000 and RMB33,377,000 of amounts due from/to customers for contract works were reclassified to contract assets and contract liabilities, respectively.
- (b) As at January 1, 2018, receipts in advances from customers of RMB82,631,000 in respect of natural gas pipeline installation and connection construction contracts and natural gas sales were reclassified to contract liabilities.

3. 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

3.1 IFRS 15 Revenue from Contracts with Customers - continued

Summary of effects arising from initial application of IFRS 15 - continued

The following tables summarize the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at December 31, 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	December 31, 2018		December 31, 2018
	<u>As reported</u>	<u>Adjustment</u>	Amounts without application of <u>IFRS 15</u>
	RMB'000	RMB'000	RMB'000
Current Assets			
Amounts due from customers			
for contract work	-	7,064	7,064
Contract assets	<u>7,064</u>	<u>(7,064)</u>	<u>-</u>
Current liabilities			
Amounts due to customers			
for contract work	-	40,868	40,868
Contract liabilities	110,842	(110,842)	-
Receipt in advance from Customers	<u>-</u>	<u>69,974</u>	<u>69,974</u>

Impact on the consolidated statement of cash flows

	2018		2018
	<u>As reported</u>	<u>Adjustment</u>	Amounts without application of <u>IFRS 15</u>
	RMB'000	RMB'000	RMB'000
Operating activities			
Increase in amounts due from (to) customers for contract work	-	77,314	77,314
Increase in contract assets	(151)	151	-
Decrease in contract liabilities	(5,166)	5,166	-
Decrease in receipt in advance from customers	<u>-</u>	<u>(82,631)</u>	<u>(82,631)</u>

3. 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

3.2 IFRS 9 Financial Instruments

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

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

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

Accounting policies resulting from application of IFRS 9 are disclosed in note 4.

Summary of effects arising from initial application of IFRS 9

The management of the Company reviewed and assessed the Group's financial assets as at January 1, 2018 based on the facts and circumstances that existed at that date. The application of IFRS 9 has had no material effect on classification and measurement of financial assets in these consolidated financial statements.

New and amendments to IFRSs in issue but not yet effective

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

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

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

New and amendments to IFRSs in issue but not yet effective - continued

- ¹ Effective for annual periods beginning on or after January 1, 2019
- ² Effective for annual periods beginning on or after a date to be determined
- ³ Effective for annual periods beginning on or after January 1, 2021
- ⁴ 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
- ⁵ Effective for annual periods beginning on or after January 1, 2020

Except for IFRS 16 mentioned below, management of the Company anticipates that the application of all other new and amendments to IFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

IFRS 16 Leases

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

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

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

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

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

As at December 31, 2018, the Group has non-cancellable operating lease commitments of RMB16,947,000 as disclosed in Note 42. These arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

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

New and amendments to IFRSs in issue but not yet effective - continued

IFRS 16 Leases - continued

In addition, the Group currently considers refundable rental deposits paid of RMB2,724,000 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortized cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

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

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all IFRS Standards and will be mandatorily effective for the Group's annual period beginning on 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.

4. 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.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17, 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 categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of consolidation - continued

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/IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

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.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Investments in associates and a joint venture - continued

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 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.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Non-current assets held-for-sale

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held-for-sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in the relevant subsidiary after the sale.

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell which continue to be measured in accordance with the accounting policies as set out in respective sections.

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 3)

Under IFRS 15, 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 and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is 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.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 3) - continued

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 a 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.

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.

Costs to fulfil a contract

The Group incurs costs to fulfil a contract in its gas distribution utility business. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant Standards, failing which it recognizes an asset for these costs only if they meet all of the following criteria:

- (a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;
- (b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- (c) the costs are expected to be recovered.

The asset so recognised is subsequently 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. The asset is subject to impairment review.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 3) - continued

Costs to fulfil a contract - continued

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable from the supply of natural gas, CNG vehicles refuelling and from installation and connection of natural gas pipelines for end users in the normal course of business.

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

Revenue is derived from the supply of natural gas, CNG vehicles refuelling and from the installation and connection of natural gas pipelines for end users.

The Group recognizes revenue from the supply of natural gas and CNG vehicles refuelling when the natural gas or CNG has been delivered and is recorded on the basis of regular meter readings and estimates of usage since the last meter reading to the end of the reporting year. The majority of revenue is recorded using fixed prices approved by the provincial government. Prepayments received from customers are deferred and recognized as a liability until gas is actually consumed.

The Group's policy for the recognition of revenue from construction services is described in the accounting policy for gas connection contracts below.

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

Gas connection contracts

Where the outcome of a gas connection contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the progress as estimated by the independent surveyor.

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

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

Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as amounts due to customers for contract work.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 3) - continued

Gas connection contracts - continued

Amounts received before the related work is performed are included in the consolidated statements of financial position, as a liability, as receipts in advance from customers. Amounts billed for work performed but not yet paid by the customers are included in the consolidated statements of financial position under trade receivables.

Leasing

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

The Group as lessee

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

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.

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.

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

4. SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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 payment arrangements

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.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Share-based payment arrangements - continued

Equity-settled share-based payment transactions - continued

Share options granted to employees- continued

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 as reported in the consolidated statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

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

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

Current and deferred tax are 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 held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Intangible assets

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 (see accounting policy in respect of impairment losses on tangible and intangible assets below).

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

Impairment of tangible and intangible assets

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

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

Recoverable amount is the higher of fair value less costs to disposal and value in use. In assessing value in use, the estimated future cash flow 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 for which the estimates of future cash flows have not been adjusted.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimates 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) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

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 since January 1, 2018. 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.

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 3)

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 FVTOCI:

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

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

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

A financial asset is classified as held for trading if:

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

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

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.

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 3)

The Group recognizes a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables, deposit and other receivables, contract assets, amount due from related parties, pledged bank deposits, restricted cash, fixed bank deposits and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 3) - continued

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 3) - continued

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, 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.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 3) - continued

(v) Measurement and recognition of ECL

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

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

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

- Nature of financial instruments (i.e. the Group's trade and other receivables, and contract assets are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

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

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

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

Loans and receivables

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

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

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

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

The Group first assesses whether objective evidence of impairment exists individually for trade receivables, and collectively for the remainder of financial assets. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses it for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in collective assessment of impairment.

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities and equity instruments

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.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

Financial liabilities at amortized cost

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

Derivative financial instruments

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

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Derecognition

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, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in the statements of profit or loss.

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.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, 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.

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

Prior to January 1, 2018, revenue from gas connection contracts is recognized using the percentage-of-completion method, measured by reference to the value of work carried out during the relevant period. When it is probable that total contract costs will exceed contract revenue, the expected loss is recognized as an expense in the period in which the expected loss is identified. Revenue recognition from gas connection contracts is dependent upon estimating the stages of completion and the outcome of the contracts. For the year ended December 31, 2017, gas connection contract revenue from continuing operations is RMB149,177,000.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Revenue recognition - continued

Starting from January 1, 2018, 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, 2018, gas connection contract revenue from continuing operations is RMB126,852,000.

Estimated impairment of trade receivables and amounts due from customers for contract work (prior to January 1, 2018)

In assessing the impairment of trade receivables and amounts due from customers for contract work, the Group assesses for impairment indicator at the end of each reporting period.

When there is objective evidence of impairment loss of trade receivables and amounts due from customers for contract work, the Group takes into consideration the estimation of future cash flows of trade receivables and amounts due from customers for contract work. The amount of the impairment loss of trade receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition, where applicable). Where the actual future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise. For the impairment loss of amounts due from customers for contract work, the management of the Group reviews the net realizable value of the productions work in progress on the gas connection project by project basis at the end of the reporting period and makes allowances for amounts due from customers for contract work whenever estimated selling price less the estimated cost of completion and the estimated cost necessary to make the sale is lower than the cost. In case there are changes in the estimation of the selling price and estimated cost, additional allowances might be required.

As at December 31, 2017, the carrying amount of trade receivables is RMB28,501,000, net of allowance for doubtful debts of RMB2,733,000, and the carrying amount of amounts due from customers for contract work is RMB6,530,000, net of allowance for impairment loss recognized of RMB548,000.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Provision of ECL for trade receivables and contract assets (upon application of IFRS 15 in accordance with transitions in note 3)

The Group uses a provision matrix to calculate ECL for the 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. Trade receivables and contract assets with significant balances and credit impaired are assessed for ECL individually. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's contract assets and trade receivables are disclosed in notes 24, 26 and 40(b).

Impairment of interest in associates

The carrying amount of interest in associates amounting to RMB31,628,000 is reviewed for impairment in accordance with IAS 36 whenever certain events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group determines the recoverable amount which is the higher of value in use and fair value less costs of disposal. The value in use is based on the estimations of future expected cash flows from the associate and a suitable discount rate. The key assumptions of the discounted cash flow model include the budgeted sales, gross margin and the discount rates. Where the actual future cash flows are less than or more than expected, or there are favourable or unfavourable events and changes in facts and circumstances which result in revision of future estimated cash flows, a material impairment loss may arise or reverse. No impairment loss has been recognised in respect of interest in associates for the year ended December 31, 2018.

