TL NATURAL GAS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8536

Annual Report

2019

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This report, for which the directors (the "Directors") of TL Natural Gas Holdings Limited (the "Company", and together with its subsidiaries, the "Group", "we" or "our") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this report misleading.

Unless otherwise stated, all monetary figures are expressed in Renminbi ("RMB").

In the context of this report, compressed natural gas ("CNG") refers to natural gas that has been compressed to a high density through high pressure and is used as a clean alternative fuel for vehicles. Liquefied natural gas ("LNG") refers to natural gas that has been converted to liquid form.

This report will remain on the website of GEM at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of publication and on the website of the Company at www.tl-cng.com.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Liu Yong Cheng *(Chairman and Chief Executive Officer)*
Mr. Liu Yong Qiang
Mr. Liu Chunde

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Chun Peng Stewart
Mr. Li Wai Kwan
Ms. Li Helen Hoi Lam

AUDIT AND RISK MANAGEMENT COMMITTEE

Mr. Li Wai Kwan *(Chairman)*
Mr. Wong Chun Peng Stewart
Ms. Li Helen Hoi Lam

REMUNERATION COMMITTEE

Mr. Wong Chun Peng Stewart *(Chairman)*
Mr. Liu Yong Cheng
Mr. Li Wai Kwan

NOMINATION COMMITTEE

Mr. Liu Yong Cheng *(Chairman)*
Ms. Li Helen Hoi Lam
Mr. Li Wai Kwan

AUTHORISED REPRESENTATIVES

Mr. Liu Yong Cheng
Mr. Tam Chun Wai Edwin

JOINT COMPANY SECRETARIES

Mr. Zhao Yonghe
Mr. Tam Chun Wai Edwin

COMPLIANCE OFFICER

Mr. Liu Yong Cheng

LEGAL ADVISER AS TO HONG KONG LAWS

Fangda Partners

AUDITOR

Ernst & Young

COMPLIANCE ADVISER

Giraffe Capital Limited

PRINCIPAL BANKERS

Agricultural Bank of China
Industrial and Commercial Bank of China
Hubei Bank
Hang Seng Bank
DBS

REGISTERED OFFICE IN THE CAYMAN ISLANDS

Osiris International Cayman Limited
Suite #4-210, Governors Square
23 Lime Tree Bay Avenue, PO Box 32311
Grand Cayman KY1-1209, Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

13/F, Wah Yuen Building
149 Queen's Road Central
Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA

Jingzhou Primary Station
Dong Fang Road, Economic Development Zone
Jingzhou City, Hubei Province
the PRC

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Osiris International Cayman Limited
Suite #4-210, Governors Square
23 Lime Tree Bay Avenue, PO Box 32311
Grand Cayman KY1-1209, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

www.tl-cng.com

STOCK CODE

8536

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the "Board") of the Company, I am pleased to present the annual report of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2019 (the "Year").

FINANCIAL PERFORMANCE

2019 was no doubt a challenging year with uncertainties clouding the global economy over the trade tension between China and the United States, and the social unrest in Hong Kong with the situation further deteriorated with the novel coronavirus ("COVID-19") outbreak since December 2019. The financial performance of the Group for the Year has inevitably been affected by such difficult macroeconomic environment with revenue decreased and gross profit margin thinned for the Year. Due to the combined effect of (i) decrease in revenue from the Group's wholesale customers, and (ii) decrease in gross profit and gross profit margin due to increase in purchase price for natural gas of which the impact cannot be passed on to our wholesale customers on a timely basis, the Group recorded a net loss of RMB2.7 million for the Year, compared with a net profit of RMB4.6 million in 2018.

CHALLENGING YET PROMISING FUTURE

As a result of the COVID-19 outbreak since December 2019, the Group has suspended its business operation, including its gas refuelling stations in Jingzhou, Hubei Province, for almost 2 months. This has seriously affected our Group's operation and financial performance in 2020. Looking ahead, we do not expect a material turnaround of the global economy in 2020. However, we believe China is working towards to develop a long-term healthy economy. In particular, in 2013, the PRC government launched the Belt and Road Initiative, referring to the Silk Road Economic Belt (the "Belt") and the 21st Century Maritime Silk Road (the "Road"), which is a significant development strategy with the intention of promoting economic cooperation among countries along the proposed routes of the Belt and the Road. The countries along the Belt and the Road, such as Indonesia, Malaysia and Thailand, will benefit from their strategic locations. The Directors will be seeking and exploring other business opportunities under the Belt and the Road Initiative so as to capitalise on such national policies of the PRC government. The Group will continue to capture the growth potential resulting from policies and industry trends.

Looking forward, the Group is optimistic about the growth of consumption of CNG along with China improving its energy consumption structure by shifting from coal to cleaner energy such as natural gas and other renewable energy. The Group believes that favourable government policies and industry trends in China will foster the development of the natural gas sector and stimulate domestic demand for the use of natural gas.

The Group has been actively considering and exploring various business opportunities according to the market conditions with an aim to diversify the income sources and to enhance the shareholders' value.

CORPORATE EVENTS

In December 2019, the Group entered into a sale and purchase agreement to acquire an automated car wash business, at a consideration of approximately RMB20.0 million. The Directors consider that the automated car wash business will provide additional value-added services to the Group's retail customers and boost its revenue generated from its existing gas refueling stations through providing automated car wash services to retail customers. In addition, the Group plans to expand its business presence by providing automated car wash services to other gas refueling and petroleum stations in the PRC, which will promote the Group's brand while simultaneously generating a new revenue stream for the Group. The acquisition was completed on 6 January 2020.

CHAIRMAN'S STATEMENT (CONTINUED)

In January 2020 and April 2020, the Group entered into two sale and purchase agreements to acquire (i) an industrial property, which comprises land and building in Malaysia, at a consideration of approximately HK$55.1 million (the "Industrial Property Acquisition"); and (ii) four service apartment units at the residential housing development area in Kuala Lumpur, Malaysia, at a total consideration of approximately HK$17.4 million (the "Residential Property Acquisition"). The Directors consider these acquisitions represent an investment opportunity for the Group to participate in both the industrial and residential property market in Malaysia, which is a country along the Belt and the Road and allows the Group to capitalise on such national policies of the PRC government. It is intended that the properties will be used for investment purposes by leasing out for rental income which will generate a stable source of income for the Group and will be beneficial to the Group's financial position. The Residential Property Acquisition was completed on 21 April 2020 while the industrial Property Acquisition was not completed as at the date of this report, pending for the approval from the relevant government authority as affected by the Malaysia movement control order.

I am optimistic about these acquisitions and is glad to have this chapter of growth, which will bring greater values to our shareholders.

APPRECIATION

I would like to take this opportunity to express my gratitude to my fellow directors for their guidance, to all staff for their dedication and hard work, and to all our shareholders and customers for their continued support.

LIU Yong Cheng
Chairman, Chief Executive Officer and Executive Director

Hong Kong, 8 May 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's principal place of business is in Jingzhou, Hubei Province, China. The Group mainly supplies compressed natural gas ("CNG") and derives revenue mainly from the distribution of CNG to both (i) retail customers which are mostly vehicular end-users, and (ii) wholesale customers which are urban gas companies, gas refuelling station operators and industrial users. The principal product offering is CNG, most of which is purchased from the Group's natural gas supplier, PetroChina Company Limited ("PetroChina").

During the year, the Group's revenue amounted to approximately RMB73.8 million, decreased by approximately 13.6% when compared with approximately RMB85.4 million for the year ended 31 December 2018. The decrease was primarily due to the decrease in sales of CNG to wholesale customers, which was partially offset by the increase in sales of CNG to retail customers.

The Group reported a net loss of approximately RMB2.7 million for the year ended 31 December 2019, compared with a net profit of approximately RMB4.6 million for the year ended 31 December 2018. The decrease in profit was mainly attributable to the combined effect of (i) decrease in revenue from the Group's wholesale customers, (ii) decrease in gross profit and gross profit margin due to increase in purchase price for natural gas of which the impact cannot be passed on to our wholesale customers on a timely basis, (iii) increase in administrative expenses including professional fee as a result of the development of the Group, and (iv) impairment losses on financial assets recognised.

FINANCIAL REVIEW

Revenue

Revenue decreased by approximately RMB11.6 million or 13.6% from approximately RMB85.4 million for the year ended 31 December 2018 to approximately RMB73.8 million for the year ended 31 December 2019. The following table sets forth the revenues by nature for the years indicated:

	Year ended 31 December			
	2019 RMB'000 (audited)	**%**	2018 RMB'000 (audited)	%
Retail operation				
Buses	**16,905**	**22.9**	16,233	19.0
Taxis and private vehicles	**21,425**	**29.1**	21,247	24.9
	38,330	**52.0**	37,480	43.9
Wholesale business	**33,818**	**45.8**	47,748	55.9
Transmission service	**1,742**	**2.4**	406	0.5
Taxes and surcharges	**(130)**	**(0.2)**	(216)	(0.3)
Total revenue	**73,760**	**100.0**	85,418	100.0

Majority of the Group's retail customers are buses of Jingzhou Public Transportation Head Office (荊州市公共交通總公司) ("Jingzhou Public Transport") and other drivers of taxis and private vehicles. The Group currently operates four refuelling stations in Jingzhou, Hubei Province, namely Dongfang Road station, Nanhuan Road station, Shahong Road station and Shihao Road station. Revenue from retail operation, which accounted for 52.0% (2018: 43.9%) of total revenue, increased by approximately RMB0.8 million or 2.1% from approximately RMB37.5 million for the year ended 31 December 2018 to approximately RMB38.3 million for the year ended 31 December 2019, due to stable sales volume and a slight increase in average selling price of CNG to retail customers.

Revenue from wholesale business, which accounted for 45.8% (2018: 55.9%) of total revenue, decreased by approximately RMB13.9 million or 29.1% from approximately RMB47.7 million for the year ended 31 December 2018 to approximately RMB33.8 million for the year ended 31 December 2019, primarily due to the decrease in sales volume of CNG and average selling price. One of our wholesale customers, who entered into a supply agreement with the Group with minimum purchase obligation, reduced the purchase of CNG from the Group. The operation of the customer was negatively affected by the US-Sino trade war since 2019. In addition, the key operation of the customer is based in Hubei Province where the government had called for suspension of business activities amid the outbreak of COVID-19. The operation and liquidity position of the customer was materially negatively affected. In light of the above, the Group and the customer mutually agreed to terminate the supply agreement from April 2020 with the balance of the minimum purchase agreement recoverable to be settle by the end of 2020.

FINANCIAL REVIEW *(cont'd)*

Cost of sales

Cost of sales mainly consists of cost of inventories sold and certain fixed costs, such as depreciation of property, plant and equipment, and gas refuelling stations rental expenses. Cost of sales decreased by approximately RMB1.5 million or 2.1% from approximately RMB68.5 million for the year ended 31 December 2018 to approximately RMB67.0 million for the year ended 31 December 2019, mainly due to the decrease in cost of inventories sold. Cost of inventories sold decreased by RMB2.8 million or 5.0% from RMB56.1 million for the year ended 31 December 2018 to RMB53.3 million for the year ended 31 December 2019, due to decrease in purchase volume of natural gas as a result of decrease in sales of CNG, which was partially offset by increase in the purchase price for natural gas of the Group during the year. The purchase price for natural gas of the Group is determined based on a combination of factors including the benchmark gateway station prices set by the National Development and Reform Commission of the PRC (the "NDRC") and the procurement cost from PetroChina. As at 1 January 2018, the prevailing benchmark city station gate price set by the NDRC was RMB1.68/m^3 (VAT exclusive), and the prevailing purchase price for natural gas of the Group from PetroChina increased to RMB2.00/m3 (VAT exclusive) as at 31 December 2019. Accordingly, the average purchase price for natural gas of the Group increased from RMB1.86/m3 (VAT exclusive) for the year ended 31 December 2018 to RMB1.93/m3 (VAT exclusive) for the year ended 31 December 2019.

Gross profit and gross profit margin

Gross profit and gross profit margin amounted to approximately RMB6.7 million and RMB17.0 million, and 9.1% and 19.8% for the year ended 31 December 2019 and 2018, respectively. The decrease was mainly due to the decrease in the revenue from our wholesale customers and increase in purchase price for natural gas of which the impact cannot be passed on to our wholesale customers on a timely basis.

Selling and distribution expenses

Selling and distribution expenses, which mainly represent staff costs, office and travel expenses incurred in our operation department, amounted to approximately RMB0.6 million for the year ended 31 December 2019 and remained stable as compared to approximately RMB0.5 million for the year ended 31 December 2018.