6. REVENUE

For the year ended December 31, 2018

(i) Disaggregation of revenue from contracts with customers

Segments	2018		
	<u>Gas distribution utility</u> Gas sales RMB'000	<u>Pipeline installation and connection</u> RMB'000	CNG vehicle refuelling stations RMB'000
Types of goods and services			
Gas distribution utility			
- Gas supply	212,966	-	-
- Pipeline installation and connection	-	126,852	-
	<u>212,966</u>	<u>126,852</u>	<u>-</u>
CNG vehicles refuelling stations			
- CNG refuelling	-	-	60,697
Total	<u>212,966</u>	<u>126,852</u>	<u>60,697</u>
Geographical markets in the PRC			
Sanya City, Hainan Province	203,689	126,852	39,369
Shijiazhuang City, Heibei Province	9,028	-	-
Changsha City, Hunan Province	-	-	21,328
Other cities	249	-	-
Total	<u>212,966</u>	<u>126,852</u>	<u>60,697</u>
Timing of revenue recognition			
A point of time	212,966	-	60,677
Over time	-	126,852	-
Total	<u>212,966</u>	<u>126,852</u>	<u>60,697</u>

6. REVENUE - continued

For the year ended December 31, 2018 - continued

(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 volume. Revenue from natural gas supply is recognized at a point in the time when the customers consume the natural gas.

b) Revenue from CNG vehicle refuelling stations

The Group operates two natural gas refuelling stations in Sanya City, Hainan Province and Changsha City, Hunan Province, respectively. The Group receives IC card and deposits from customers in advance before they consume the natural gas and this will give rise to contract liabilities. Revenue from CNG vehicle refuelling stations is recognized at a point of time when the gas refuels to customer's 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 period once certain specified milestones are reached. The Group requires certain customers to provide upfront deposits range from 30% to 70% of total contract sum, 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 exceeds the amount of the deposit.

A contract asset, net of contract liability related to the same contract, is recognized over the period in which the construction 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.

CHANGFENG ENERGY INC.

6. REVENUE - continued

For the year ended December 31, 2018 - continued

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

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

	<u>Pipeline installation and connection</u> RMB'000
Within one year	101,133
More than one year but not more than two years	22,688
More than two years	<u>15,037</u>
	<u>138,838</u>

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 monthly basis. The Group elected to apply the practical expedient by recognizing revenue in the amount to which the Group has a right to invoice.

For the year ended December 31, 2017

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

	<u>2017</u> RMB'000
Gas distribution utility	
- Gas sales	173,453
- Pipeline installation and connection	149,177
CNG vehicles refueling stations	<u>59,335</u>
	<u>381,965</u>

7. SEGMENT INFORMATION

Information reported to the Chief Executive Officer of the Group, 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 vehicles 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.

The gas distribution utility segment:

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

The gas distribution utility segment in Pingxiang City, Jiangxi Province in the PRC was discontinued during the year ended December 31, 2017. The segment information reported on the next pages does not include any amount for the discontinued operation in such separate geographical location, which are described in more detail in note 14.

Segments revenues and results

Summarized financial information from continuing operations concerning the reportable segments is shown in the following tables:

7. SEGMENT INFORMATION - continued

Segments revenues and results - continued

For the year ended December 31, 2018

Continuing operations

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

For the year ended December 31, 2017

Continuing operations

	Gas distribution <u>utility</u> RMB'000	CNG vehicles <u>refuelling</u> RMB'000	<u>Consolidated</u> RMB'000
Segment revenue from external customers	<u>322,630</u>	<u>59,335</u>	<u>381,965</u>
Segment profit	<u>65,783</u>	<u>12,039</u>	77,822
Share of loss of an associate			(6)
Share of loss of a joint venture			(4)
Listing expenses			(381)
Unallocated income			450
Unallocated expenses			(22,639)
Profit before tax (continuing operations)			<u>55,242</u>

7. SEGMENT INFORMATION - continued

Segments revenues and results - continued

For the year ended December 31, 2017 - continued

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit represents the profit earned by each segment without allocation of share of loss of an associate and a joint venture, unallocated income and unallocated expenses and listing expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are carried in accordance with terms agreed by the parties involved.

Other segment information

For the year ended December 31, 2018

Continuing operations

Amounts included in the measure of segment profit:

	Gas distribution <u>utility</u> RMB'000	CNG vehicles <u>refuelling</u> RMB'000	<u>Unallocated</u> RMB'000	<u>Consolidated</u> RMB'000
Depreciation of property and equipment	17,163	1,277	349	18,789
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	997	-	1,329
Interest income from bank deposits and an associate	(229)	(202)	(530)	(961)
Finance costs	6,952	-	297	7,249
	<u>6,952</u>	<u>-</u>	<u>297</u>	<u>7,249</u>

7. SEGMENT INFORMATION - continued

Other segment information - continued

For the year ended December 31, 2017

Continuing operations

Amounts included in the measure of segment profit:

	Gas distribution utility RMB'000	CNG vehicles refuelling RMB'000	<u>Unallocated</u> RMB'000	<u>Consolidated</u> RMB'000
Depreciation of property and equipment	13,424	1,812	221	15,457
Amortization of intangible assets	456	-	-	456
(Gain) loss on disposals of property and equipment	7	-	(115)	(108)
Reversal of impairment losses on trade receivables	(23)	(157)	-	(180)
Release of long-term lease prepayments	376	976	-	1,352
Interest income from bank deposits	(366)	(297)	(73)	(736)
Finance costs	5,608	-	369	5,977
	<u>5,608</u>	<u>-</u>	<u>369</u>	<u>5,977</u>

Geographical information

The Group's operations are substantially based in the PRC and significantly all 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, 2018 and 2017. There were no significant intragroup transactions between segments at December 31, 2017.

8. OTHER INCOME

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Continuing operations		
Interest income from bank deposits	482	736
Interest income from an associate (note 30)	479	-
Service fee from an associate (note 30)	3,300	-
Others	490	290
	<u>4,751</u>	<u>1,026</u>

CHANGFENG ENERGY INC.

9. OTHER GAINS AND LOSSES

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Continuing operations		
Exchange (loss) gain	(396)	943
Loss reclassified from equity to profit or loss on disposal of available-for-sale financial assets	-	(57)
(Loss) gain on disposals of property and equipment	(8)	108
Donations	(3,237)	(1,121)
Others	(24)	384
	<u>(3,665)</u>	<u>257</u>

10. IMPAIRMENT LOSSES, NET OF REVERSAL

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Continuing operations		
Impairment losses (recognized) reversed on:		
- Trade receivables	(328)	180
- Contract assets	383	-
	<u>55</u>	<u>180</u>

Details of impairment assessment for the year ended December 31, 2018 are set out in note 40(b).

11. FINANCE COSTS

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Continuing operations		
Interest expense on short-term bank borrowings and long-term debts	8,902	9,913
Less: amounts capitalized in the cost of property and equipment	(1,653)	(3,936)
	<u>7,249</u>	<u>5,977</u>

CHANGFENG ENERGY INC.

12. INCOME TAX EXPENSE

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Continuing operations		
Current tax:		
PRC Enterprise Income Tax ("EIT")	20,718	28,476
PRC withholding EIT	<u>2,590</u>	<u>555</u>
	23,308	29,031
Over provision in prior year	<u>(1,619)</u>	<u>(1,299)</u>
	21,689	27,732
Deferred tax expense (credit) (note 36)	<u>3,577</u>	<u>(7,492)</u>
	<u>25,266</u>	<u>20,240</u>
Discontinued operation (note 14)		
Deferred tax expense	<u>6,201</u>	<u>-</u>

The Company was incorporated in Canada and subject to Canadian federal and Ontario statutory income tax at a rate of 26.5% (2017: 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 (2017: 25%).

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

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Profit before tax (from continuing operations)	<u>60,941</u>	<u>55,242</u>
Tax at Canadian federal and Ontario statutory income tax rate of 26.5%	16,149	14,639
Tax effect of expenses not deductible for tax purposes	2,233	2,639
Effect of difference in tax rates of entities operating in other jurisdictions	(1,525)	(1,562)
Tax effect of tax losses and deductible temporary differences not recognized	4,629	5,238
Utilization of tax losses previously not recognized	-	(286)
Over provision in prior year	(108)	(1,299)
PRC withholding EIT	2,590	555
Deferred tax on undistributed earnings in the PRC	1,456	(21)
Other	<u>(158)</u>	<u>337</u>
Income tax expense for the year (relating to continuing operations)	<u>25,266</u>	<u>20,240</u>

CHANGFENG ENERGY INC.

13. PROFIT FOR THE YEAR

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Profit for the year from continuing operations has been arrived at after charging the following:		
Directors' remuneration	375	561
Other staff costs	42,992	35,242
Staff retirement benefit scheme contribution	5,983	3,869
Share-based payments	3,326	4,485
Total staff cost	<u>52,676</u>	<u>44,157</u>
Release of long-term lease prepayments	1,329	1,352
Operating lease payments	3,659	2,595
Cost of inventories recognized as expense in cost of sales	141,298	123,016
Contract costs recognized as expense in cost of sales	80,137	79,597
Depreciation of property and equipment	18,789	15,457
Amortization of intangible assets (included in cost of sales)	568	456
Auditors' remuneration	<u>3,636</u>	<u>2,841</u>

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

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

14. DISCONTINUED OPERATIONS/ASSETS CLASSIFIED AS HELD-FOR-SALE

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 CF, to Xinao Gas Development Co. Ltd. and Xinao Gas (China) Investment Co., Ltd. (collectively referred to "Xinao Gas") (the "Disposal"). Pingxiang CF carried out the distribution of natural gas for industrial, commercial and residential users in Pingxiang City, Jiangxi Province in the PRC.

The terms of the Agreement included the following:

- (i) A 60%-owned subsidiary of the Group will dispose its 24.5% interest in Pingxiang CF (effectively 14.7% owed 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 CF from 75.5% to 40%; and

14. DISCONTINUED OPERATIONS/ASSETS CLASSIFIED AS HELD-FOR-SALE - continued

The terms of the Agreement included the following: - continued

- (iii) upon the completion of step (ii), Pingxiang CF will repay an outstanding loan of RMB46,768,000 to the Group. Pingxiang CF will change the company name to Pingxiang Xinao Changfeng Natural Gas Co. Ltd ("Pingxiang Xinao CF").