Administrative expenses

Administrative expenses mainly represented employee benefit expenses and legal and professional fee, decreased by approximately RMB2.5 million or 28.3%, from approximately RMB8.8 million for the year ended 31 December 2018 to approximately RMB6.3 million for the year ended 31 December 2019. The decrease was primarily due to the listing expenses of RMB5.0 million during the year ended 31 December 2018. Excluding the listing expenses, the administrative expenses increased by RMB2.5 million or 65.8% from RMB3.8 million for the year ended 31 December 2018 to RMB6.3 million for the year ended 31 December 2019, mainly due to (i) increase in professional fee incurred as a listed company after the listing and the need of professional services resulting from the development of the Group, (ii) professional fee incurred in relation to the acquisitions of the Group, and (iii) increase in other administrative expenses as a result of the development of the Group.

Other income and gains

Other income and gains remained stable at approximately RMB398,000 and RMB429,000 for the year ended 31 December 2019 and 2018, respectively.

Income tax expenses

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdiction in which members of the Group domicile or operate.

Income tax expenses decreased by approximately RMB2.7 million or 80.3% from approximately RMB3.4 million for the year ended 31 December 2018 to approximately RMB0.7 million for the year ended 31 December 2019. The income tax expenses were derived based on the assessable profits arising in the PRC, adjusted by the non-deductible expenses incurred such as listing expenses and post-listing legal and professional expenses.

FINANCIAL REVIEW *(cont'd)*

Profit/(loss) attributable to owners of the parent

Loss attributable to owners of the parent for the year ended 31 December 2019 amounted to approximately RMB2.7 million, compared with a profit of RMB4.6 million for the year ended 31 December 2018. Excluding the listing expenses of RMB5.0 million, the Group's profit for the year ended 31 December 2018 was RMB9.6 million. The decrease in profit was mainly due to the combined effect of (i) decrease in revenue from wholesale customers, (ii) decrease in gross profit and gross profit margin as a result of the increase in purchase price for natural gas of which the impact cannot be passed on to our wholesale customers on a timely basis, (iii) increase in administrative expenses including professional fee as a result of the development of the Group, and (iv) impairment losses on financial assets recognised.

PROSPECTS

As a result of the outbreak of COVID-19 in the PRC, the Group temporarily suspended its business operation, including its gas refueling stations in Jingzhou, Hubei Province, pursuant to the notices issued by the new pneumonia prevention and control committee for Jingzhou Economic and Technological Development Zone (荊州經濟技術開發區新型肺炎防控指揮部) in February 2020. On 14 March 2020, the Group received an official notice from the relevant authority approving the resumption of the Group's business operation in Jingzhou, Hubei Province. As at the date of this annual report, the Group has fully resumed its business operation in Jingzhou, Hubei Province.

The suspension of business operation has seriously affected our Group's operation and financial performance in 2020 and looking forward, the Directors expect the forthcoming business environment would remain challenging. Nevertheless, the Group has been actively considering and exploring various opportunities in new businesses in the PRC and/or other locations in order to diversify the income source of the Group. In December 2019, January 2020 and April 2020, the Group has committed to three new business opportunities, which comprises the acquisition of an automated car wash business in the PRC; a property investment in Malaysia, being the land parcels designated for industrial use and a factory in the state of Selangor in Malaysia; and a residential property investment in four service apartment units in Kuala Lumpur, Malaysia. The Directors consider that the automated car wash business will provide additional value-added services to the Group's retail customers and boost its revenue generated from its existing gas refueling stations through providing automated car wash services to retail customers; whilst the property investments in Malaysia would generate a stable source of rental income to the Group and would be beneficial to its financial position. The financial results of the automated car wash business will be consolidated into the Group's financial statements for the year ending 31 December 2020, and the financial results of the property investment in Malaysia will be consolidated into the Group's financial statements for the year ending 31 December 2020 upon the completion of the acquisition.

Recently, in line with the government's initiative for newer and cleaner energy sources, namely 13th Five-Year Plan for Natural Gas Development (天然氣發展「十三五」規劃) and Opinions on Accelerating the Use of Natural Gas (加快推進天然氣利用的意見), New Energy Vehicle Industry Development Plan (2021-2035) (新能源汽車產業發展規劃(2021-2035年)) and Guangdong Province Electric Car Charging Foundation Facilities Plan (2016-2020) (廣東省電動汽車充電基礎設施規劃(2016-2020年)), and the transition to using more electric powered vehicles in the PRC, the Group has been exploring electric power source as a cleaner alternative fuel, in addition to CNG and LNG. This include developing electric power chargers at existing gas refuelling stations of the Group and other opportunities to set up new stations for electric power chargers in Jingzhou and/or other locations in the PRC.

Looking forward, the Group is optimistic about the growth of consumption of CNG along with China improving its energy consumption structure. The Group believes that favourable government policies and industry trends in China will foster the development of the natural gas sector and stimulate domestic demand for the use of natural gas. On the other hand, the Directors will be seeking and exploring other business opportunities under the Belt and the Road Initiative so as to capitalise on such national policies of the PRC government. The Group will continue to capture the growth potential resulting from policies and industry trends.

The Directors are of the view that the Group is achieving sustainable growth and will continue to expand going forward to bring greater return to the shareholders of the Company.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group had current assets of approximately RMB55.4 million (31 December 2018: RMB63.4 million) which comprised cash and cash equivalents of approximately RMB27.4 million as at 31 December 2019 (31 December 2018: RMB37.3 million). The Group had current liabilities amounted to approximately RMB9.0 million as at 31 December 2019 (31 December 2018: RMB8.0 million). Accordingly, the current ratio, being the ratio of current assets to current liabilities, was around 6.1 times as at 31 December 2019 (31 December 2018: 7.9 times). The decrease in current ratio was mainly driven by the decrease in cash and cash equivalents of approximately RMB9.9 million as a result of the advance payments for property, plant and equipment which were classified as non-current assets.

Gearing ratio represents the bank and other borrowings as a percentage of equity attributable to equity holders of the Company. Gearing ratio is not applicable to the Group since the Group did not have any interest-bearing bank borrowings as at 31 December 2018 and 2019.

FINANCIAL RATIOS

The Group does not maintain inventory. The inventories mainly represented natural gas which remained in the pipelines as at 31 December 2018 and 2019.

Trade receivables turnover days of the Group during the year increased to approximately 87.6 days (31 December 2018: 50.4 days), which was attributable to the longer period for collecting payments. Trade receivables as at 31 December 2019 increased by approximately RMB0.6 million to approximately RMB18.0 million (31 December 2018: RMB17.4 million).

CHARGE OF ASSETS

As at 31 December 2019, our Group has no charge of assets (31 December 2018: Nil).

FOREIGN CURRENCY RISK

The Group carries out its business in China and most of its transactions are denominated in RMB. The Group did not experience any material impact or difficulties in liquidity on its operations resulting from the fluctuation in exchange rate, and no hedging transaction or forward contract arrangement was made by the Group during the year ended 31 December 2018 and 2019.

INTEREST RATE RISK

The Group has no significant interest rate risk. The Group currently does not have any specific policies in place to manage interest rate risk and has not entered into any interest rate swap transactions to mitigate interest rate risk but will closely monitor related risk in the future.

INFORMATION ON EMPLOYEES

As at 31 December 2019, the Group had 82 employees (31 December 2018: 89 employees), including the executive Directors. The Group recorded staff costs (including directors' remuneration) of approximately RMB4.3 million (31 December 2018: RMB3.8 million). Remuneration is determined with reference to market norms and individual employees' performance, qualification and experience. The remuneration paid to the senior management of the Group for the Year are set out in notes 8 and 29 to the financial statements.

On top of basic salaries, bonuses may be paid by reference to the Group's performance as well as individual's performance. The Group provides its PRC employees with welfare schemes as required by the applicable laws and regulations of the PRC.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

In January 2019, the Group invested a 40% interest in Guangzhou Guanghong Energy Technology Company Limited ("Guanghong Energy"), which is engaged in the sales of CNG. As at 31 December 2019, Guanghong Energy has not commenced its operation.

On 17 December 2019, the Company and Stable Development Company Limited ("Stable Development"), among others, entered into a sale and purchase agreement, pursuant to which the Company agreed to acquire from Stable Development the entire issued share capital of the Jet Union Technology Limited, a company incorporated in the BVI and principally engaged in the automated car wash business in the PRC, through its wholly-owned subsidiaries. On 18 December 2019, the Company and Stable Development, among others, entered into a supplemental agreement, pursuant which the consideration for the acquisition of Jet Union Technology Limited was revised to RMB20,029,908 (the "Acquisition"), which was settled by cash of RMB3,800,000 from internal resources of the Group and allotment and issue of 55,490,000 ordinary shares of the Company (the "Shares") and the issue of convertible bonds in the principal amount of HK$8,056,310 (the "Convertible Bonds"). The Acquisition was completed on 6 January 2020. On 7 February 2020 and 8 May 2020, the Company allotted and issued 6,540,000 Shares and 37,970,000 Shares, respectively at the conversion price of HK$0.181 per share to Stable Development pursuant to its conversion notices, and the Convertible Bonds have been fully converted. For further details of the Acquisition, please refer to the announcements of the Company dated 17 December 2019, 18 December 2019 and 6 January 2020.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES *(cont'd)*

On 19 January 2020, Excellence Enterprise Holdings Limited, a wholly-owned subsidiary of the Company, Mr. Liu Yong Cheng and Mr. Liu Yong Qiang entered into a sale and purchase agreement, pursuant to which Excellence Enterprise Holdings Limited has conditionally agreed to acquire the entire issued share capital of Evergreen Leader Limited from Mr. Liu Yong Cheng and Mr. Liu Yong Qiang at the consideration of Malaysian Ringgit 29,000,000 (the "Proposed Acquisition"), which shall be satisfied by the allotment and issue of an aggregate of 166,470,000 Shares and the issue of the convertible bonds in the aggregate principal amount of HK$29,129,880 upon the completion. For further details of the Proposed Acquisition, please refer to the circular of the Company dated 3 March 2020.

On 3 April 2020, Excellence Enterprise Holdings Limited, Mr. Yu Ting Hin and Mr. Fai Wai Lap Felip entered into a sale and purchase agreement, pursuant to which Excellence Enterprise Holdings Limited agreed to acquire the entire issued share capital of Silver Max AP Company Limited at the consideration of Malaysia Ringgit 9,800,000, which shall be satisfied by the allotment and issue of an aggregate of 62,360,000 Shares and the issue of the convertible bonds in the aggregate principal amount of HK$7,465,600. The acquisition of Silver Max AP Company Limited was completed on 21 April 2020.

Save as disclosed above, there were no other significant investments held by the Company as at 31 December 2019, nor were there any material acquisitions and disposals of subsidiaries, associates and joint ventures during the year.

Save as disclosed in this annual report, there is no other plan authorised by the Board for other material investments or additions of capital assets as at the date of this annual report.

CAPITAL COMMITMENT

Details of the capital commitment of the Group are set out in note 28 to the financial statements.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2019 (31 December 2018: Nil).

USE OF PROCEEDS

The Company's shares were listed on GEM of the Stock Exchange (the "Listing") on 18 May 2018 (the "Listing Date") and the net proceeds from the Listing were approximately HK$29.2 million. The Company intends to apply the net proceeds in the following manner:

Description	Planned use of proceeds as shown in the Prospectus (adjusted based on the actual net proceeds) HK$'000	Percentage of net proceeds	Actual usage of proceeds from the Listing Date to 31 December 2019 HK$'000	Unutilised amount as at 31 December 2019 HK$'000
Expanding gas station network by constructing one CNG refuelling station	5,212	17.9%	930	4,282
Expanding gas station network by constructing one combined CNG/LNG refuelling station	12,250	42.0%	1,820	10,430
Upgrading infrastructures and facilities of our Jingzhou Primary Station to equip it with LNG processing capacity	8,772	30.1%	3,780	4,992
Working capital and other general corporate purposes	2,916	10.0%	2,916	–
Total	**29,150**	**100.0%**	**9,446**	**19,704**

USE OF PROCEEDS *(cont'd)*

In pursuance of our business objectives, the implementation plans of our Group are set forth below:

Implementation plan as disclosed in Prospectus	Actual progress achieved up to the year ended 31 December 2019
Expanding gas station network by constructing one CNG refuelling station	• Obtained quotations for equipment and settled deposits for certain station equipment • Discussing with consultants on the engagement terms and design work of the gas refuelling station • Submitted the application to the relevant government authorities for the construction of new refuelling station and negotiating with officials in relation to the specific requirements • Expected to complete the implementation by end of 2020
Expanding gas station network by constructing one combined CNG/LNG refuelling station	• Performed site visits and estimated traffic flow of possible sites to identify suitable site • Obtained quotations and settled deposits for certain station equipment • Discussing with consultants on the engagement terms and design work of the gas refuelling station • Submitted the application to the relevant government authorities for the construction of new refuelling station and negotiating with officials in relation to the specific requirements • Expected to complete the implementation by end of 2020
Upgrading infrastructures and facilities of our Jingzhou Primary Station to equip it with LNG processing capacity	• Engaged consultant for modification design of Jingzhou Primary Station and settled the prepayment for the consulting services • Discussing with contractors on engagement terms and construction work of facility building • Purchased tanker trucks and certain station equipment • Informed the relevant government authorities in relation to the proposed installation of new facilities at our Jingzhou Primary Station with LNG processing capability • Expected to complete the implementation by end of 2020

In relation to the required government approval for the above implementation plans, we have submitted the relevant application and have been in discussion with the government officials on the approval progress. However, due to the COVID-19 outbreak in Mainland China, the approval process from the relevant government authorities has been delayed. Nevertheless, the Group has commenced other preparation works. Upon receiving the relevant approval from the government authorities, the Group would carry out feasibility study including environmental impact assessment to further implement the plans. The unutilised net proceeds have been placed with licensed banks in the PRC as at 31 December 2019.