The Agreement also contains a put option which is exercisable by Xinao Gas's discretion if: a) Pingxiang 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 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 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 CF. The management of the Group considered Pingxiang CF was a discontinued operation of the Group as it represented a separate geographical location of business operated in Pingxiang City.

As at December 31, 2017, step (i) was completed and the Group received part of the consideration amount of RMB30,847,000, and recognized as receipts in advance from the Disposal (note 29).

The Disposal was completed in January 2018. At the date of disposal, the fair value of the Put Option was RMB22,627,000. During the year ended December 31, 2018, Pingxiang CF repaid the loan of RMB46,768,000 to the Group and a 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 that 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 21.

Put Option liability

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

The fair value of the Put Option at the date of Disposal has been 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 determining the fair values of the Put Option, the Group engages independent qualified professional valuers to perform the valuation. The management of the Group works closely with them to establish the appropriate valuation techniques and inputs to the model. Discounted cash flow method is adopted for the valuation of the Put Option. Details are set out in note 40(c).

14. DISCONTINUED OPERATIONS/ASSETS CLASSIFIED AS HELD-FOR-SALE - continued

Put Option liability - continued

The fair values of the Put Option were determined by using the following key assumptions.

	<u>At date of initial recognition</u>
Probability (Note a)	40%
Interest rate	4.75%
Tenure	2 years
Discount rate	3.67%

Note a: The probability represents the likelihood if a) Pingxiang CF fails to sign the Concession Agreement; or b) the operation of Pingxiang CF is suspended as a result of failing to sign the Concession Agreement.

The discount rate is based on 2-year PRC risk-free rate.

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 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 is recognized during the year ended December 31, 2018.

The profit (loss) from the discontinued operation for the current period and preceding year are analyzed as follows:

	January 1, 2018 to January 5, <u>2018</u> RMB'000	January 1, 2017 to December 31, <u>2017</u> RMB'000
Loss for the period/year	-	(9,158)
Gain on disposal of Pingxiang CF	36,494	-
Income tax expense related to the gain on disposal	<u>(6,201)</u>	<u>-</u>
	<u>30,293</u>	<u>(9,158)</u>

CHANGFENG ENERGY INC.

14. DISCONTINUED OPERATIONS/ASSETS CLASSIFIED AS HELD-FOR-SALE - continued

The results of Pingxiang CF for the current period and proceeding year were as follows:

	January 1, 2018 to January 5, <u>2018</u> RMB'000	January 1, 2017 to December 31, <u>2017</u> RMB'000
Revenue	-	74,632
Cost of sales	-	(78,928)
Other income	-	14
Selling and distribution expenses	-	(911)
Administrative expenses	-	(3,815)
Finance costs	-	(150)
	<hr/>	<hr/>
Loss before tax	-	(9,158)
Income tax expense	-	-
	<hr/>	<hr/>
Loss for the period/year	-	(9,158)
	<hr/> <hr/>	<hr/> <hr/>

Under the EIT Law, the tax rate of Pingxiang CF is 25% for current period and proceeding year. No provision for taxation in PRC has been made as Pingxiang CF incurred tax losses in PRC for current period and proceeding year.

Loss for the period/year from discontinued operation includes the following:

	January 1, 2018 to January 5, <u>2018</u> RMB'000	January 1, 2017 to December 31, <u>2017</u> RMB'000
Other staff costs	-	2,281
Staff retirement benefit scheme contribution	-	437
	<hr/>	<hr/>
Total remuneration	-	2,718
	<hr/>	<hr/>
Release of long-term lease prepayments	-	16
Cost of inventories recognized as expense in cost of sales	-	73,968
Contract cost recognized as expense in cost of sales	-	2,701
Depreciation	-	2,521
Loss on disposal of property and equipment	-	24
Interest income	-	(14)
	<hr/> <hr/>	<hr/> <hr/>

14. DISCONTINUED OPERATIONS/ASSETS CLASSIFIED AS HELD-FOR-SALE - continued

Loss for the period/year from discontinued operation includes the following: - continued

	RMB'000
Analysis of asset and liability over which control was lost:	
Property and equipment	85,121
Long-term lease prepayments	1,926
Long-term deposits and advances	384
Inventories	3,606
Trade receivables	4,058
Other receivables, prepaid expenses and deposits	6,137
Bank balances and cash	4,654
Total assets	105,886
Trade and other payables	(15,732)
Contract liabilities	(7,463)
Amount due to Xinao Gas	(13,000)
Amount due to the Group	(76,115)
Long-term debts	(6,250)
Total liabilities	(118,560)
Net liabilities disposal of	(12,674)
Satisfied by:	
Cash received at December 31, 2017 (note 29)	30,847
Deferred consideration on disposal of Pingxiang CF (note 27)	3,243
Additional capital contribution to Pingxiang CF (step (ii))	(16,900)
	<u>17,190</u>

	RMB'000
Deemed gain on disposal of Pingxiang 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 CF (step (iii))	46,768
Cash and cash equivalents of Pingxiang CF deemed disposed of	(4,654)
	<u>42,114</u>

14. DISCONTINUED OPERATIONS/ASSETS CLASSIFIED AS HELD-FOR-SALE - continued

Cash flows for the period/year from discontinued operation includes the following:

	January 1, 2018 to January 5, <u>2018</u> RMB'000	January 1, 2017 to December 31, <u>2017</u> RMB'000
Net cash outflow from operating activities	-	(6,825)
Net cash outflow from investing activities	-	(23,841)
Net cash inflow from financing activities	-	29,529
Net cash inflow	-	(1,137)

15. DISPOSAL OF PARTIAL INTEREST OF SUBSIDIARIES

On May 16, 2018, Sanya Changfeng New Energy Investment Co., Ltd. ("Sanya CF NEI") has transferred 100% equity interests in Zhaoqing Gaoyao Hengtai Natural Gas Co.,Ltd.(formerly known as Gaoyao Evergrowth 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 39% effective interests in Gaoyao and retain its effective interests of 61% over Gaoyao without losing control. An aggregate amount of RMB331,000 has been transferred to non-controlling interest as at December 31 2018.

On August 3, 2018, Hunan CNPC New Energy Investment Co., Ltd. ("Hunan CNPC NEI") has disposed 9% equity interests 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 5.4% effective interests in Riheng and retain its effective interests of 54.6% over Riheng without losing control. The Group has recognized a gain of RMB79,000 as other reserve as at December 31, 2018.

16. DIVIDENDS

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

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
2017 Interim		
- First instalment CAD0.01, or equivalent to RMB0.05 per share (note a)	-	3,321
- Second instalment CAD0.01 cent, or equivalent to RMB0.05 per share (note b)	3,041	-
2018 Interim		
- First instalment CAD0.01, or equivalent to RMB0.05 per share (note c)	<u>3,630</u>	<u>-</u>
	<u>6,671</u>	<u>3,321</u>

Notes:

- (a) The first instalment of the interim dividend in respect of the year ended December 31, 2017 is CAD640,000, or equivalent to RMB3,321,000.
- (b) The second instalment of the interim dividend in respect of the year ended December 31, 2017 is CAD605,000, or equivalent to RMB3,041,000.
- (c) The first instalment of the interim dividend in respect of the year ended December 31, 2018 is CAD652,000 or equivalent to RMB3,630,000.

Subsequent to the end of the reporting period, the following dividends have been approved by the Board of Directors of the Company:

- (1) the second instalment of the interim dividend in respect of the year ended December 31, 2018 of approximately CAD0.01 per common share, in an aggregate amount of CAD691,000 or equivalent to RMB3,500,000;
- (2) the first instalment of the interim dividend in respect of the year ending December 31, 2019 of approximately CAD0.01 per common share, in an aggregate amount of CAD691,000 or equivalent to RMB3,500,000; and
- (3) a special dividend in respect of the year ended December 31, 2018 of approximately CAD0.04 per common share, in an aggregate amount of CAD2,547,000 or equivalent to RMB12,900,000.

17. EARNINGS PER SHARE

For continuing and discontinued operations

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

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
<u>Earnings</u>		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	<u>57,611</u>	<u>25,031</u>
	<u>2018</u>	<u>2017</u>
<u>Number of shares</u>		
Weighted average number of shares for the purpose of basic earnings per share	64,996,775	64,137,282
Effect of dilutive potential shares:		
Share options issued by the Company	<u>1,874,207</u>	<u>867,442</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>66,870,982</u>	<u>65,004,724</u>
Basic earnings per share (Note)	<u>RMB0.89</u>	<u>RMB0.39</u>
	<u>CAD0.17</u>	<u>CAD0.07</u>
Diluted earnings per share (Note)	<u>RMB0.86</u>	<u>RMB0.39</u>
	<u>CAD0.17</u>	<u>CAD0.07</u>

Note: The CAD figures presented above are shown for reference only and have been arrived at based on the exchange rate for RMB1.0000 to CAD0.1961 for the year ended December 31, 2018 and RMB1.0000 to CAD0.1921 for the year ended December 31, 2017, being the average exchange rate that prevailed during the respective years.

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 (2017: 2,550,000 share options) issued by the Company because the exercise price of those options was higher than the average market price for 2018 and 2017, respectively.

CHANGFENG ENERGY INC.