The Directors would constantly evaluate the Group's business objectives and will change or modify plan against the changing market condition to ascertain the business growth of the Group.

As at the date of this annual report, the Directors do not anticipate any change to the principal plan as to the use of proceeds.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Liu Yong Cheng (劉永成), aged 51, is our executive Director, chairman and chief executive officer. Mr. Liu Yong Cheng is the elder brother of Mr. Liu Yong Qiang. He was appointed as our Director and redesignated as an executive Director on 24 March 2017 and 28 June 2017, respectively. Mr. Liu is also the chairman of our Nomination Committee and a member of our Remuneration Committee. He is responsible for formulating corporate strategy, planning, business development and supervising the overall operations of our Group. Mr. Liu has about 13 years of experience in the natural gas industry. Mr. Liu joined our Group on 30 August 2007 as the director and legal representative of Hubei Tonglin Natural Gas Service Company Limited* (湖北桐林石油天然氣服務有限公司), an indirect wholly-owned subsidiary of the Company ("Tonglin Gas"). Mr. Liu served as a chairman of the board of Tonglin Gas since November 2010. Mr. Liu is also a director of our subsidiaries, Hongkong Hesheng International Industrial Limited ("Hesheng") and Zhuoyuan Enterprise Limited ("Zhuoyuan").

Prior to joining our Group, he served as a police officer at Guangzhou Public Security Bureau* (廣州市公安局) from September 1988 to August 1997. He served as a managing director of Guangzhou Dexin Property Development Co., Ltd.* (廣州市德心置業發展有限公司) from September 1997 to July 2007. Mr. Liu graduated from Guangzhou Gongan School* (廣州市公安學校) in the PRC in July 1988.

Mr. Liu Yong Qiang (劉永強), aged 46, is our executive Director and deputy general manager. Mr. Liu Yong Qiang is the younger brother of Mr. Liu Yong Cheng. He was appointed as our Director and redesignated as an executive Director on 24 March 2017 and 28 June 2017, respectively. He is primarily responsible for formulating corporate strategy, planning, business development and supervising the overall operations of our Group. Mr. Liu has about 13 years of experience in the natural gas industry. Mr. Liu joined our Group on 30 August 2007 as a manager of Tonglin Gas and was responsible for the overall management of the company's strategic development. Mr. Liu served as a director and a deputy general manager of Tonglin Gas since November 2010 and March 2015, respectively. Mr. Liu is also a director of our subsidiaries, Hesheng and Zhuoyuan.

Prior to joining our Group, Mr. Liu was a PRC military officer in Guangxi from December 1991 to December 1994. He was an employee of Guangzhou Tongde Paper Mill* (廣州同德造紙廠) from January 1995 to August 1995. He was also an officer of Guangzhou Tongde Sub-district Office* (廣州市同德街道辦事處) from September 1995 to August 1996. He served as a deputy general manager of Guangzhou Dexin Property Development Co., Ltd.* (廣州市德心置業發展有限公司) from September 1996 to June 2007. Mr. Liu graduated from Guangzhou Baiyun Xizhou Middle School* (廣州白雲區西洲中學) (originally known as Shijing No. 2 Middle School* (石井第二中學)) in the PRC in July 1990.

Mr. Liu Chunde (劉春德), aged 67, is our executive Director and general manager. He was appointed as our Director and redesignated as an executive Director on 24 March 2017 and 28 June 2017, respectively. He is primarily responsible for formulating corporate strategy, planning, business development and supervising the overall operations of our Group. Mr. Liu joined our Group on 1 January 2009 as a general manager and was responsible for the overall management of the company's strategic development. Mr. Liu served as a director of Tonglin Gas since November 2010.

Mr. Liu has about 11 years of experience in the natural gas industry and extensive experience in management. Mr. Liu was a PRC military officer in Jilin and Guangzhou from April 1974 to March 1987 and April 1987 to August 1992, respectively. He served as a general manager at Guangdong Jinshi Property Development Limited* (廣東金石物業發展總公司) from September 1992 to August 1996.

Mr. Liu served as the executive director and legal representative of Guangzhou Haoke Night Club Co., Ltd.* (廣州市豪客夜總會有限公司) from August 1997 to December 2015, which was deregistered on 24 December 2015 due to cessation of business. Mr. Liu completed a programme in party and government cadres theory from Jilin University (吉林大學) in the PRC in July 1985.

* *For identification purpose only*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Chun Peng Stewart (黃俊鵬), aged 53, was appointed as an independent non-executive Director on 28 June 2017 and is the chairman of our Remuneration Committee and a member of our Audit and Risk Management Committee. Mr. Wong has more than 27 years of experience in the legal industry. Mr. Wong worked at Deacons Graham & James as a trainee solicitor from August 1993 to July 1995 and became an associate solicitor in the China Practice Group from August 1995 to December 1996. Mr. Wong was qualified as a solicitor of the High Court of Hong Kong in September 1995. Mr. Wong has practiced law in a number of international firms such as Deacons (including posting as a representative in Beijing, the PRC) from September 2002 to March 2005, Baker McKenzie from January 2007 to July 2009 and Hogan Lovells from February 1999 to March 2002, and has worked as in-house counsel in two listed companies in Hong Kong, namely Dickson Concepts (International) Limited, which is listed on the Main Board of the Stock Exchange ("Main Board") (stock code: 0113) and Samsonite International S.A., which is listed on the Main Board (stock code: 1910), from August 2009 to May 2013 and May 2013 to January 2016, respectively. Mr. Wong is a partner of YTL LLP (formerly known as YTL & Co.), which is a law firm where he has been involved in the provision of a wide array of legal services, including complex mergers and acquisitions, corporate finance, litigation and general commercials.

Mr. Wong graduated from the City University of Hong Kong (formally known as City Polytechnic of Hong Kong) in Hong Kong with a bachelor's degree of law with first class honours in November 1991. He also obtained his master's degree in law from the University of Cambridge in England in June 1993.

Mr. Li Wai Kwan (李偉君), aged 48, was appointed as an independent non-executive Director on 28 June 2017, and is the chairman of our Audit and Risk Management Committee and a member of our Nomination Committee and Remuneration Committee.

Mr. Li has many years of experience in accounting, finance and investment management. Mr. Li is the chief financial officer of Crystal International Group Limited (stock code: 2232), which is principally engaged in manufacturing of fashion products since November 2018, while he is responsible for finance matters for the group. From March 2005 to September 2006, he worked for Esprit Holdings Limited, which is listed on the Main Board (stock code: 330) and principally engaged in manufacturing, retail and wholesale distribution of fashion products, and he served as a vice president of operational finance and a vice president of finance in Asia Pacific region from March 2005 to September 2006, while he was responsible for finance and operational matters. From October 2006 to September 2010, he was a vice president of China Agri-Industries Holdings Limited, which is listed on the Main Board (stock code: 606) and principally engaged in trading on agricultural raw materials, manufacturing and distributing food products, while he was responsible for finance, investment and company secretarial matters. Mr. Li was a managing director and director of the board of COFCO Agricultural Investment Fund Management Company Limited, which is principally engaged in asset management, from September 2010 to October 2011, and he was responsible for managing overall business and investment matters. Mr. Li was a managing director of Origo Partners PLC, whose shares are listed on the London Stock Exchange and principal business is private equity investment, from November 2011 to January 2013, and he was responsible for investment matters. Mr. Li was the chief financial officer of Zhuhai Dahengqin Holding Limited, which is principally engaged in primary land development, real estate development, theme park construction and operation, city operational management, and asset management in Hengqin Free Trade Zone, from November 2013 to October 2018, while he was responsible for finance, investment and fund management matters.

Mr. Li is an executive committee member and honorary treasurer of the Hong Kong – ASEAN Economics Cooperation Foundation since 2015, a director of the board of Chartered Professional Accountants of Canada – Hong Kong & Macau Chapter since 2017 and a Honorary President of the Institute of Certified Management Accountants – Hong Kong & Macau Branch since 2018.

Mr. Li was the chairman of Investor Relations Committee of the Chamber of Hong Kong Listed Companies from 2008 to 2010, the honorary vice chairman of China Enterprise Reputation and Credibility Association (Overseas) in 2009, the chairman of Partnership and Promotion Committee of the Hong Kong Investor Relations Association from 2009 to 2010, a member of the Organizing Committee of Directors of the Year Awards 2010 organized by the Hong Kong Institute of Directors, a committee member of the PRC committee of the Hong Kong Venture Capital and Private Equity Association in 2011, and a committee member of Public Awareness Committee of Hong Kong Society of Financial Analysts in 2016. Mr. Li was a member of Finance Committee of the Hong Kong Housing Authority from 2010 to 2012. Mr. Li was the guest lecturer of the Macau University of Science and Technology in 2016.

Mr. Li graduated from University of Toronto in Canada with a bachelor of commerce degree with distinction in November 1995. He further obtained a master of business administration degree from Schulich School of Business, York University in Canada in November 1996.

INDEPENDENT NON-EXECUTIVE DIRECTORS *(cont'd)*

Mr. Li was admitted as a chartered financial analyst of the Chartered Financial Analysts Institute in September 2001, a certified general accountant of the Certified General Accountants of Canada in October 2002, a certified public accountant of the Hong Kong Institute of Certified Public Accountants in October 2004, a fellow chartered certified accountant of the Association of Chartered Certified Accountants in June 2010, a chartered professional accountant of the Chartered Professional Accountants of British Columbia, Canada in June 2015, a member of Hong Kong Business Accountants Association in December 2015, a fellow certified management accountant of the Institute of Certified Management Accountants in April 2016, and a fellow chartered accountant of the Institute of Chartered Accountant in England & Wales in June 2018.

Mr. Li is the independent non-executive director of KW Nelson Interior Design and Contracting Group Limited (stock code: 8411) since 18 November 2016, the independent non-executive director of Miricor Enterprises Holdings Limited (stock code: 1827) since 19 December 2016, the independent non-executive director of Enterprise Development Holdings Limited (stock code: 1808) since 27 April 2017, and the independent non-executive director of China Greenfresh Group Company Limited (stock code: 6183) since 20 July 2018. Mr. Li was the independent non-executive director of China Graphene Group Limited (stock code: 63) from 1 February 2018 to 30 November 2018.

Ms. Li Helen Hoi Lam (李凱琳), age 40, was appointed as an independent non-executive Director on 28 June 2017 and is a member of our Audit and Risk Management Committee and Nomination Committee.

Ms. Li has about 18 years of experience in business and market development. Ms. Li was an engineer of Atomic Energy of Canada Limited, a Canadian nuclear science and technology company, from June 2002 to September 2003. She was an engineer of Imperial Oil Limited, a Canadian petroleum company, from September 2003 to August 2007. She served at Hutchison Ports Limited as a project manager, manager in the technical services projects department, the commercial development department and commercial department from October 2007 to December 2007, January 2008 to October 2009, November 2009 to December 2015 and January 2016 to December 2016, respectively. She has been the head of research and analysis in the commercial department of Hutchison Ports Limited since January 2017.

Ms. Li obtained her bachelor's degree in applied science and master's degree in engineering from the University of Toronto, Canada in June 2002 and June 2005, respectively. She also received her master's degree in business administration from the Hong Kong University of Science and Technology in November 2007. She is a member of the logistics committee and China Committee of The British Chamber of Commerce in Hong Kong.

SENIOR MANAGEMENT

Other than Mr. Liu Yong Cheng, Mr. Liu Yong Qiang, Mr. Liu Chunde and Mr. Zhao Yonghe (please refer to the disclosure of Mr. Zhao in "Joint company secretaries"), there is one more senior management member of our Group as follows:

Mr. Huang Qiang (黃強), aged 47, joined our Group in October 2018 as the production and operation manager and is primarily responsible for our Group's administration and management of production and operation.