17. EARNINGS (LOSS) PER SHARE - continued

From continuing operations

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

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	57,611	25,031
Less: Profit (loss) for the year from discontinued operations attributable to owners of the Company	<u>21,097</u>	<u>(8,261)</u>
Earnings for the purpose of basic earnings per share from continuing operations	<u><u>36,514</u></u>	<u><u>33,292</u></u>

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 (2017: loss per share of RMB0.13 cent, or equivalent to CAD0.02 cent, per share), based on the profit for the year from the discontinued operation of RMB21,097,000 (2017: loss of RMB8,261,000) and the denominators detailed above for both basic and diluted earnings(loss) per share.

18. PROPERTY AND EQUIPMENT

	<u>Buildings</u> RMB'000	<u>Pipelines</u> RMB'000	<u>Motor vehicles</u> RMB'000	<u>Furniture and equipment</u> RMB'000	<u>Leasehold improvements</u> RMB'000	<u>Construction in progress</u> RMB'000	<u>Total</u> RMB'000
COST							
At January 1, 2017	34,654	340,359	16,529	48,532	3,973	72,526	516,573
Additions	23	26,263	2,372	1,687	-	36,917	67,262
Disposals	-	-	(1,948)	(371)	-	-	(2,319)
Transfer	-	4,197	-	-	-	(4,197)	-
Reclassified as held-for-sale	<u>(8,650)</u>	<u>(56,618)</u>	<u>(775)</u>	<u>(8,815)</u>	<u>-</u>	<u>(18,424)</u>	<u>(93,282)</u>
At December 31, 2017	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	<u>-</u>	<u>44,255</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(44,255)</u>	<u>-</u>
At December 31, 2018	<u>26,036</u>	<u>358,703</u>	<u>16,587</u>	<u>46,962</u>	<u>4,577</u>	<u>99,416</u>	<u>552,281</u>
DEPRECIATION							
At January 1, 2017	3,511	92,516	10,374	22,991	1,527	-	130,919
Depreciation	969	11,859	1,500	3,360	290	-	17,978
Disposals	-	-	(1,209)	(299)	-	-	(1,508)
Reclassified as held-for-sale	<u>(645)</u>	<u>(4,342)</u>	<u>(361)</u>	<u>(2,813)</u>	<u>-</u>	<u>-</u>	<u>(8,161)</u>
At December 31, 2017	3,835	100,033	10,304	23,239	1,817	-	139,228
Depreciation	657	10,757	1,232	5,582	561	-	18,789
Disposals	<u>-</u>	<u>-</u>	<u>(14)</u>	<u>(531)</u>	<u>-</u>	<u>-</u>	<u>(545)</u>
At December 31, 2018	<u>4,492</u>	<u>110,790</u>	<u>11,522</u>	<u>28,290</u>	<u>2,378</u>	<u>-</u>	<u>157,472</u>
NET BOOK VALUE							
At December 31, 2018	<u><u>21,544</u></u>	<u><u>247,913</u></u>	<u><u>5,065</u></u>	<u><u>18,672</u></u>	<u><u>2,199</u></u>	<u><u>99,416</u></u>	<u><u>394,809</u></u>
At December 31, 2017	<u><u>22,192</u></u>	<u><u>214,168</u></u>	<u><u>5,874</u></u>	<u><u>17,794</u></u>	<u><u>2,156</u></u>	<u><u>86,822</u></u>	<u><u>349,006</u></u>

18. PROPERTY AND EQUIPMENT - continued

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 RMB51,788,000 (2017: RMB54,309,000) to secure the RMB80,000,000 (2017: RMB80,000,000) long-term debts of the Group.

19. LONG-TERM LEASE PREPAYMENTS

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

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Current assets	1,283	1,256
Non-current assets	<u>11,880</u>	<u>12,946</u>
	<u>13,163</u>	<u>14,202</u>

The long-term lease prepayments represent land use rights and are amortized on a straight-line basis over lease terms of 5 to 50 years as stated in the relevant land use right certificates granted for usage by the Group in the PRC or relevant land lease agreements.

CHANGFENG ENERGY INC.

20. INTANGIBLE ASSETS

	Gas purchase contract and <u>supply rights</u> RMB'000	<u>Software</u> RMB'000	<u>Others</u> RMB'000	<u>Total</u> RMB'000
COST				
At January 1, 2017	2,150	2,710	-	4,860
Additions	-	989	520	1,509
	<hr/>	<hr/>	<hr/>	<hr/>
At December 31, 2017	2,150	3,699	520	6,369
Additions	-	549	-	549
	<hr/>	<hr/>	<hr/>	<hr/>
At December 31, 2018	2,150	4,248	520	6,918
	<hr/>	<hr/>	<hr/>	<hr/>
AMORTIZATION				
At January 1, 2017	921	435	-	1,356
Amortization	115	311	30	456
	<hr/>	<hr/>	<hr/>	<hr/>
At December 31, 2017	1,036	746	30	1,812
Amortization	115	402	51	568
	<hr/>	<hr/>	<hr/>	<hr/>
At December 31, 2018	1,151	1,148	81	2,380
	<hr/>	<hr/>	<hr/>	<hr/>
NET BOOK VALUE				
At December 31, 2018	999	3,100	439	4,538
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At December 31, 2017	1,114	2,953	490	4,557
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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
Others	10 years

21. INTERESTS IN ASSOCIATES

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Cost of investments in associates - unlisted	37,460	5,000
Share of post-acquisition losses and other comprehensive expenses	(5,832)	(349)
	<hr/>	<hr/>
	31,628	4,651
	<hr/> <hr/>	<hr/> <hr/>

CHANGFENG ENERGY INC.

21. INTERESTS IN ASSOCIATES - continued

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

<u>Name of entity</u>	<u>Country of incorporation/ registration</u>	<u>Principal place of business</u>	<u>Proportion of ownership interest held by the Group</u>		<u>Proportion of voting rights held by the Group</u>		<u>Principal activity</u>
			<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	
Xiangtan Shin-Ko Energy Co., Ltd.* (Note a) 湘潭市長豐深冷能源有限公司 ("Shin-Ko Energy")	The PRC	The PRC	50%	50%	50%	50%	Operating liquefied natural gas ("LNG") storage facility
Pingxiang Xinao CF (Note b)	The PRC	The PRC	40%	N/A	40%	N/A	Gas sales and distribution and pipeline installation and connection

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

Notes:

- (a) The Group holds 50% of the issued share capital of Shin-Ko Energy. However, under the shareholders' agreement, the other shareholders control the composition of the Board of Directors of Shin-Ko Energy and has the control over Shin-Ko Energy. Management of the Group considers that the Group has significant influence over Shin-Ko Energy through its representation on the Board of Directors and it is therefore classified as an associate of the Group. Shin-Ko Energy has been dissolved on February 20, 2019.
- (b) On November 22, 2017, the Group entered into an equity restructuring agreement to dispose of in aggregate 50.2% effective interest in Pingxiang CF to Xinao Gas. The Disposal is completed on January 5, 2018. The Group has significant influence over Pingxiang Xinao CF and therefore it is classified as an associate of the Group. Details of the Disposal are set out in note 14.

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

Summarized financial information of Pingxiang Xinao CF

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

Pingxiang Xinao CF

	<u>2018</u> RMB'000
Current assets	22,528
Non-current assets	100,886
Current liabilities	81,354
Non-current liabilities	2,088

21. INTERESTS IN ASSOCIATES - continued

Summarized financial information of Pingxiang CF - continued

Pingxiang Xinao CF - continued

January 6, 2018
to
December 31,
2018
RMB'000

Revenue	<u>106,131</u>
Loss and total comprehensive expense for the period	<u>(13,655)</u>

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

	<u>2018</u> RMB'000
Net assets of Pingxiang Xinao CF	39,972
Proportion of the Group's ownership interest in Pingxiang Xinao CF	<u>40%</u>
	15,989
Add: Fair value adjustment	<u>11,009</u>
Carrying amount of the Group's interest in Pingxiang Xinao CF	<u>26,998</u>

22. INTEREST IN A JOINT VENTURE

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Cost of investment in a joint venture - unlisted	18,000	18,000
Share of post-acquisition losses and other comprehensive expenses	<u>(831)</u>	<u>(4)</u>
	<u>17,169</u>	<u>17,996</u>

Details of the Group's investment in a joint venture as at December 31, 2018 and 2017 are as follows:

<u>Name of entity</u>	<u>Country of incorporation/ registration</u>	<u>Principal place of business</u>	<u>Proportion of ownership interest held by the Group</u>		<u>Proportion of voting rights held by the Group</u>		<u>Principal activities</u>
			<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	
EDF Changfeng (Sanya) Energy Co., Ltd.* 法電長豐(三亞)能源有限公司 ("EDF CF")	The PRC	The PRC	50%	50%	50%	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.

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 joint venture financial statements prepared in accordance with IFRSs.

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

CHANGFENG ENERGY INC.

22. INTEREST IN A JOINT VENTURE - continued

Summarized financial information of EDF CF - continued

EDF CF

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Current assets	14,152	20,766
Non-current assets	23,463	-
Current liabilities	3,277	2,774

The above amounts of assets and liabilities include the following:

Cash and cash equivalents	5,076	18,001
	January 1, 2018 to December 31, <u>2018</u> RMB'000	November 9, 2017 to December 31, <u>2017</u> RMB'000
Revenue	-	-
Loss and total comprehensive expense for the year/period	1,654	8

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

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Net assets of EDF CF	34,338	17,992
Add: Capital contribution outstanding from joint venture partner	-	18,000
	34,338	35,992
Proportion of the Group's ownership interest in EDF CF	50%	50%
Carrying amount of the Group's interest in EDF CF	17,169	17,996

CHANGFENG ENERGY INC.

23. INVENTORIES

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Construction materials	4,717	2,769
Gas appliances, meters and spare parts	326	355
Natural gas for sale	720	383
	<u>5,763</u>	<u>3,507</u>

At December 31, 2018, no inventories (2017: nil) were written down to lower of cost and net realizable value. No reversal of any write down were recorded during the year ended December 31, 2018 (2017: nil).

24. CONTRACT ASSETS

	December 31, <u>2018</u> RMB'000	January 1, <u>2018</u> RMB'000
Contract assets from pipeline construction works	7,229	7,078
Less: Allowance for credit losses	<u>(165)</u>	<u>(548)</u>
	<u>7,064</u>	<u>6,530</u>

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 will transfer 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 range from 30% to 70% of total contract sum 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 40(b).

CHANGFENG ENERGY INC.

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

	<u>2017</u> RMB'000
Contract costs incurred plus recognized profits less recognized losses and progress billings	<u>(26,847)</u>

Analyzed for reporting purposes as:

Amounts due from contract customers	6,530
Amounts due to contract customers	<u>(33,377)</u>
	<u>(26,847)</u>

Amounts due from customers for contract work represents unbilled revenue from pipeline installation and connection recognized based on the percentage of completion of work performed. The payment terms in relation to pipeline installation and connections are generally by installments, with the initial installment payable upon commencement of the services, installments payable during the installation and connection process depending on the payment milestone and the final installation payable upon completion of gas connection.

	<u>2017</u> RMB'000
Amounts due from customers for contract work	7,078
Less: allowance of impairment loss recognized	<u>(548)</u>
Balance at end of the year	<u>6,530</u>

No credit period granted by the Group to customers for installation and connection of natural gas pipeline as payment is due in accordance with the payment terms stated in the contract, amount is due immediately when billings are made.

Recoverability of amounts due from customers for contract work is reviewed on a case-by-case basis when there is objective evidence that a customer will default. Management takes into consideration the customer's payment history, the credit worthiness and the current economic environment in which the customer operates to assess the amount of impairment.

Movement in the allowance of impairment:

	<u>2017</u> RMB'000
Balance at beginning of the year	548
Allowance of impairment loss recognized	<u>-</u>
Balance at end of the year	<u>548</u>

CHANGFENG ENERGY INC.

26. TRADE RECEIVABLES

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Trade receivables		
- Gas sales	20,787	17,015
- Pipeline installation and connection	10,167	14,219
	<u>30,954</u>	<u>31,234</u>
Less: Allowance for credit losses	(3,061)	(2,733)
	<u><u>27,893</u></u>	<u><u>28,501</u></u>

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

No trade receivables balance are past due as at December 31, 2017. The average age of these receivables is 26 days for the year ended December 31, 2017. Credit period granted by the Group to customers for supply of natural gas is usually 30 days from the date of demand note.

Movement in the allowance for doubtful debts:

	<u>2017</u> RMB'000
Balance at beginning of the year	2,913
Reversal of impairment losses recognized on trade receivables	<u>(180)</u>
Balance at end of the year	<u><u>2,733</u></u>

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB2,733,000 for the year ended December 31, 2017.

Details of impairment assessment of trade and other receivables for the year ended December 31, 2018 are set out in note 40.

27. OTHER RECEIVABLES, PREPAID EXPENSES AND DEPOSITS

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Pipeline relocation receivables (Note)	9,669	8,328
Deposits paid for acquisition of property and equipment	3,033	2,358
Prepayments for gas purchase	4,119	2,619
Rental prepayment	2,724	1,137
Deposit for land rental payment	-	189
VAT recoverable	12,877	11,353
Receivables from Xinao Gas on disposal of Pingxiang CF	3,243	-
Deferred share issue costs	1,402	-
Other prepayments and deposits	4,011	3,690
	<u>41,078</u>	<u>29,674</u>
Analyzed for reporting purposes as follows:		
- Current assets	30,440	21,009
- Non-current assets	10,640	8,665
	<u>41,080</u>	<u>29,674</u>

Note: During the year ended December 31, 2016, 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 it would compensate part of the costs incurred by the Group as a result of the notified relocation. At December 31, 2018, the balances incurred are approximately RMB9,669,000 (2017: RMB8,328,000) on construction of new pipelines as a result of the relocation notices. The Group expected RMB2,667,000 (2017: RMB2,331,000) would be refunded by the local government in 2019 with the remaining balance of RMB7,002,000 (2017: RMB5,997,000) to be refunded beyond 2019.

Starting from January 1, 2018, the Group applied the IFRS 9 general approach to measure ECL which uses a 12m ECL for other receivables. Management assessed the expected loss on other receivables with significant balances individually.

As part of the Group's credit risk management, the Group regularly monitors the internal credit rating based on available information at each reporting date for other receivables. Based on the assessment of the financial health of the counterparties performed by the management, the management of the Company considered that the ECL for the other receivables of the Group is insignificant as at January 1, 2018 and December 31, 2018.

CHANGFENG ENERGY INC.

28. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS/RESTRICTED CASH/FIXED BANK DEPOSITS

Bank balances, restricted cash and pledged bank deposits carried market interest rates which ranged from 0.30% to 1.55% per annum as at December 31, 2018 (2017: 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, 2018 (2017: nil balance) carry interest at fixed rate of 1.75% per annum.

For the year ended December 31, 2018, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

29. TRADE AND OTHER PAYABLES

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Trade and construction payables	33,502	48,923
Security deposit received from customers for natural gas supplies	5,372	5,352
Payable on property and equipment acquisition	7,984	3,934
Accrued wages and staff benefits	10,392	8,761
Receipts in advance from the disposal of Piangxiang CF (Note)	-	30,847
Compensation payable for land acquisition	2,906	2,906
Other tax payables	1,550	1,691
Other payables and accrued expenses	4,173	1,968
	<u>65,879</u>	<u>104,382</u>

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.

Note: On November 22, 2017, the Group entered into a sale agreement to dispose of 50.2% effective interest in Pingxiang CF to Xinao Gas. At December 31, 2017, the Group received a deposit of RMB30,847,000 from Xinao Gas in respect of an initial disposal of 24.5% interest in Pingxiang CF. Details of the disposal of Pingxiang CF are set out in note 14.

30. RELATED PARTY BALANCES/TRANSACTIONS DISCLOSURE

During the year, the Group entered into the following transactions with related party:

<u>Name of related party</u>	<u>Relationship party</u>	<u>Nature of transactions</u>	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Pingxiang Xinao CF	Associate	Interest income	<u>479</u>	<u>-</u>
		Service fee income (note a)	<u>3,300</u>	<u>-</u>

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

<u>Name of related party</u>	<u>Relationship party</u>	<u>Terms</u>	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Shin-Ko Energy	Associate	Non-trade, unsecured, non-interest bearing and repayable on demand	<u>(4,249)</u>	<u>(4,249)</u>
Pingxiang Xinao CF	Associate	Non-trade, unsecured and interest bearing (note b)	<u>12,852</u>	<u>-</u>
		Trade, unsecured, non-interest bearing and repayable on demand (note a)	<u>3,300</u>	<u>-</u>
EDF CF	Joint venture	Non-trade, unsecured, non-interest bearing and repayable on demand	<u>144</u>	<u>2,765</u>
Ruiheng	Non-controlling interests of a subsidiary	Non-trade, unsecured, non-interest bearing and repayable on demand	<u>905</u>	<u>-</u>
Sichuan Tianzhiyuan Energy Technology Limited	Non-controlling interests of a subsidiary	Non-trade, unsecured, non-interest bearing and repayable on demand	<u>800</u>	<u>-</u>
Mr. Lin	Ultimate controlling Shareholder	Non-trade, unsecured, non-interest bearing and repayable on demand	<u>-</u>	<u>(109)</u>

CHANGFENG ENERGY INC.

30. RELATED PARTY BALANCES/TRANSACTIONS DISCLOSURE - continued

Notes:

- (a) The balance represents amount due from Pingxiang 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 14. In the opinion of the management of the Company, the amount is expected to be repaid within 12 months after the end of reporting period and therefore the amount is classified as current asset.
- (b) The balance represents the loan to Pingxiang CF with 4.35% interest bearing since 2012 amounted to RMB12,852,000. As at December 31, 2018, Pingxiang CF has been classified as an associate to the Group upon the completion of the Disposal and the loan to and amount due from Pingxiang CF are no longer being eliminated.

31. CONTRACT LIABILITIES

	December 31, <u>2018</u> RMB'000	January 1, <u>2018</u> RMB'000
Pipeline installation and connection projects	40,868	33,377
Receipts in advance from customers		
- Pipeline installation and connection projects prior to commencement	47,439	66,571
- Natural gas sales	<u>22,535</u>	<u>16,060</u>
	<u>110,842</u>	<u>116,008</u>

During the year ended December 31, 2018, RMB16,060,000 and 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.

32. RECEIPTS IN ADVANCE FROM CUSTOMERS

	<u>2017</u> RMB'000
Receipts in advance from customers	
- Natural gas sales	16,060
- Pipeline installation and connection projects	<u>66,571</u>
	<u>82,631</u>

CHANGFENG ENERGY INC.

33. SHORT-TERM BANK BORROWINGS

The Group's short-term bank borrowings comprise:

<u>Lenders</u>	<u>Secured/ unsecured</u>	<u>Contractual interest rate</u>	<u>Effective interest rate</u>		<u>Carrying amounts</u>		<u>Notes</u>
			<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	
					RMB'000	RMB'000	
Bank of China, Sanya	Secured	Fixed interest rate at 4.4%	4.4%	4.4%	20,000	40,000	(a)
Bank of China (Canada)	Secured	Three-month London Interbank Offered Rate ("LIBOR") plus 250 basis points	-	2.3%	-	9,760	(b)
Total short-term bank borrowings					<u>20,000</u>	<u>49,760</u>	

Notes:

- (a) 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").
- (b) The 1-year term loan from Bank of China (Canada) is denominated in United States dollars ("USD") with a principal amount of USD1,500,000 and is secured by a pledged bank deposit of RMB1,008,000 (2017: RMB1,008,000).