Mr. Huang has completed tertiary education and has extensive experience in the management of production and operation. From 1995 to 2011, he worked in Guiping Municipal Industry and Commerce Bureau in Guangxi province. From 2011 to 2017, he worked in Guiping Mengwei Town Market Management Office in Guangxi province.

JOINT COMPANY SECRETARIES

Mr. Zhao Yonghe (趙永和), aged 45, joined our Group on 20 November 2015 as the financial controller and was appointed as the joint company secretary of our Group on 6 June 2017. Mr. Zhao is primarily responsible for overseeing our Group's financial and accounting operations and internal control. Mr. Zhao is an intermediate accountant in the PRC.

Mr. Zhao has more than 23 years of experience in the auditing, accounting and management industry. Prior to joining our Group, he was a financial manager at Ching Sum Mould (Dongguan) Company Limited* (精深制模(東莞)有限公司) from August 1997 to December 1999. He was a financial manager at Dongguanshi Niuxin Metal Product Company Limited* (東莞市鈕鑫金屬製品有限公司) from January 2000 to August 2005. He also worked as a chief financial officer from Dongguan Taide Lighting Technology* (東莞泰德照明科技有限公司) from September 2005 to February 2008. He then worked as a financial manager at Dongguan Hongxing Metal Product Company Limited* (東莞鴻興金屬製品有限公司) from March 2008 to November 2015.

Mr. Zhao completed two years studies in accounting at China Central Radio and Television University* (中央廣播電視大學) in China in July 2015. He also obtained a qualification certificate for accountant in intermediate level issued by Ministry of Finance of the PRC* (中華人民共和國財政部) in May 2006.

Mr. Tam Chun Wai Edwin (談俊緯), aged 38, is the joint company secretary of the Company. Mr. Tam is responsible for the corporate secretarial work of the Group. He was appointed on 18 May 2019. Mr. Tam holds a bachelor degree in accounting and finance from The Manchester Metropolitan University in the United Kingdom and has over 15 years of experience in financial and accounting management, corporate governance and compliance affairs. Mr. Tam is a practising fellow member of the Hong Kong Institute of Certified Public Accountants and fellow of the Association of Chartered Certified Accountants.

REPORT OF THE DIRECTORS

The Directors are pleased to present this report and the audited financial statements for the Year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries was engaged in the sale of compressed CNG. There were no significant changes in the nature of the Group's principal activities during the Year.

BUSINESS REVIEW

General

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the Management Discussion and Analysis set out on page 6 to 11 of this annual report. This discussion forms part of this directors' report.

Environmental policies and compliance with law and regulations

The Group is committed to supporting the environmental sustainability and is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the Year, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group.

A report on the environmental, social and governance aspects prepared in accordance with Appendix 20 to the GEM Listing Rules is set out in page 33 to 39 of this annual report.

Relationship with stakeholders

The Group recognises that employees, customers and business partners are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing quality services to its customers and enhancing cooperation with its business partners.

RESULTS AND DIVIDENDS

The Group's loss for the Year and the Group's financial position at 31 December 2019 are set out in the financial statements on pages 45 to 99 of this annual report.

The Board does not recommend the payment of final dividend for the Year (2018: Nil).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 100 of this annual report.

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

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

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the Year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the Year are set out in note 24 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group and the Company during the Year are set out in notes 25 and 35 to the consolidated financial statements. As at 31 December 2019, the reserves of the Company available for distribution, as calculated in accordance with statutory provisions applicable in the Cayman Islands, was approximately RMB45.0 million (31 December 2018: RMB48.2 million).

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers accounted for 63.4% of the total sales for the Year and sales to the largest customer included therein amounted to 26.9%. Purchases of the Group, mainly from its two natural gas suppliers, which accounted for 100.0% of the total purchases for the Year and purchases from the largest supplier included therein amounted to 96.8%. Other costs of sales, other than purchases of natural gas, mainly represented depreciation, utilities, staff costs and gas refuelling stations rental expenses and the Group does not have any other purchases.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest customers or the two suppliers.

DIRECTORS

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

Mr. Liu Yong Cheng *(Chairman and Chief Executive Officer)*
Mr. Liu Yong Qiang
Mr. Liu Chunde
Mr. Wong Chun Peng Stewart
Mr. Li Wai Kwan
Ms. Li Helen Hoi Lam

The biographical details of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" in this annual report.

In accordance with the articles of association of our Company, Mr. Liu Chunde and Mr. Li Wai Kwan will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In addition, Mr. Wong Chun Peng Stewart will retire and will not seek for re-election at the forthcoming annual general meeting.

The Company has received annual confirmation of independence from each of the independent non-executive Directors. As at the date of this annual report, they are considered to be independent.

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years which is subject to termination by either party giving not less than three months' written notice. Each of the independent non-executive Directors has entered into a service contract with the Company for a fixed term of three years from the Listing Date, terminated by either party giving not less than three months' written notice.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance covering the liabilities of its Directors and officers in respect of legal actions that may brought against them. The Company has maintained appropriate insurance cover for the Directors and officers throughout the Year and are currently in force.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this report, no Director, controlling shareholders nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the holding company of the Company, or any of the Company's subsidiaries was a party during the Year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

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

As at 31 December 2019, interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long positions in ordinary shares of the Company:

Name	Capacity/Nature of interests	Total number of Shares interested	Approximate percentage of the total issued share capital (%)
Mr. Liu Yong Cheng *(Note 1)*	Interest in controlled corporation and parties acting in concert	375,000,000	75%
Mr. Liu Yong Qiang *(Note 2)*	Interest in controlled corporation and parties acting in concert	375,000,000	75%

Notes:

(1) Mr. Liu Yong Cheng directly owns 100% of Yongsheng Enterprise Limited ("Yongsheng"), which in turn holds 108,750,000 shares or approximately 21.75% of the issued share capital of our Company; therefore he is deemed, or taken to be interested in, all the shares held by Yongsheng for the purpose of the SFO. Pursuant to the acting in concert confirmation dated 14 June 2017, Mr. Liu Yong Cheng is also deemed to be interested in 266,250,000 shares or approximately 53.25% of the issued share capital of our Company owned by Hongsheng Enterprise Limited ("Hongsheng") as a result of being a party acting in concert with Mr. Liu Yong Qiang.

(2) Mr. Liu Yong Qiang directly owns 100% of Hongsheng, which in turn holds 266,250,000 shares or approximately 53.25% of the issued share capital of our Company; therefore he is deemed, or taken to be interested in, all the shares held by Hongsheng for the purpose of the SFO. Pursuant to the acting in concert confirmation dated 14 June 2017, in Mr. Liu Yong Qiang is also deemed to be interested in 108,750,000 shares or approximately 21.75% of the issued share capital of our Company owned by Yongsheng as a result of being a party acting in concert with Mr. Liu Yong Cheng.

Save as disclosed above, as at 31 December 2019, none of the Directors nor chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2019, other than the Directors and chief executive of the Company, the following persons/entities have an interest or a short position in the shares or the underlying shares of the Company as recorded in the register of the Company required to be kept under section 336 of the SFO:

Long position in ordinary shares of the Company:

Name	Capacity/Nature of interests	Total number of Shares interested	Approximate percentage of the total issued share capital (%)
Yongsheng *(Note 1)*	Beneficial owner and parties acting in concert	375,000,000	75%
Hongsheng *(Note 2)*	Beneficial owner and parties acting in concert	375,000,000	75%

Notes:

(1) Mr. Liu Yong Cheng directly owns 100% of Yongsheng, which in turn holds 108,750,000 shares or approximately 21.75% of the issued share capital of our Company; therefore he is deemed, or taken to be interested in, all the shares held by Yongsheng for the purpose of the SFO. Pursuant to the acting in concert confirmation dated 14 June 2017, Mr. Liu Yong Cheng is also deemed to be interested in 266,250,000 shares or approximately 53.25% of the issued share capital of our Company owned by Hongsheng as a result of being a party acting in concert with Mr. Liu Yong Qiang.

(2) Mr. Liu Yong Qiang directly owns 100% of Hongsheng, which in turn holds 266,250,000 shares or approximately 53.25% of the issued share capital of our Company; therefore he is deemed, or taken to be interested in, all the shares held by Hongsheng for the purpose of the SFO. Pursuant to the acting in concert confirmation dated 14 June 2017, Mr. Liu Yong Qiang is also deemed to be interested in 108,750,000 shares or approximately 21.75% of the issued share capital of our Company owned by Yongsheng as a result of being a party acting in concert with Mr. Liu Yong Cheng.

Save as disclosed above, as at 31 December 2019 and so far as known to the Directors, no person, other than the Directors and chief executive of the Company whose interests are set out in the section headed "Directors' and Chief Executives' Interests and/or Short Positions in the Shares, Underlying Shares and Debentures of the Company and any Associated Corporation" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company which had been required to be recorded in the register required to be kept by the Company pursuant Section 336 of the SFO.

SHARE OPTION SCHEME

The Company has a share option scheme (the "Share Option Scheme") which was approved and adopted by the shareholders of the Company by way of written resolutions passed on 20 April 2018. The Share Option Scheme enables the Company to grant options to the Directors, the directors of the Group's subsidiaries and employees of any member of the Group and any other persons (including consultants or advisers) (the "Eligible Participant") as incentives or rewards for their contributions to the Group. The Board, at its absolution discretion and subject to the terms of the Scheme, shall be entitled, at any time within ten years commencing from the date the Share Option Scheme was adopted, to make an offer for the grant of an option to any Eligible Participant.

As at 31 December 2019, the total number of shares available for issue under the Share Option Scheme is 50,000,000 shares, representing 10% of the issued shares of the Company on the Listing Date. The maximum number of shares that may be granted by the Company to any one Eligible Participant shall not exceed 1% of the issued share capital of the Company from time to time.

Upon acceptance of an option to subscribe for shares granted pursuant to the Scheme (the "Option"), the Eligible Participant shall pay HK$1.00 to the Company by way of consideration for the grant. The Option will be offered for acceptance for a period of 21 days from the date on which the Option is granted. The subscription price for the shares subject to Options will be a price determined by the Board and notified to each participant and shall be the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the Option, which must be a day on which trading of shares take place on the Stock Exchange (the "Trading Day"); (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five Trading Days immediately preceding the date of grant of the Options; and (iii) the nominal value of a Share on the date of grant, provided that in the event that any Option is proposed to be granted within a period of less than five Trading Dates, the new issue price of the Shares shall be used as the closing price for any business day falling within the period before listing of the Shares on the Stock Exchange.

The Company shall be entitled to issue options, provided that the total number of shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme does not exceed 10% of the shares in issue from the date of listing of the Shares on GEM of the Stock Exchange. The Company may at any time refresh such limit, subject to the shareholders' approval and issue of a circular in compliance with the GEM Listing Rules, provided that the total number of shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the shares in issue at the time. An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof. During the year, no Options have been granted, exercised, lapsed or cancelled, and as at 31 December 2019, no Options under the Share Option Scheme were outstanding.

Subsequent to the end of the reporting period, on 21 January 2020, 16,500,000 share options, 27,500,000 share options and 5,500,000 share options were granted to the executive Directors, certain employees of the Group and a shareholder and supervisor of Guanghong Energy, respectively, in order to reward the executive Directors and employees for the development of the Group and provide incentives to the shareholder and supervisor of Guanghong Energy, which the Group has a 40% interest in it, which are in line with the purpose of the Share Option Scheme. 30% of these share options vested on 21 January 2020, a further 30% of the share options will be vested on 21 January 2021 and the remaining 40% of the share options will be vested on 21 January 2022. These share options have an exercise price of HK$0.166 per share and an exercise period ranging from 21 January 2020 to 21 January 2025. The price of the Company's shares at the date of grant was HK$0.166 per share.

At the date of this annual report, the Company had 49,500,000 Options outstanding under the Share Option Scheme, which represented approximately 7.5% of the Company's issued shares in issue as at the date of this annual report.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save for the Share Option Scheme, at no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company Granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the articles of association of the Company or the laws of the Cayman Islands.

REPORT OF THE DIRECTORS (CONTINUED)

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

The Company is not aware of any tax relief or exemption available to the shareholders of the Company by reason of their respective holding of the Company's securities.

EQUITY-LINKED AGREEMENTS

During the Year, save for the Share Option Scheme, the Company did not enter into any equity-linked agreements in respect of shares of the Company.

COMPLIANCE WITH THE REQUIRED STANDARD OF DEALINGS IN SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings during the Year.

DEED OF NON-COMPETITION

As disclosed in the prospectus of the Company dated 8 May 2018 (the "Prospectus"), Mr. Liu Yong Qiang, Mr. Liu Yong Cheng, Hongsheng and Yongsheng, the controlling shareholders of the Company ("Controlling Shareholders") entered into a deed of non-competition in favour of the Company on 20 April 2018 (for itself and as trustee for its subsidiaries) (the "Deed of Non-Competition"). Each of the Controlling Shareholders confirmed to the Company that they have compiled with the Deed of Non-Competition during the Year.

Pursuant to the Deed of Non-Competition, each of the Controlling Shareholders has irrevocably and unconditionally undertaken to the Company (for itself and as trustee for its subsidiaries) that, subject to certain exceptions, during the period that the Deed of Non-Competition remain effective, each of the Controlling Shareholders shall not, and shall procure that their associates (other than any members of the Group) not to, directly or indirectly, carry on, participate in, be engaged, be interested directly or indirectly, either for their own account or in conjunction with or on behalf of or for any other person in any business in competition with or likely to be in competition with the existing business activity of any member of the Group.

Our independent non-executive Directors have reviewed the declarations made by the Controlling Shareholders regarding the compliance of the Deed of Non-Competition and were satisfied that the terms of the Deed of Non-Competition, and the enforcement of undertakings under the Deed of Non-Competition had been duly complied with and enforced during the Year.

COMPETING INTERESTS

During the Year, so far as the Directors are aware, none of the Directors, Controlling Shareholders and substantial shareholders of the Company, and their respective close associates (as defined under the GEM Listing Rules) had held any position or had interest in any businesses or companies that were materially competing or might materially compete with the business of the Group, or gave rise to any concern regarding conflict of interest.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group during the Year are set out in note 29 to the consolidated financial statements in this annual report. None of such related party transactions constitutes connected transaction which is subject to the reporting, annual review, announcement and/or shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

CONNECTED TRANSACTIONS

During the Year, the Group has not conducted any "connected transaction" or "continuing connected transaction" (as defined under Chapter 20 of the GEM Listing Rules) which is subject to reporting and annual review requirements under the GEM Listing Rules.

INTERESTS OF THE COMPLIANCE ADVISER

As at 31 December 2019, as notified by the Company's compliance adviser, Giraffe Capital Limited (the "Compliance Adviser") except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 14 July 2017, neither the Compliance Adviser nor any of its directors, employees or close associates (as defined under the GEM Listing Rules) had any interest in the Group which is required to be notified to the Company pursuant to Rules 6A.32 of the GEM Listing Rules.

REVIEW BY AUDIT AND RISK MANAGEMENT COMMITTEE

The audited consolidated financial statements of the Group for the year ended 31 December 2019 have been reviewed by the Audit and Risk Management Committee. The Audit and Risk Management Committee is of the opinion that the consolidated financial statements of the Group for the year ended 31 December 2019 comply with applicable reporting standards, GEM Listing Rules, and that adequate disclosures have been made.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events of the Group after the reporting period are set out in note 33 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

Ernst & Young will retire as auditors of the Company with effect from the conclusion of the forthcoming annual general meeting and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting. There have been no change of auditors in the past three years.

On behalf of the Board

Liu Yong Cheng
Chairman, Chief Executive Officer and Executive Director
8 May 2020

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is committed to ensuring the Company adheres to a good standard of corporate governance.

The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted and applied the principles as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 15 to the GEM Listing Rules as the basis of the Company's corporate governance practices.

During the Year, the Company has complied with all the applicable code provisions as set out in the CG Code, except for code provision A.2.1 described in the paragraph headed "Board of Directors – Chairman and Chief Executive Officer".

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules ("Required Standard of Dealings") in respect of securities transactions by Directors.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Required Standard of Dealings throughout the Year.

The Company has also adopted the Required Standard of Dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its written guidelines (the "Employees Written Guidelines") in respect of securities dealings by relevant employees who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company.

BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board Composition

The Board currently comprises six Directors, consisting of three executive Directors and three independent non-executive Directors.

The composition of the Board is as follows:

Executive Directors
Mr. Liu Yong Cheng *(Chairman of the Board and chief executive officer)*
Mr. Liu Yong Qiang
Mr. Liu Chunde

Independent Non-executive Directors
Mr. Wong Chun Peng Stewart
Mr. Li Wai Kwan
Ms. Li Helen Hoi Lam

The biographical information of the Directors are set out in the section headed Biographical Details of Directors and Senior Management on pages page 12 to 15 of this annual report.

Mr. Liu Yong Cheng is the elder brother of Mr. Liu Yong Qiang. Save as disclosed, none of the members of the Board is related to one another.

BOARD OF DIRECTORS *(cont'd)*

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual.

Under the current management structure of the Company, Mr. Liu Yong Cheng is the chairman of the Board (the "Chairman") and chief executive officer of the Company (the "Chief Executive Officer"). As Mr. Liu Yong Cheng has been leading the Group as the Chief Executive Officer and actively involved in the core business of Hubei Tonglin Natural Gas Service Company Limited, an indirect wholly-owned subsidiary of the Company, since its incorporation, and due to his familiarity with the operations of the Group, the Board believes that it is in the best interest of the Group to continue to have Mr. Liu Yong Cheng acting as the Chief Executive Officer and Chairman for effective management and business planning of the Group. Further, the Company has put in place an appropriate check-and-balance mechanism through the Board and three independent non-executive Directors. The Company will consult the Board for any major decisions. Therefore, the Board considers that the deviation from code provision A.2.1 of the CG Code is appropriate in such circumstances.

Independent Non-executive Directors

During the Year, the Board at all times met the requirements of the GEM Listing Rules relating to the appointment of at least three independent non-executive Directors, with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 5.09 of the GEM Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Appointment and Re-election of Directors

The independent non-executive Directors are appointed for a specific term of three years commencing from the Listing Date, subject to retirement by rotation and re-election at the annual general meeting of the Company.

The articles of association of the Company provides that all Directors appointed to fill a casual vacancy shall be subject to re-election by shareholders at the first general meeting of the Company after appointment.

Under the articles of association of the Company, at each annual general meeting, one-third of the Directors for the time being, or if their number is not three or a multiple of three, the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board should assume responsibility for leadership and control of the Company, and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses, for discharging their duties to the Company.

BOARD OF DIRECTORS *(cont'd)*

Responsibilities, Accountabilities and Contributions of the Board and Management *(cont'd)*

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Every newly appointed Director has received a formal and comprehensive induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the GEM Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Reading material on relevant topics would be provided to Directors where appropriate.

All Directors are encouraged to attend relevant training courses at the Company's expenses.

The following Directors pursued continuous professional development and relevant details are summarised as follows:

Name of Directors	Type of Training Note
Executive Directors	
Mr. Liu Yong Cheng	✓
Mr. Liu Yong Qiang	✓
Mr. Liu Chunde	✓
Independent Non-executive Directors	
Mr. Wong Chun Peng Stewart	✓
Mr. Li Wai Kwan	✓
Ms. Li Helen Hoi Lam	✓

Note:

During the year ended 31 December 2019, all Directors received training and training materials, including from the Company's external legal advisor, about matters relevant to their duties as directors of a listed company. They also kept abreast of matters relevant to their role as Directors by such means as attendance at seminars and conferences and/or reading materials about financial, commercial, economic, legal, regulatory and business affairs.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit and Risk Management Committee, the Remuneration Committee, and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit and Risk Management Committee, Remuneration Committee and Nomination Committee are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The list of the chairman and members of each Board committee is set out under "Corporate Information" on page 3 of this annual report.

BOARD COMMITTEES *(cont'd)*

Audit and Risk Management Committee

The Audit and Risk Management Committee consists of three independent non-executive Directors, namely Mr. Li Wai Kwan, Mr. Wong Chun Peng Stewart and Ms. Li Helen Hoi Lam. Mr. Li Wai Kwan is the chairman of the Audit and Risk Management Committee.

The terms of reference of the Audit and Risk Management Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit and Risk Management Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control, or other matters of the Group.

During the Year, the Audit and Risk Management Committee held four meetings to review the quarterly, interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls.

Remuneration Committee

The Remuneration Committee consists of three members, namely Mr. Wong Chun Peng Stewart, independent non-executive Director, Mr. Liu Yong Cheng, executive Director and Mr. Li Wai Kwan, independent non-executive Director. Mr. Wong Chun Peng Stewart is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

During the Year, one meeting of the Remuneration Committee was held.

Details of the remuneration of the senior management by band are set out in Notes 8 and 29 to the financial statements.

Nomination Committee

The Nomination Committee consists of three members, namely Mr. Liu Yong Cheng, executive Director, Mr. Li Wai Kwan, independent non-executive Director and Ms. Li Helen Hoi Lam, independent non-executive Director. Mr. Liu Yong Cheng is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Director Nomination Policy that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the Year, the Nomination Committee met once to review the structure, size and composition of the Board and the independence of the independent non-executive Directors.

BOARD COMMITTEES *(cont'd)*

Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board and is available on the website of the Company. The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, experience, expertise, qualifications, skills and knowledge as well as independence of the Board.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

The Nomination Committee will review the Board Diversity Policy on a regular basis to ensure its effectiveness.

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- character and integrity;
- qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- requirements of independent non-executive Directors on the Board and independence of the proposed independent non-executive Directors in accordance with the GEM Listing Rules; and
- commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings.

BOARD COMMITTEES *(cont'd)*

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

During the Year, the Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Required Standard of Dealings and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

ATTENDANCE RECORDS OF DIRECTORS

The attendance record of each Director at the Board and Board Committee meetings held during the Year is set out in the table below:

	Number of Meetings Attended/Number of Meetings held for the Year				
Name of Directors	Board Meeting	Audit and Risk Management Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting
Executive Directors					
Mr. Liu Yong Cheng	4/4	–	1/1	1/1	1/1
Mr. Liu Yong Qiang	4/4	–	–	–	1/1
Mr. Liu Chunde	4/4	–	–	–	1/1
Independent Non-executive Directors					
Mr. Wong Chun Peng Stewart	4/4	4/4	1/1	–	1/1
Mr. Li Wai Kwan	4/4	4/4	1/1	1/1	1/1
Ms. Li Helen Hoi Lam	4/4	4/4	–	1/1	0/1

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit and Risk Management Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has adopted a series of internal control policies, procedures and programs designed to provide reasonable assurance for achieving objectives including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations.

RISK MANAGEMENT AND INTERNAL CONTROLS *(cont'd)*

The Company's risk management and internal control systems have been developed with the following features and processes:

(a) The processes used to identify, evaluate and manage significant risks by the Group are summarised as follows:

Risk Identification: Identifies risks that may potentially affect the Group's business and operations.

Risk Assessment: Assesses the risks identified by using the assessment criteria developed by the management; and considers the impact and consequence on the business and the likelihood of their occurrence.

Risk Response: Prioritises the risks by comparing the results of the risk assessment; and determines the risk management strategies and internal control processes to prevent, avoid or mitigate the risks.

Risk Monitoring and Reporting: Performs ongoing and periodic monitoring of the risk and ensures that appropriate internal control processes are in place; revises the risk management strategies and internal control processes in case of any significant change of situation; and reports the results of risk monitoring to the management and the Board regularly.

(b) The main features of the risk management and internal control systems are summarised as follows:

Control procedures have been designed to safeguard assets against misappropriation and disposition; ensure compliance with relevant laws, rules and regulations; ensure proper maintenance of accounting records for provision of reliable financial information used within the business or for publication; ensure that unauthorized access and use of inside information are strictly prohibited; and to provide reasonable assurance against material misstatement, loss or fraud.

The management has confirmed to the Board and the Audit and Risk Management Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2019.

The Company does not have an internal audit function and is currently of the view that there is no immediate need to set up an internal audit function within the Group in light of the size, nature and complexity of the Group's business. Nevertheless the Company engaged an external professional firm to carry out internal audit functions. It was decided that the Board would be directly responsible for internal control of the Group and for reviewing its effectiveness.

The Board has engaged an external professional firm as its risk management and internal control review adviser (the "Adviser") to conduct the annual review of the risk management and internal control systems for the year ended 31 December 2019. Such review is conducted annually and cycles reviewed are under rotation basis. The Adviser has reported findings and areas for improvement to the Audit and Risk Management Committee and management. The Board and the Audit and Risk Management Committee are of the view that there are no material internal control defects noted. All recommendations from the Adviser are properly followed up by the Group to ensure that they are implemented within a reasonable period of time. The Board therefore considered that the risk management and internal control systems are effective and adequate.

The Company has developed its Information Disclosure Policy which provides guidelines and procedures to the Company's Directors, senior management and employees in evaluating and handling confidential information, monitoring information disclosure, handling market rumors, leakage of information and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited. The Group has in place a restriction-to-access mechanism to ensure that inside information is restricted to authorised persons on a need-to-know basis in accordance with the nature of transactions.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 43 to 44.