In August 2017, the bank loan has been renewed for another one year. Terms and conditions were same as the original contract. The bank loan has been repaid and the respective pledged bank deposit has been released during the year ended December 31, 2018.

As at December 31, 2018 and 2017, the Group was in compliance with all of its debt covenants.

34. LONG-TERM DEBTS

	<u>2018</u>	<u>2017</u>
	RMB'000	RMB'000
Bank borrowings		
- Secured, with variable rate	125,919	147,758
- Unsecured, with variable rate	-	-
	<u>125,919</u>	<u>147,758</u>
The carrying amounts of the above borrowings are repayable:*		
Within one year	24,000	22,000
Within a period of more than one year, but not exceeding two years	10,000	24,000
Within a period of more than two years, but not exceeding five years	50,000	56,000
Within a period of more than five years	42,000	46,000
	<u>126,000</u>	<u>148,000</u>
Less: Unamortized transaction costs	(81)	(242)
	<u>125,919</u>	<u>147,758</u>
Less: Amounts due within one year shown under current liabilities	(23,919)	(22,000)
Amounts shown under non-current liabilities	<u>102,000</u>	<u>125,758</u>

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

CHANGFENG ENERGY INC.

34. LONG-TERM DEBTS - continued

The Group's long-term debts comprise:

<u>Lenders</u>	<u>Secured/ unsecured</u>	<u>Contractual interest rate</u>	<u>Effective interest rate</u>		<u>Carrying amount</u>		<u>Notes</u>
			<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	
					RMB'000	RMB'000	
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	39,758	(a)
Bank of China, Sanya	Secured	110% of 5-year PBOC benchmark borrowing rate, repricing every 6 months	5.4%	5.4%	26,000	28,000	(b)
Bank of China, Sanya	Secured	10-year PBOC benchmark borrowing rate, repricing every 12 months	4.9%	4.9%	80,000	80,000	(c)
Total long-term debts					<u>125,919</u>	<u>147,758</u>	

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 is secured by 60% of the equity interest in CF China together with the gas connection and gas supply rights of CF China. The loan is repayable semi-annually by instalments and will be 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 Group has drawn down RMB20,000,000 from the facility during the year ended December 31, 2017. 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 an aggregate amount of RMB56,829,000. The loan will begin repayment from 2019 and will be fully repaid by 2025.

35. DEFERRED INCOME - GOVERNMENT GRANTS

The Group received RMB5,269,000 in government grants to fund the construction of certain items of property and equipment for the Group's operation in Sanya City in 2012. 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, 2018, part of the property and equipment are ready for use and RMB225,000 (2017: RMB237,000) is recognized as other income. As at December 31, 2018, the government grants of RMB4,692,000 was recognized as a non-current liability (2017: RMB4,917,000).

CHANGFENG ENERGY INC.

36. DEFERRED TAX ASSETS (LIABILITIES)

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Deferred tax assets	-	7,712
Deferred tax liabilities	<u>(10,431)</u>	<u>(8,365)</u>
	<u>(10,431)</u>	<u>(653)</u>

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

	<u>Property and equipment</u> RMB'000	<u>Accrued receivables on gas sales</u> RMB'000	<u>Receipts in advance and deferred income</u> RMB'000	<u>Receipt in advance from disposal of a subsidiary</u> RMB'000	<u>Withholding tax on undistributed earnings</u> RMB'000	<u>Total</u> RMB'000
At January 1, 2017	(9,171)	(1,058)	2,640	-	(555)	(8,145)
Credit (charge) to profit or loss	<u>(1,482)</u>	<u>45</u>	<u>1,196</u>	<u>7,712</u>	<u>21</u>	<u>7,492</u>
At December 31, 2017	(10,653)	(1,013)	3,836	7,712	(534)	(653)
Credit (charge) to profit or loss	<u>(1,491)</u>	<u>(194)</u>	<u>1,075</u>	<u>(7,712)</u>	<u>(1,456)</u>	<u>(9,778)</u>
At December 31, 2018	<u>(12,144)</u>	<u>(1,207)</u>	<u>4,911</u>	<u>-</u>	<u>(1,990)</u>	<u>(10,431)</u>

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 RMB168,705,000 at December 31, 2018 (2017: RMB160,715,000), as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Loss carried forward	122,896	105,371
Deductible temporary differences	<u>1,993</u>	<u>2,050</u>
	<u>124,889</u>	<u>107,421</u>

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 RMB42,643,000 (December 31, 2017: RMB33,035,000) that will fully expire in 2022 and RMB80,253,000 (December 31, 2017: RMB72,336,000) that will fully expire in 2037. Other losses may be carried forward indefinitely.

37. SHARE CAPITAL

Share capital of the Company

	<u>Number of shares</u>	<u>Amount RMB'000</u>
Common shares		
Issued and fully paid:		
At January 1, 2017	62,037,700	60,277
Exercised options	2,417,335	6,584
Share cancellation (Note a)	(110,000)	(172)
	<hr/>	<hr/>
At December 31, 2017	64,345,035	66,689
Exercised options	919,120	3,149
Share cancellation (Note b)	(16,000)	(20)
	<hr/>	<hr/>
At December 31, 2018	<u>65,248,155</u>	<u>69,818</u>

Notes:

- (a) On April 6, 2017, one of the shareholders exercised 110,000 share options. On April 13, 2017, he passed away and his family authorized the Company to cancel such shares. The Board of Director of the Company approved the cancellation of the shares.
- (b) On March 29, 2018, one of the shareholders cancelled the shares due to personal reasons. The Board of Director of the Company approved the cancellation of the shares.

38. 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 of Directors of the Company 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 equal up to 10% of the issued and outstanding shares of the Company. The Board of Directors of the Company, or such other persons designated by the Board of Directors of the Company, administers the option scheme and determines the vesting and terms of each award.

CHANGFENG ENERGY INC.

38. SHARE-BASED COMPENSATION - continued

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

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, first anniversary vest for 1/3 grant and second anniversary vest for 1/3 grant	26.8.2013 to 25.8.2018	CAD0.35	965,150	-	(574,120)	(391,030)	-
			26.8.2014 to 25.8.2018	CAD0.35					
			26.8.2015 to 25.8.2018	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	10.4.2017 to 9.4.2022	CAD0.40	1,300,000	-	(50,000)	-	1,250,000
Chinese employees and management	August 10, 2017	Immediately	10.8.2017 to 9.8.2025	CAD0.63	1,850,000	-	(50,000)	-	1,800,000
Chinese employees and management	August 18, 2017	Immediately	18.8.2017 to 17.8.2025	CAD0.65	700,000	-	(200,000)	-	500,000
Employees and management	April 13, 2018	Immediately vested from the day following the successful IPO in HKEX	3 years from the day following the successful IPO in HKEX	CAD1.09	-	2,240,000	-	-	2,240,000
Consultant	April 13, 2018	Immediately vested from the day following the successful IPO in HKEX	5 years from the day following the successful IPO in HKEX	CAD1.09	-	200,000	-	-	200,000
					<u>5,190,150</u>	<u>2,440,000</u>	<u>(919,120)</u>	<u>(486,030)</u>	<u>6,225,000</u>
Weighted average exercise price (CAD)					<u>0.50</u>	<u>1.09</u>	<u>0.43</u>	<u>0.35</u>	<u>0.76</u>

For the year ended December 31, 2017

Category of grantees	Date of grant	Vesting conditions	Exercisable period	Exercise price per share	Number of share options				
					Outstanding at 1.1.2017	Granted during the year	Exercised during the year	Expired/cancelled during the year	Outstanding at 12.31.2017
Directors and Chinese Management	July 12, 2012	Immediately	12.7.2012 to 11.7.2017	CAD0.24	1,000,000	-	(848,000)	(152,000)	-
Directors, officers and Chinese management	August 26, 2013	Immediately vest for 1/3 grant, first anniversary vest for 1/3 grant and second anniversary vest for 1/3 grant	26.8.2013 to 25.8.2018	CAD0.35	2,490,000	-	(1,504,335)	(20,515)	965,150
			26.8.2014 to 25.8.2018	CAD0.35					
			26.8.2015 to 25.8.2018	CAD0.35					
Directors, officers and Chinese management	July 31, 2015	Immediately	31.7.2015 to 30.7.2020	CAD0.36	440,000	-	(65,000)	-	375,000
Chinese employees and management	April 10, 2017	Immediately	10.4.2017 to 9.4.2022	CAD0.40	-	1,300,000	-	-	1,300,000
Chinese employees and management	August 10, 2017	Immediately	10.8.2017 to 9.8.2025	CAD0.63	-	1,850,000	-	-	1,850,000
Chinese employees and management	August 18, 2017	Immediately	18.8.2017 to 17.8.2025	CAD0.65	-	700,000	-	-	700,000
					<u>3,930,000</u>	<u>3,850,000</u>	<u>(2,417,335)</u>	<u>(172,515)</u>	<u>5,190,150</u>
Weighted average exercise price (CAD)					<u>0.32</u>	<u>0.56</u>	<u>0.31</u>	<u>0.25</u>	<u>0.50</u>

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise was CAD1.09 (2017: CAD0.42).