AUDITOR'S REMUNERATION

The remuneration paid to the external auditor of the Company, Ernst & Young, in respect of audit services of the Group for the year ended 31 December 2019 amounted to RMB1,350,000. No non-audit services were provided by the external auditor for the year ended 31 December 2019.

JOINT COMPANY SECRETARIES

Mr. Zhao Yonghe and Mr. Tam Chun Wai Edwin are joint company secretaries of the Company.

Mr. Zhao Yonghe is the financial controller of the Company. The Company has appointed Mr. Tam Chun Wai Edwin, an external service provider, as one of the Company's joint company secretaries. His primary contact person at the Company is Mr. Zhao Yonghe.

All Directors have access to the advice and services of the joint company secretaries on corporate governance and board practices and matters.

Mr. Zhao Yonghe and Mr. Tam Chun Wai Edwin have each complied with Rule 5.15 of the GEM Listing Rules by taking no less than 15 hours of the relevant professional training during the year ended 31 December 2019.

SHAREHOLDERS' RIGHTS

The Company engages with shareholders through various communication channels.

To safeguard shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the GEM Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting

Pursuant to Article 64 of the Company's articles of association, the Board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or a Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

SHAREHOLDERS' RIGHTS *(cont'd)*

Putting Forward Proposals at Annual General Meetings

There is no provision allowing shareholders to move new resolutions at general meeting under the Cayman Islands Companies Law or the articles of association of the Company. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

Putting Forward Enquiries to the Board

Shareholders may send written enquiries and concerns to the Company by mail to the Company's principal place of business in Hong Kong at 13/F, Wah Yuen Building, 149 Queen's Road Central, Hong Kong or by email to Tonlin_cng@163.com The Company will not normally deal with verbal or anonymous enquiries.

INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings.

The Company has not made any changes to its Memorandum and Articles of Association since the Listing Date. An up to date version of the Company's Memorandum and Articles of Association is available on the Company's website and the Stock Exchange's website.

Policies relating to Shareholders

The Company has in place a Shareholders' Communication Policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The Company has adopted a Dividend Policy on payment of dividends. The Company does not have any pre-determined dividend payout ratio. Depending on the financial conditions of the Company and the conditions and factors as set out in the Dividend Policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the shareholders' approval.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PREPARATION BASIS AND SCOPE

TL Natural Gas Holdings Limited (the "Company" together with its subsidiaries, hereinafter referred to as the "Group") is pleased to present our annual Environmental, Social and Governance Report (the "ESG Report") for year ended 31 December 2019 to provide an overview of the Group's management of significant issues affecting the operation, including environmental, social and governance ("ESG") issues.

This Report is prepared in accordance with Appendix 20 of The GEM Listing Rules – "Environmental, Social and Governance Reporting Guide" (the "ESG Reporting Guide") and summarises the ESG performance of the Group. The Group has complied with the disclosure requirements of the "comply or explain" provisions set out in the ESG Reporting Guide. Certain key performance indicator ("KPIs") which is considered as material are disclosed, the Group will continue to optimize and improve the disclosure of KPIs.

The Board has overall responsibility for the Group's ESG strategy and reporting. The Board is responsible for evaluating and determining the Group's ESG-related risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. This Report illustrates the Group's policies and performance regarding the environmental and social aspects during the reporting period from 1 January 2019 to 31 December 2019 (the "Reporting Period").

The information contained herein is sourced from official documents and statistics of the Group, as well as the combined control, management and operations information provided by the subsidiaries in accordance with the Group's relevant policies. The ESG Report is prepared and published in both English and Chinese. In the event of contradiction or inconsistency, the English version shall prevail.

INTRODUCTION

The principal activities of the Group is engaged in the sale of compressed natural gas and liquefied natural gas in Hubei Province of People Republic of China (the "PRC"). The Group will continue in assessing the impacts of its business on the major environmental, social and governance aspects and to include in the ESG report.

The Group recognises the importance of sustainable development. Sustainability is crucial for the Group's growth in order to achieve business excellence and enhance long-term competitiveness. The Group has established and implemented various policies to manage and monitor the risks related to environment, employment, operating practices and community. Details of the management approaches to sustainable development of different areas are illustrated in this ESG Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

STAKEHOLDERS ENGAGEMENT

The Group emphasises the participation of its stakeholders. All of them have a substantial impact on the success of its business or activities.

In compiling the Report, the Group consulted its internal stakeholders, to monitor and manage its impact on all aspects of the environment and society. Besides, the Group has established various engagement channels for its stakeholders to understand their concerns regarding the Group's operation. The Group believes that stakeholders engagement has significant level of influence in developing sustainable development strategies and fulfilling social responsibilities which is the basis for the Group's strategy formulation and decision-making.

Stakeholders	Issues of concern	Engagement channels
Government	To comply with the laws Proper tax payment Promote regional economic development and employment	On-site inspections and check Research and discussion through work conferences, work reports preparation and submission for approval
Shareholders and investors	Low risk Return on the investment Information disclosure and transparency Protection of interests and fair treatment of shareholders	Annual general meeting and other shareholder meetings Annual, quarterly reports, announcements and circulars Non-deal roadshows, investors conference
Employees	Safeguard the rights and interests of employees Working environment Career development opportunities Occupational health and safety	Training, seminars, briefing sessions Employee activities
Customers	Safe and high-quality products Stable relationship Integrity Reputation, brands and market demands	Emails, phone calls Customer feedback forms Industry exhibitions Site visits
Peer/Industry associations	Experience sharing Corporations Fair competition	Industry conferences Site visits and field trips
Market regulators	Compliance with the law and regulations Information disclosure	Annual and quarterly reports, announcements and circulars and other published documents Seminars
Public and communities	Community involvement Career opportunities Social responsibilities	Volunteering Charity and social investment

A. ENVIRONMENTAL ASPECTS

ASPECT A1: EMISSIONS

To demonstrate the Group's commitment to sustainable development and compliance with laws and regulations relating to environmental protection, the Group endeavors to minimise the environmental impact of the business activities and maintain green operations and green office practices.

Our operations are subject to PRC environmental laws and regulations relating to the construction and operation of natural gas stations. In particular, we are subject to PRC environmental laws and regulations promulgated by both the central and local governments, including but not limited to the Environmental Protection Law (中華人民共和國環境保護法). We consider the protection of the environment to be paramount and have implemented procedures in our gas refuelling stations to ensure our compliance with all applicable requirements. In light of the Environmental Protection Law, the Environmental Impact Assessment Law of the PRC (中華人民共和國環境影響評價法), Law of the PRC on Prevention and Control of Water Pollution (中華人民共和國水污染防治法), Law of the PRC on Prevention and Control of Air Pollution (中華人民共和國大氣污染防治法) and Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法), we have adopted measures under our environment management policy, including but not limited to: (i) installation of re-circulation water cooling system; (ii) implementation of greening in the operation premises; (iii) installation of sound reduction measures to avoid noise pollution; (iv) engagement of solid waste collectors to collect, transport and treat refuse and waste products; and (v) minimising the amount of residual gas released to the atmosphere at our dispensers. Our environmental procedures have consistently been in compliance with applicable environment standards in our gas refuelling stations. During the Reporting Period, there was no material breach of or non-compliance with the applicable laws and regulations related to environmental protection.

During the Reporting Period, the Group generated/consumed no significant hazardous waste, non-hazardous waste, water, paper and packaging materials due to its business nature.

Major air pollutants emission from vehicles during the Reporting Period and the corresponding period in 2018 are as follows:

Air Pollutant Emission		
Type of Air Pollutants	**Air Pollutant Emission (kg) 2019**	**Air Pollutant Emission** (kg) 2018
Sulphur Dioxide	**0.51**	0.38
Nitrogen Oxides	**2.34**	1.10
Particulate Matter	**0.44**	0.21

The greenhouse gas ("GHG") emission from the operation during the Reporting Period and the corresponding period in 2018 are set out below:

GHG Emission		
Type of GHG emissions	**Equivalent CO_2 emission (kg) 2019**	**Equivalent CO_2 emission** (kg) 2018
Scope 1 Direct emissions	**17,885.93**	11,086.38
Scope 2 Indirect emissions	**3,045,554.97**	3,466,241.07
Total	**3,063,440.90**	3,477,327.45
Intensity (kg/revenue RMB'000)	**41.53**	40.71

Note:

The calculation of the GHG gas is based on the "A Corporate Accounting and Reporting Standard" from The GHG Protocol.

Scope 1: Direct emission from vehicles that are owned by the Group

Scope 2: Indirect emissions from the generation of purchased electricity consumed by the Group

Scope 3 is not disclosed as it is an optional disclosure and the corresponding emission is not controlled by the Group

A. ENVIRONMENTAL ASPECTS *(cont'd)*

ASPECT A2: USE OF RESOURCES

The Group places high priority on the efficient use of resources. The major resources used by the Group are electricity. The Group strives to improve the efficient use of natural resources, such as minimising waste/emissions and implementing effective recycling program. Practical measures are implemented as follows.

Electricity

Electricity saving measures are encouraged that electrical appliances are required to be set as energy saving mode where possible. For computers, the idle automatically mode is 20 minutes or less. The room temperature should be set in a range from 20°C to 26°C. Also, power supply should be switched off when they are not in use. Preference will be given to office equipment with relatively high energy efficiency.

Energy consumption by the Group during the Reporting Period and the corresponding period in 2018 are set out below:

Energy Consumption		
Type of energy	**Energy consumed (kWh) 2019**	**Energy consumed** (kWh) 2018
Unleaded Petrol	**60,785.62**	45,180.07
Compressed natural gas	**22,999.27**	–
Purchased electricity	**4,312,046.00**	4,907,674.00
Total	**4,395,830.89**	4,952,854.07
Energy intensity (kWh/revenue RMB'000)	**59.60**	57.98

Water

The impact of freshwater use is relatively insignificant for the Group. The Group did not encounter any problems in sourcing water that is fit for purpose. The Group encourages staff to reduce water wastage, for example, by not running water taps at all time.

Paper

Reduction in paper use indirectly reduces the overall GHG emission. The Group has been taking the following steps to reduce paper consumption:

- Reduce the use of paper by printing or photocopying on both sides of paper, where applicable.
- Encourage the employee to use suitable font size/shrinkage mode to minimise pages, if possible. Besides, electronic media is recommended for circulation/communication, to minimise using paper.

ASPECT A3: THE ENVIRONMENT AND NATURAL RESOURCES

The Group raises staff's awareness on environmental issues through education and training and enlist employees' support in improving the Group's performance, promote environmental awareness amongst the customers, business partners and shareholders and support community activities in relation to environmental protection and sustainability and evaluate regularly and monitor past and present business activities impacting upon health, safety and environmental matters. With the integration of policies mentioned in sections "Emissions" and "Use of Resource", the Group strives to minimise the impacts to the environment and natural resources.

B. SOCIAL ASPECTS

ASPECT B1: EMPLOYMENT

We believe that our employees are important assets to the Group. Our goal is to provide employees with resources and an environment that encourages them to develop careers with us. We have employees through job market recruiting and internal referrals taking into account of the candidates' initiative, attention to detail and work ethic. We provide management personnel and employees with on-the-job training, rotation training and trainings in other formats to improve their skills and knowledge. We believe we have good relationships with our employees and we did not experience any material labour disputes or difficulty in recruiting staff for our operations in past years. The Group's internal control policies include our standards for compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.

The Group entered into separate labour contracts with each of our employees in accordance with the applicable labour laws of the PRC. The remuneration package of the employees includes salary, social insurance funds (including pension insurance, unemployment insurance, medical insurance, work-related injuries insurance and maternity insurance) and housing provident funds for our employees. In addition, we provide various employee benefits to our workers, including but not limited to living quarters.

During the Reporting Period, there were no material non-compliance regarding employment brought against the Group or its employees.

Below is a detailed breakdown of our employees by gender, age group, and employment category as at 31 December 2019 and 2018:

	2019		2018	
	Number of staff	**% of total**	Number of staff	% of total
By gender				
Male	**29**	**35**	27	34
Female	**54**	**65**	52	66
Total	**83**	**100**	79	100
By age group				
30 or below	**1**	**1**	2	3
31-40	**14**	**17**	16	20
41-50	**53**	**64**	49	62
51 or above	**15**	**18**	12	15
Total	**83**	**100**	79	100
By employment category				
Normal	**66**	**80**	68	86
Middle	**14**	**17**	8	10
Senior	**3**	**3**	3	4
Total	**83**	**100**	79	100

Below is a detailed breakdown of our employees turnover rate by gender and age group as at 31 December 2019 and 2018:

	2019	2018
Turnover rate by gender		
Male	**14%**	33%
Female	**11%**	25%
Turnover rate by age group		
30 or below	**100%**	100%
31-40	**21%**	44%
41-50	**8%**	20%
51 or above	**13%**	17%

B. SOCIAL ASPECTS *(cont'd)*

ASPECT B2: HEALTH AND SAFETY

Since sale of natural gas involves risks and hazards due to its flammable and explosive nature, we are committed to conducting our operations in compliance with applicable health, work safety, social and environmental protection laws and regulations and we always strive for a high safety standard of our gas station operation and our staff. We have implemented various procedures and systems to reduce the likelihood of accidents and hazards.

As required by PRC laws and regulations, including the Labour Contract Law of the PRC (中華人民共和國勞動合同法) and its accompanying regulations, the Labour Law of the PRC (中華人民共和國勞動法) and Opinions on Several Questions concerning the Implementation of the Labour Law of the PRC (關於貫徹執行中華人民共和國勞動法若干問題的意見), we are required to have health and safety policies to ensure a safe working environment for our employees, and we are also required to provide health and safety training to our employees. We have implemented a comprehensive health and safety system. Our health and safety system primarily focuses on the following aspects:

- Implementation of precautionary measures: we take precautionary measures against fire hazards, theft, accidents and machinery damage. Our health and safety system identifies our exposure to potential workplace safety and healthcare hazards and outlines the precautionary measures and arrangements designed to eliminate and control those hazards to ensure that a high standard of health and safety is maintained in the workplace. We have implemented a safety monitoring system along the pipeline network for detection of any leakage or other gas incident and we have also added a readily detectable but harmless odour to our natural gas so that users and the general public can be alerted to gas leakage. We have put up different bulletin boards that set out the operational procedures of dispenser and loading of gas to tanker trucks at our gas refuelling stations for our frontline employees. We also conduct fire drill regularly to promote fire safety knowledge and hazard awareness among our frontline employees.

- Emergency response, notification and accident handling: we have an established accident response system. We have issued an internal policy which addresses industry safety, workplace and emergency hygiene and traffic accidents. The measures specify the responsibilities of each department in the event of an accident, including accident notification procedures, investigation, attribution of liability and penalties. The head of our safety and maintenance department shall be responsible for assisting with emergency responses, investigating the cause of accidents and preparing summary reports.

- Equipment maintenance: we repair and maintain all our facilities and equipment on a regular basis. We also upgrade our equipment by installing additional safety features to prevent or mitigate future work injuries and accidents.

- Safety training: we provide regular safety trainings to all our employees. Newly recruited employees must go through a series of safety training sessions provided by our safety officers. Employees operating key equipment must participate in periodic safety training. Before we employ any new equipment, the operating employees must be specifically trained with respect to the safety issues involved.

- Risk management: according to our health and safety system, in order to ensure we are able to provide a safe working environment to our employees, we have a safety officer at each of our gas refuelling stations to conduct daily safety inspections on our production facilities, such as, compressors, dryers, gas cylinders and pipelines, to eliminate potential safety hazards in our production process.

Besides, in light of the occurrence of certain incidents in past years, we have implemented various policies, such as production line inspection system, tanker truck safety management system and accident handling system, to prevent the recurrence of gas leakage. We perform the following measures on a daily basis to prevent and detect gas leakage: (i) our safety officer on duty will inspect all equipment, such as pipes and hoses, valves, filters, compressor, dryer, and meters from time to time to identify any unusual sound or smell and physical wear-and-tear, and to monitor the meter readings on various gas meters installed along the gas pipes, and in cases where gas leakage is detected, the safety officer shall immediately notify the station manager so repair work can be carried out timely; (ii) the keys of the tanker trucks shall be passed to and kept by gas station operator prior to gas refuelling or loading of CNG into the tanker truck; and (iii) the driver of the tanker truck can only ignite the engine after the gas station operator confirms the removal of refuelling nozzle.

We believe that our health and safety system will continue to help us ensure employee health and safety as we continue to expand our operations. During the Reporting Period, there are no work related injuries case. There were no non-compliance cases noted in relation to laws and regulations for health and safety.

B. SOCIAL ASPECTS *(cont'd)*

ASPECT B3: DEVELOPMENT AND TRAINING

In accordance with our human resources policy, new employees at our gas refuelling stations are required to undergo orientation to familiarise themselves with our safety policies and overall daily operations before they commence working for us. After they attend orientation, some of our employees are provided with duties-specific training for their respective post before they are qualified to work or to operate any facility at our gas refuelling stations. We will review our employee performance from time to time. In addition, for some posts which require particular skills or for enhancement of a certain skill or ability, our employees are further provided with professional and specialised training.

ASPECT B4: LABOUR STANDARDS

The Group is fully aware that child labour and forced labour violate fundamental human rights and also pose threat to sustainable social and economic development. The Group strictly complies with applicable labour laws of the PRC. The Group prohibits the use of child labour and forced labour. Employment contracts and other records, documenting all relevant details of the employees (including age) are maintained properly for verification by relevant statutory body upon request.

During the Reporting Period, the Group has complied with policies and relevant laws and regulations regarding prevention of child labour or forced labour.

ASPECT B5: SUPPLY CHAIN MANAGEMENT

Due to the nature of our business activities, we had no major supplier other than PetroChina Company Limited ("PetroChina"). To secure a stable, reliable and abundant natural gas supply for our operation, we entered into the master supply agreement for a 25-year term with PetroChina on 10 January 2015.

In selecting general materials or service providers, the Group will screen through bidding process and give priority to suppliers who attained certain types of certification for the management system. The Group will monitor the performance of supplies through different channels and regularly assess whether the supplier's performance meets the standards. Thus, we believe there are no significant environmental and social risks for our management decision on supply chain management.

ASPECT B6: PRODUCT RESPONSIBILITY

We believe that the quality of our products is crucial to our continued growth. We place great emphasis on quality control and have implemented stringent monitoring and quality control systems to manage our operations. As natural gas is our principal raw material, its quality is fundamental in determining the quality of our services and operation. We source all natural gas directly from PetroChina, a nationwide reputable oil/gas producer in the PRC, which could consistently meet our demand and quality requirements. Prior to 2016 before PetroChina had an electronic system in place, we would send our staff to PetroChina's Transmission Substation to collect the daily gas composition analysis reports and to review the test result of the natural gas supplied to us. With the PetroChina's electronic system implemented, our staff will download the daily reports from PetroChina's website every day. We will also review the sulphur and moisture content of the natural gas and keep record of all daily gas composition analysis reports prepared by PetroChina.

During the Reporting Period, there are no disputes between our Group and our customers in respect of the quality of our products by us.

ASPECT B7: ANTI-CORRUPTION

To ensure operation efficiency and employees' development in a fair and honest working environment, the Group has formulated anticorruption policy to avoid suspected corruption and provided channel such as by letter, meeting, email or phone call for employees to report suspected corruption. If there are any suspected case related to corruption, employees are encouraged to report the related cases through the mentioned channels. All these practical actions not only win the trust of customers, but also enhance the sense of belonging and fair play among our employees.

The Group has been in strict compliance with law and regulation related to anti-corruption. During the Reporting Period, there was no any legal case regarding corrupt practices brought against the Group or its employees.

ASPECT B8: COMMUNITY INVESTMENT

As a socially responsible company, the Group is committed to understand the needs of the communities in which we operate. The Group strives to develop long-term relationship with our stakeholders and seek to make contributions to have a positive impact on community development.

INDEPENDENT AUDITOR'S REPORT

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

To the shareholders of TL Natural Gas Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of TL Natural Gas Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 45 to 99, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
Revenue from the sale of compressed natural gas amounted to RMB72,018,000 for the year ended 31 December 2019. Revenue from the sale of compressed natural gas is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Revenue recognition is significant to the financial statements based on its quantitative materiality, and the large volume of transactions that were processed in the year and the revenue may not be recorded in the proper period. The Group's disclosures about revenue recognition are included Note 2.4 *Summary of significant accounting policies* and Note 5 *Revenue, other income and gains* to the financial statements, which specifically explain the accounting policies and revenues separated on different good and service offering.	We understood, evaluated and tested management's internal controls over the revenue process. We discussed with management with respect to the recognition basis on the sale of compressed natural gas. We obtained an understanding of the sale transactions through inspection of the underlying contractual agreements. We compared the sales volume of compressed natural gas recorded in the system against the relevant documents and tested revenue recorded covering different customers by examining the relevant sale contracts and cash receipts records, on a sample basis. We performed analytical review of revenue to understand how the revenue has trended over the year. We circularised external confirmations of the value of sales transactions for the year ended 31 December 2019 and outstanding trade receivable balances as at that date, on a sample basis. Where responses were not received, we completed alternative procedures by examining settlement records and cash receipts records.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS *(cont'd)*

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables	
As at 31 December 2019, the trade receivable balance before the loss allowance for impairment of RMB1,193,000 amounting to RMB19,168,000 was significant to the Group. The Group applies the simplified approach in calculating expected credit loss ("ECL"). The measurement of ECL involves significant judgement and assumptions used in the simplified approach as the expected credit losses must reflect information about past events, current conditions and forecasts of future conditions. The Group's disclosures about trade receivables are included in note 2.4 *Summary of significant accounting policies*, note 3 *Significant accounting judgements and estimates* and note 18 *Trade receivables*, which specifically explain the accounting policies, management's estimates, the overdue receivables and the related loss allowance.	We evaluated management's assessment of the recoverability of the receivables by reviewing the detailed analyses of the ageing of the receivables, the cash collection records during the year and if collections had been received subsequent to the year end to understand current condition of the receivables and any long outstanding amounts. We reviewed historical payment patterns and historical provisions along with other macroeconomic information of the receivables, any disputes between the parties involved and the correspondence with customers on expected settlement dates. We also obtained and reviewed the agreements between the Group and the parties about the settlement of certain of the receivable balance past due over 3 months. We evaluated the Group's provision policy whether the provision methodology was in accordance with HKFRS 9. We discussed with management to understand the nature and the judgement involved in estimating the expected credit loss provision on trade receivables. We reviewed the estimates used to determine the expected credit losses by considering cash collection performance against historical trends and the forward – looking adjustments used in the simplified approach and checked the mathematical accuracy of the calculations. We also reviewed the related disclosures in the financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(cont'd)*

- 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 the Audit Committee 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 the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong

8 May 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**73,760**	85,418
Cost of sales		**(67,047)**	(68,468)
Gross profit		**6,713**	16,950
Other income and gains	5	**398**	429
Selling and distribution expenses		**(625)**	(540)
Administrative expenses		**(6,305)**	(8,798)
Impairment losses on financial assets	6	**(1,249)**	(5)
Share of profits and losses of an associate		**(95)**	–
Finance costs	7	**(426)**	–
Other expenses		**(467)**	–
PROFIT/(LOSS) BEFORE TAX	6	**(2,056)**	8,036
Income tax expense	10	**(677)**	(3,435)
PROFIT/(LOSS) FOR THE YEAR		**(2,733)**	4,601
Attributable to:			
Owners of the parent		**(2,733)**	4,601
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
For profit/(loss) for the year	11	**RMB(0.55) cents**	RMB1.02 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
PROFIT/(LOSS) FOR THE YEAR	**(2,733)**	4,601
OTHER COMPREHENSIVE INCOME		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(464)**	(931)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(464)**	(931)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company's financial statements	**1,226**	4,343
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**1,226**	4,343
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**762**	3,412
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(1,971)**	8,013
Attributable to:		
Owners of the parent	**(1,971)**	8,013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**24,541**	28,739
Right-of-use assets	14(b)	**8,985**	–
Prepaid land lease payments	14(a)	**–**	1,510
Other intangible assets	15	**17**	–
Investment in an associate	16	**705**	–
Deferred tax assets	23	**505**	–
Prepayments, other receivables and other assets	19	**3,752**	–
Advance payments for property, plant and equipment		**5,512**	207
Total non-current assets		**44,017**	30,456
CURRENT ASSETS			
Inventories	17	**50**	52
Trade receivables	18	**17,975**	17,415
Prepayments, other receivables and other assets	19	**9,927**	8,573
Cash and cash equivalents	20	**27,402**	37,318
Total current assets		**55,354**	63,358
CURRENT LIABILITIES			
Trade payables	21	**–**	140
Other payables and accruals	22	**4,863**	4,476
Lease liabilities	14(c)	**1,206**	–
Tax payable		**2,954**	3,400
Total current liabilities		**9,023**	8,016
NET CURRENT ASSETS		**46,331**	55,342
TOTAL ASSETS LESS CURRENT LIABILITIES		**90,348**	85,798
NON-CURRENT LIABILITIES			
Lease liabilities	14(c)	**6,984**	–
Total non-current liabilities		**6,984**	–
Net assets		**83,364**	85,798
EQUITY			
Equity attributable to owners of the parent			
Share capital	24	**4,135**	4,135
Reserves	25	**79,229**	81,663
Total equity		**83,364**	85,798