38. SHARE-BASED COMPENSATION - continued

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 Group recognized share-based compensation expense of RMB3,326,000 for the year ended December 31, 2018 (2017: RMB4,485,000) in relation to share options granted by the Company.

The number of share options exercisable as at December 31, 2018 was 3,785,000 (2017: 5,190,150).

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 in HKEX.

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

	For employees and management <u>April 13, 2018</u>	For consultant <u>April 13, 2018</u>
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.

2017 Option

On April 10, 2017, a total of 1,300,000 share options were granted to certain employees, officers and management of the Group under the Option Scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of CAD0.40 per share.

On August 10, 2017, a total of 1,850,000 share options were granted to certain employees, officers and management of the Group under the Option Scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of CAD0.63 per share.

38. SHARE-BASED COMPENSATION - continued

2017 Option - continued

On August 18, 2017, a total of 700,000 share options were granted to certain employees, officers and management of the Group under the Option Scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of CAD0.65 per share.

The options granted vested immediately on the grant date of April 10, 2017, August 10, 2017 and August 18, 2017, respectively.

The fair value was calculated using the Black-Scholes model. The inputs into the model were as follows:

	<u>April 10, 2017</u>	<u>August 10, 2017</u>	<u>August 18, 2017</u>
Share price at the date of grant	CAD0.40	CAD0.61	CAD0.63
Exercise price	CAD0.40	CAD0.63	CAD0.65
Expected volatility	43%	46%	46%
Expected life	5 years	8 years	8 years
Risk-free rate	1.12%	1.72%	1.92%
Expected dividend yield	0%	1.64%	1.59%
Fair value per option	CAD0.15	CAD0.26	CAD0.27

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

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 5 and 8 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.

39. CAPITAL RISK MANAGEMENT

The Group considers its capital structure to consist of share capital, contributed surplus, shareholder's contributions, retained earnings, amount due to the ultimate controlling shareholder, 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 of Directors 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.

39. CAPITAL RISK MANAGEMENT - continued

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 loans 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, 2018, 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, 2018.

During the year ended December 31, 2018, dividend in the amount of RMB6,671,000 (2017: RMB3,321,000) was declared and paid to the shareholders.

40. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Financial assets		
Financial assets at amortized cost	142,558	-
Loans and receivables (including cash and cash equivalents)	-	191,313
	<u> </u>	<u> </u>
Financial liabilities		
Liabilities measured at amortized cost	198,394	260,159
	<u> </u>	<u> </u>

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amount due from related parties, an associate and non-controlling interests of subsidiaries, restricted cash, fixed bank deposits, pledged bank deposits, bank balances and cash, trade and other payables, amount due to the ultimate controlling shareholder and an associate, dividend payable to non-controlling interests of subsidiaries, short-term bank borrowings and long-term debts. 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.

40. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

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 some subsidiaries respectively.

The Company and its subsidiaries have foreign currency: bank balances and cash and short-term bank borrowings, 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:

	<u>Liabilities</u>		<u>Assets</u>	
	<u>2018</u> RMB'000	<u>2017</u> RMB'000	<u>2018</u> RMB'000	<u>2017</u> RMB'000
United States Dollars ("US\$")	-	(9,760)	152	37
CAD	<u>(188)</u>	<u>(641)</u>	<u>1,797</u>	<u>923</u>

Sensitivity analysis

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

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 and short-term bank borrowings. The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see notes 33 and 34 for details of these borrowings). The Group's interest rate on its long-term debts and short-term bank borrowings is based upon the prescribed rate of the PBOC and annual interest of three-month LIBOR rate plus 250 basis points, 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 average interest rate for the year ended December 31, 2018 would have had the following impact on the Group's profit for the year:

	<u>Impact on profit for the year</u>
Interest rate + 1%	RMB287,000
Interest rate - 1%	RMB287,000

40. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Market risk - continued

Interest rate risk - continued

No sensitivity analysis is presented for part of the variable-rate borrowings as they were raised for pipeline construction and any change in interest rate would substantially be capitalized to property and equipment and have no material impact to profit or loss of the Group.

Credit risk and impairment assessment

As at December 31, 2018, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at December 31, 2018 and 2017 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated statements of financial position.

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, 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. In addition, since January 1, 2018, the Group performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on trade balances or based on provision matrix.

Bank balances/fixed bank deposits/restricted cash/pledged bank deposits

The credit risks on bank balances, fixed bank deposits, restricted cash and pledged bank deposits are limited because the counterparties are banks/financial institutions with high credit ratings assigned by international credit-rating agencies.

Amounts due from an associate, related companies and non-controlling interests of a subsidiary

For the purpose of impairment assessment for amounts due from related parties, an associate and non-controlling interests of a subsidiary, the ECL are considered to be immaterial as counterparties does not have any past-due amount. Accordingly, the loss allowance is measured under lifetime ECL and the amount of impairment is considered insignificant at an amount equal to lifetime ECL.

40. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

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

<u>Internal credit rating</u>	<u>Description</u>	<u>Trade receivables/contract assets</u>	<u>Other financial assets/other items</u>
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 after due date	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

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

<u>2018</u>	<u>Note</u>	<u>External credit rating</u>	<u>Internal credit rating</u>	<u>12-month or lifetime ECL</u>	<u>Gross carrying amount</u>	
					<u>RMB'000</u>	<u>RMB'000</u>
Trade receivables - Gas sales	26	N/A	(Note)	Lifetime ECL (Provision Matrix)	20,306	
			Loss	Credit-impaired	<u>481</u>	20,787
Trade receivables - Pipeline installation and connection	26	N/A	(Note)	Lifetime ECL (Provision Matrix)	10,167	10,167
Contract assets	24	N/A	(Note)	Lifetime ECL (Provision Matrix)	7,229	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 significant outstanding balances or credit-impaired amounting to RMB481,000, the Group determines the expected credit losses on these items by using a provision matrix, grouped by past due status and internal credit rating, respectively.

40. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Credit risk and impairment assessment – continued

Trade receivables and contract assets

Provision matrix - debtors' aging

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to 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, 2018 within lifetime ECL (not credit impaired).

Gross carrying amount	Average <u>loss rate</u>	Trade <u>receivables</u> RMB'000
Current (not past due)	0.3%	19,942
1 - 90 days past due	0.5%	356
More than 90 days past due	98.6%	8
		<u>20,306</u>

Provision matrix - internal credit rating

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, 2018 within lifetime ECL (not credit impaired).

Gross carrying amount	Loss rate	Trade	Contract
<u>Internal credit rating</u>	<u>range</u>	<u>receivables</u> RMB'000	<u>assets</u> RMB'000
A++ to A-: Low risk	0-10%	5,293	7,229
B to B-: Normal risk	20-30%	4,247	-
Lower than B-: High risk	95-100%	627	-
		<u>10,167</u>	<u>7,229</u>

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.

40. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Trade receivables and contract assets - continued

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 December 31, 2017 (under IAS 39) and 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	<u>2,580</u>	<u>481</u>	<u>3,061</u>

Contract assets

	Lifetime ECL (not credit- impaired) RMB'000	Lifetime ECL (credit- impaired) RMB'000	Total RMB'000
As at December 31, 2017 (under IAS 39) and 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	<u>165</u>	<u>-</u>	<u>165</u>

There has been no change in the estimation techniques or significant assumptions made throughout the reporting period.

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.

As at December 31, 2018, the Group had a working capital deficiency of RMB81,103,000 (2017: RMB42,512,000). The Group had fixed bank deposits and bank and cash balance of RMB6,000,000 and RMB80,494,000 (2017: nil and RMB150,711,000) respectively to settle current liabilities of RMB243,985,000 (2017: RMB363,685,000). The Group believes that this deficiency can be funded through projected operating cash flows from operations and through securing additional financing from third-party financial institutions. There are certain assumptions made by management of the Group in determining projected operating cash flow, such as temporary natural gas contracts from the government of the PRC and continued growth in its operations.

40. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Liquidity risk - continued

The contractual maturities of the Group's long-term debts are described in note 34 and the remaining financial liabilities, consisting of trade payables, amount due to the ultimate controlling shareholder, 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 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 RMB'000	3 months to 1 year RMB'000	1 - 3 years RMB'000	≥3 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2018							
Non derivative financial liabilities							
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	51,642	74,663	156,428	125,919
At December 31, 2018		54,166	48,867	51,642	74,663	229,338	198,394

	Weighted average effective interest rate %	On demand or less than 3 months RMB'000	3 months to 1 year RMB'000	1 - 3 years RMB'000	≥3 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2017							
Non derivative financial liabilities							
Trade and other payables	-	55,763	-	-	-	55,763	55,763
Amount due to the ultimate controlling shareholder	-	109	-	-	-	109	109
Amounts due to an associate	-	4,249	-	-	-	4,249	4,249
Dividend payable to non-controlling interests of a subsidiary	-	2,520	-	-	-	2,520	2,520
Bank borrowings							
- fixed rate	4.3%	435	40,435	-	-	40,870	40,000
- variable rate	5.0%	1,931	36,642	70,369	64,602	173,544	157,518
At December 31, 2017		65,007	77,077	70,369	64,602	277,055	260,159

(c) Fair value measurements of financial instruments

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

40. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments - continued

- 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.

Reconciliation of Level 3 fair value measurements of put option liability

The total gains or losses for the period included a realised gain of RMB22,627,000 relating to put option liability that are measured at fair value at the end of each reporting period (December 31, 2017: RMBNil). Such fair value gains or losses are included in 'fair value change on put option liability'.

	<u>Put option liability</u> RMB'000
At December 31, 2017	-
Initial recognition	(22,627)
Fair value changes in profit or loss	<u>22,627</u>
At December 31, 2018	<u><u>-</u></u>

Fair value measurements and valuation processes

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

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. The management of the Group reports the findings to the Board of Directors of the Company to explain the cause of fluctuations in the fair value of put option liability.

Information about the valuation techniques and inputs used in determining the fair value of put option liability are disclosed above.

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

41. 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.

42. OPERATING LEASES

The Group as lessee

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

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Staff quarters, offices and lands	<u>3,659</u>	<u>2,595</u>

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:

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Within one year	3,300	3,015
In the second to fifth year inclusive	5,800	6,262
Over five years	<u>7,847</u>	<u>8,938</u>
	<u>16,947</u>	<u>18,215</u>

Operating lease commitments represent rentals payable by the Group for certain of its staff quarters, offices and lands. Leases of staff quarters and offices are negotiated for terms from 1 to 11 years with fixed rental. Leases of a land are negotiated for a term of 20 years with the rental fee fixed for the first 4 or 5 years from signing the lease contracts, and progressively increases 5% or 10% for every other 4 or 5 years thereafter. Another leases of a land are negotiated for a term of 5 years with rental fee fixed plus turnover rent from the total gas volume sales.

43. CAPITAL COMMITMENTS

	<u>2018</u> RMB'000	<u>2017</u> 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	<u>26,058</u>	<u>16,828</u>

44. 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.

	Dividend payable to non-controlling interests of subsidiaries RMB'000	Short-term bank borrowings RMB'000	Long-term debts RMB'000	Amount due to the ultimate controlling shareholder RMB'000	Total RMB'000
At January 1, 2018	2,520	49,760	147,758	-	200,038
Financing cash flows	(7,200)	(30,212)	(22,000)	-	(59,412)
Non-cash transactions:					
Amortized transaction costs	-	-	161	-	161
Dividend declared to non-controlling interests of subsidiaries	6,507	-	-	-	6,507
Effect of foreign exchange rate change	-	452	-	-	452
At December 31, 2018	<u>1,827</u>	<u>20,000</u>	<u>125,919</u>	<u>-</u>	<u>147,746</u>
At January 1, 2017	-	40,435	160,518	40,000	240,953
Financing cash flows	(396)	10,000	(6,750)	(36,000)	(33,146)
Non-cash transactions:					
Amortized transaction costs	-	-	240	-	240
Deemed shareholder's contribution	-	-	-	(4,000)	(4,000)
Dividend declared to non-controlling interests of subsidiaries	2,916	-	-	-	2,916
Effect of foreign exchange rate change	-	(675)	-	-	(675)
At December 31, 2017	<u>2,520</u>	<u>49,760</u>	<u>154,008</u>	<u>-</u>	<u>206,288</u>

45. RELATED PARTY DISCLOSURES

Apart from details of the balances and transactions with related parties disclosed in the consolidated statement of financial position, note 30 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:

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Short-term benefits	2,808	2,532
Share-based payments	<u>1,387</u>	<u>558</u>
	<u>4,195</u>	<u>3,090</u>

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.

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

46a. 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	Issued and fully paid share capital	Proportion ownership interest held by the Company		Proportion of voting power held by the Company		Principal activities
			2018	2017	2018	2017	
Hainan Energy Ltd. ("HEL")	British Virgin Islands	US\$910,001	100%	100%	100%	100%	Investment holding
<i>Indirectly owned by the Company:</i>							
CF China	The PRC	US\$5,419,970	100%	100%	100%	100%	Gas sales and distribution
CF Engineering	The PRC	RMB20,000,000	99.4%	99.4%	99.4%	99.4%	Gas pipeline installation and connection
Sanya CF NEI	The PRC	RMB100,000,000	100%	100%	100%	100%	Inactive
Sanya Changfeng Offshore Natural Gas Design Co., Ltd. ("CF Design")	The PRC	RMB1,000,000	100%	100%	100%	100%	Pipeline connection design
Human CNPC Energy Co., Ltd ("Hunan CF CNPC")	The PRC	RMB5,000,000	58%	58%	58%	58%	CNG refuelling station
Hunan CNPC NEI	The PRC	RMB5,000,000	60%	60%	60%	60%	Inactive
Pingxiang CF (Note a)	The PRC	RMB80,000,000	N/A	90.2%	N/A	90.2%	Gas sales and distribution and pipeline installation and connection
Xiangtan Changfeng Natural Gas Co., Ltd. ("Xiangtan CF") (Note b)	The PRC	RMB2,000,000	51%	51%	51%	51%	Inactive
Gaoyao	The PRC	RMB10,000,000	61%	100%	61%	100%	Gas sales and distribution and pipeline installation and connection
Sanya Changfeng Clean Energy Co., Ltd.	The PRC	RMB10,000,000	100%	100%	100%	100%	CNG refueling station
Zhuhai Changfeng Energy Import & Export Co., Ltd.	The PRC	-	100%	100%	100%	100%	Investment holding
Sanya Changfeng World Energy Forum Co., Ltd.	The PRC	RMB1,000,000	100%	100%	100%	100%	Management service
Sanya Changfeng International Natural Gas Trading Co., Ltd.	The PRC	RMB50,000,000	100%	100%	100%	100%	Gas-related technology development
Zhaoqing Gaoyao Changheng Xinmingzhu Energy Co., Ltd.	The PRC	-	98%	98%	98%	98%	Gas and CNG distribution
Riheng	The PRC	-	54.6%	60%	54.6%	60%	Gas distribution
Zhuhai Henghui (Note c)	The PRC	-	61%	N/A	61%	N/A	Gas sales and distribution and pipeline installation and construction
Meishan Hengtai Tianzhiyuan Energy Co., Ltd. (Note c)	The PRC	-	71.6%	N/A	71.6%	N/A	Gas sales and distribution and pipeline installation and construction
Hainan Hengtai Energy Co., Ltd. (Note c)	The PRC	-	100%	N/A	100%	N/A	Gas sales and distribution and pipeline installation and construction
CF Energy (Hong Kong) Limited (Note c)	Hong Kong	Hong Kong dollar	100%	N/A	100%	N/A	Investment holding and trading

Note:

- (a) On November 22, 2017, the Group entered into an equity restructuring agreement to dispose of its 50.2% interest in Pingxiang CF. Details are set out in note 13.
- (b) The subsidiary was dissolved on February 20, 2018.
- (c) The subsidiary was newly set up during the current year.

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY - continued

46b. 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	
		2018	2017	2018	2017	2018	2017
		RMB'000		RMB'000		RMB'000	
Hunan CF CNPC	The PRC	42%	42%	1,207	1,756	9,603	8,396
Hunan CNPC NEI	The PRC	40%	40%	7,871	74	4,206	2,021
Individual immaterial subsidiaries with non-controlling interests				(721)	(1,017)	(966)	(3,917)
				<u>8,357</u>	<u>813</u>	<u>12,843</u>	<u>6,500</u>

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

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Current assets	<u>20,185</u>	<u>23,289</u>
Non-current assets	<u>3,551</u>	<u>3,370</u>
Current liabilities	<u>872</u>	<u>6,669</u>
Equity attributed to the owners of the Hunan CF CNPC	<u>22,864</u>	<u>19,990</u>
Revenue	<u>21,328</u>	<u>26,499</u>
Expenses	<u>18,455</u>	<u>22,317</u>
Profit and total comprehensive income for the year attributable to the owners of Hunan CF CNPC	<u>2,873</u>	<u>4,182</u>
Dividend declared to non-controlling interests	<u>-</u>	<u>2,520</u>
	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Net cash inflow from operating activities	<u>4,183</u>	<u>4,100</u>
Net cash outflow from investing activities	<u>(939)</u>	<u>(815)</u>
Net cash (outflow) inflow from financing activities	<u>(5,833)</u>	<u>276</u>
Net cash (outflow) inflow	<u>(2,589)</u>	<u>3,561</u>

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY - continued

46b. Details of non-wholly owned subsidiaries that have material non-controlling interests
- continued

Hunan CNPC NEI

	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Current assets	<u>10,831</u>	<u>26,164</u>
Non-current assets	<u>11,086</u>	<u>5,167</u>
Current liabilities	<u>9,776</u>	<u>26,279</u>
Equity attributed to the owners of the Hunan CNPC NEI	<u>7,935</u>	<u>3,031</u>
Non-controlling interests of Hunan CNPC NEI	<u>3,704</u>	<u>2,021</u>
Non-controlling interests of Hunan CNPC NEI's subsidiary	<u>502</u>	<u>-</u>
Revenue	<u>9,028</u>	<u>304</u>
Gain on disposal of discontinued operation	<u>29,190</u>	<u>-</u>
Expenses	<u>18,062</u>	<u>119</u>
Profit and total comprehensive income for the year	<u>20,156</u>	<u>185</u>
Profit and total comprehensive income attributable to owners of Hunan CNPC NEI	12,285	111
Profit and total comprehensive income attributable to non-controlling interests of Hunan CNPC NEI	8,191	74
Loss and total comprehensive expense attributable to non-controlling interests of Hunan CNPC NEI's subsidiary	<u>(320)</u>	<u>-</u>
	<u>20,156</u>	<u>185</u>
Dividend to non-controlling interests	<u>6,507</u>	<u>-</u>
	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Net cash (outflow) inflow from operating activities	<u>(8,296)</u>	<u>15,669</u>
Net cash outflow from investing activities	<u>(12,300)</u>	<u>(16,712)</u>
Net cash (outflow) inflow from financing activities	<u>(4,778)</u>	<u>63</u>
Net cash outflow	<u>(25,374)</u>	<u>(980)</u>