Liu Yong Cheng
Director

Liu Yong Qiang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

		Attributable to owners of the parent						
	Note	Share capital RMB'000 (note 24)	Share premium* RMB'000 (note 25)	Capital reserve* RMB'000 (note 25)	Exchange fluctuation reserve* RMB'000 (note 25)	Statutory reserve* RMB'000 (note 25)	Retained profits* RMB'000	Total equity RMB'000
At 31 December 2017		886	16,351	17,350	885	1,060	1,681	38,213
Effect of adoption of HKFRS 9		–	–	–	–	–	(49)	(49)
At 1 January 2018 (restated)		886	16,351	17,350	885	1,060	1,632	38,164
Profit for the year		–	–	–	–	–	4,601	4,601
Other comprehensive income/(loss) for the year:								
Exchange differences on translation of foreign operations		–	–	–	(931)	–	–	(931)
Exchange differences on translation of the Company's financial statements		–	–	–	4,343	–	–	4,343
Total comprehensive income for the year		–	–	–	3,412	–	4,601	8,013
Share issue expenses		–	(9,116)	–	–	–	–	(9,116)
Issue of shares the Company		1,015	47,722	–	–	–	–	48,737
Capitalisation of issue of shares		2,234	(2,234)	–	–	–	–	–
Transfer from retained profits		–	–	–	–	1,008	(1,008)	–
At 31 December 2018		4,135	52,723	17,350	4,297	2,068	5,225	85,798
At 31 December 2018		4,135	52,723	17,350	4,297	2,068	5,225	85,798
Effect of adoption of HKFRS 16	2.2	–	–	–	–	–	(463)	(463)
At 1 January 2019 (restated)		4,135	52,723	17,350	4,297	2,068	4,762	85,335
Loss for the year		–	–	–	–	–	(2,733)	(2,733)
Other comprehensive income/(loss) for the year:								
Exchange differences on translation of foreign operations		–	–	–	(464)	–	–	(464)
Exchange differences on translation of the Company's financial statements		–	–	–	1,226	–	–	1,226
Total comprehensive income for the year		–	–	–	762	–	(2,733)	(1,971)
Transfer from retained profits		–	–	–	–	44	(44)	–
At 31 December 2019		4,135	52,723	17,350	5,059	2,112	1,985	83,364

* These reserve accounts comprise the consolidated reserves of RMB79,229,000 (2018: RMB81,663,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(2,056)**	8,036
Adjustments for:			
Depreciation	13	**4,065**	3,940
Depreciation of right-of-use asset	14(b)	**1,311**	–
Amortisation of other intangible assets	15	**1**	–
Amortisation of prepaid land lease payments	14(a)	**–**	39
Loss on disposal of items of property, plant and equipment	6	**214**	–
Share of profits and losses of an associate		**95**	–
Interest income from loan to a related party	5	**(143)**	–
Investment income from financial assets at fair value through profit or loss	5	**(96)**	–
Finance costs	7	**426**	–
Impairment of other receivables	19	**110**	–
Impairment of trade receivables	18	**1,139**	5
		5,066	12,020
(Increase)/decrease in inventories		**2**	(10)
Increase in trade receivables		**(1,699)**	(11,297)
(Increase)/decrease in prepayments, other receivables and other assets		**1,175**	(3,330)
(Decrease)/increase in trade payables		**(140)**	140
Increase/(decrease) in other payables and accruals		**505**	(3,363)
Cash generated from/(used in) operations		**4,909**	(5,840)
Income tax paid		**(1,474)**	(2,149)
Net cash flows from/(used in) operating activities		**3,435**	(7,989)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of financial assets at fair value through profit or loss		**(48,000)**	–
Disposal of financial assets at fair value through profit or loss		**48,000**	–
Investment income received from financial asset at fair value through profit or loss		**96**	–
Investment in an associate		**(800)**	–
Addition to other intangible assets		**(18)**	–
Deposits for acquisition of a subsidiary		**(2,687)**	–
Loan to a related party		**(3,600)**	–
Purchases of items of property, plant and equipment and related advance payments		**(5,504)**	(3,142)
Net cash flows used in investing activities		**(12,513)**	(3,142)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares of the Company		**–**	48,737
Share issue expenses		**–**	(6,364)
Loans from directors		**–**	272
Repayment of principal portion of lease liabilities		**(1,174)**	–
Interest paid		**(426)**	–
Repayment of loans from directors		**–**	(500)
Net cash flows from/(used in) financing activities		**(1,600)**	42,145
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(10,678)**	31,014
Cash and cash equivalents at beginning of year		**37,318**	2,797
Effect of foreign exchange rate changes, net		**762**	3,507
CASH AND CASH EQUIVALENTS AT END OF YEAR		**27,402**	37,318
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	**27,402**	37,318

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 24 March 2017. The registered office address of the Company is PO Box 32311, Suite #4-210, Governors Square 23 Lime Tree Bay Avenue, Grand Cayman KY1-1209, Cayman Islands.

The Company is an investment holding company. During the year, the Company's subsidiaries were involved in the sale of compressed natural gas. In the opinion of the directors, the holding companies and the ultimate holding companies of the Company are Yongsheng Enterprise Limited and Hongsheng Enterprise Limited, which are incorporated in British Virgin Islands.

The shares of the Company were listed on the GEM of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 18 May 2018.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity/ attributable to the Company	Principal activities
Zhuoyuan Enterprise Limited (卓遠實業有限公司)	British Virgin Islands 28 March 2017	US$100	100% (direct)	Investment holding
Yesheng Enterprise Limited (葉盛實業有限公司)	British Virgin Islands 19 December 2018	US$100	100% (direct)	Investment holding
Excellence Enterprise Holdings Limited (卓越實業控股有限公司)	British Virgin Islands 22 November 2019	US$100	100% (direct)	Investment holding
Hong Kong Hesheng International Industrial Limited (香港合盛國際實業有限公司)	Hong Kong 3 July 2014	HK$20,225,000	100% (indirect)	Investment holding
Hong Kong Hengsheng Industrial Holding Limited (香港恒盛實業控股有限公司)	Hong Kong 20 December 2018	HK$10,000	100% (indirect)	Investment holding
Hubei Tonglin Natural Gas Service Company Limited (Note (a)) (湖北桐林石油天然氣服務有限公司)	People's Republic of China ("PRC")/ Mainland China 30 August 2007	HK$37,500,000	100% (indirect)	Sale of compressed natural gas
Jingzhou Hongye New Material Technology Company Limited* (荊州宏葉新材料科技有限公司)	PRC/ Mainland China 31 January 2019	RMB4,500,000	100% (indirect)	Dormant*
Xiantao Shenghong New Material Technology Company Limited (仙桃市盛宏新材料科技有限公司)	PRC/ Mainland China 9 July 2019	RMB4,500,000	100% (indirect)	Sale of cellulose fibre board

Note:

(a) This entity is registered as a wholly-foreign-owned enterprise under PRC law.

* the company was voluntarily dissolved by deregistration on 15 January 2020.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRS 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS12 and HKAS 23

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for leasehold land and office buildings. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short – term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(cont'd)*

(a) *(cont'd)*

As a lessee – Leases previously classified as operating leases *(cont'd)*

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application.
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease.

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/(decrease) RMB'000
Assets	
Increase in right-of-use assets	10,296
Increase in deferred tax assets	154
Decrease in prepaid land lease payments	(1,510)
Decrease in prepayments, other receivables and other assets	(39)
Increase in total assets	8,901
Liabilities	
Increase in lease liabilities	9,364
Increase in total liabilities	9,364
Decrease in retained profits	(463)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(cont'd)*

(a) *(cont'd)*

As a lessee – Leases previously classified as operating leases *(cont'd)*

Impact on transition (cont'd)

Financial impact at 1 January 2019 *(cont'd)*

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	11,723
Less: Commitments relating to short-term leases	108
Weighted average incremental borrowing rate as at 1 January 2019	4.9%
Discounted operating lease commitments as at 1 January 2019	9,364
Lease liabilities as at 1 January 2019	9,364

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long – term interests in associates and joint ventures continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9 HKAS 39, and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(cont'd)*

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment in an associate

An associate is an entity in which the Group has a long term interest of the equity voting rights and over which it is in a position to exercise 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.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Fair value measurement

The Group measures its financial instrument at fair value at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Fair value measurement *(cont'd)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Related parties

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Property, plant and equipment and depreciation

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

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

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

Buildings	5.00%
Leasehold improvements	37.50%
Plant and machinery	10.00%
Motor vehicles	10.00%
Others	20.00% to 33.33%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Construction in progress represents buildings and plant and machinery under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Other intangible asset (other than goodwill)

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

Software

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Leases (applicable from 1 January 2019)

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

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Prepaid land lease payment	50 years
Leasehold land	10 years
Office building	3 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Operating leases (applicable before 1 January 2019)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Investments and other financial assets *(cont'd)*

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Derecognition of financial assets *(cont'd)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12 – month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, 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 and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Impairment of financial assets *(cont'd)*

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition as loans and borrowings and payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, accruals and amount due to a director.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost

After initial recognition, loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liabilities simultaneously.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Income tax *(cont'd)*

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

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

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Revenue recognition *(cont'd)*

Revenue from contracts with customers *(cont'd)*

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

The Group is mainly involved in the sale of compressed natural gas. Revenue is measured based on the fair value of consideration received or receivable specified in the contracts with customers.

(a) Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The Group does not expect to have any contracts where the period between the transfer of the promised goods to the customer and the payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(b) Transmission services

Revenue from the provision of transmission services is recognised at the point in time when the services are rendered.

Other income

Interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Employee benefits

Pension scheme

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the year. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of the Company and an overseas subsidiary are currencies other than the RMB. As at the end of the year, the assets and liabilities of the Company and an overseas subsidiary are translated into RMB at the exchange rates prevailing at the end of the year and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 18 to the financial statements.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of – use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and only has one reportable operating segment. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

During the year, the Group operated within one geographical segment because all of the Group's revenue was generated from customers located in Mainland China. All of the non-current assets of the Group were located in Mainland China.

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue for the year is set out below:

	2019 RMB'000	2018 RMB'000
Customer 1[a]	**16,905**	16,233
Customer 2[a]	**19,872**	18,963

Note:

(a) The customers are state-owned enterprises.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers	**73,760**	85,418

Revenue from contracts with customers

(i) Disaggregated revenue information

	2019 RMB'000	2018 RMB'000
Type of goods or services		
Sales of compressed natural gas	**72,018**	85,012
Transmission services	**1,742**	406
Total revenue from contracts with customers	**73,760**	85,418

5. REVENUE, OTHER INCOME AND GAINS *(cont'd)*

Geographical markets

All of the Group's revenue was generated from customers located in Mainland China in the current reporting period.

Timing of revenue recognition

All of the Group's revenue was recognised at a point in time in the current reporting period.

The amount of revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period was RMB314,000.

(ii) Performance obligations

Sale of compressed natural gas and liquefied natural gas

The performance obligation of the sale of compressed natural gas is satisfied upon delivery of the goods.

Transmission services

The performance obligation of the provision of transmission services is satisfied upon services are rendered.

The remaining performance obligations as at 31 December 2019:

	2019 RMB'000
Within one year	182

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue within one year. The amount disclosed above does not include variable consideration which is constrained.

Other income and gains

	2019 RMB'000	2018 RMB'000
Interest income from loan to a related party	143	–
Government grants*	100	–
Investment income from financial assets at fair value through profit or loss	96	–
Bank interest income	22	20
Exchange gains, net	–	63
Others	37	346
	398	429

* The amount represents grants received from the government authorities of Mainland China by the Group's subsidiaries in connection with certain financial rewards when local business enterprises meet certain conditions.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2019

6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	Notes	2019 RMB'000	2018 RMB'000
Cost of inventories sold		**53,298**	56,136
Depreciation of property, plant and equipment	13	**4,065**	3,940
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	14(b)	**1,311**	39
Amortisation of other intangible assets	15	**1**	–
Utility expense		**2,767**	3,023
Minimum lease payments under operating leases		**–**	1,397
Transportation expense		**1,179**	591
Auditor's remuneration		**1,389**	1,250
Listing expenses		**–**	4,968
Government grants	5	**(100)**	–
Investment income from financial assets at fair value through profit or loss	5	**(96)**	–
Interest income from loan to a related party	5	**(143)**	–
Bank interest income	5	**(22)**	(20)
Employee benefit expense (including directors' and chief executive's remuneration *(note 8)*):			
Wages and salaries		**3,857**	3,404
Pension scheme contributions		**423**	378
		4,280	3,782
Loss on disposal of items of property, plant and equipment		**214**	–
Impairment of other receivables	19	**110**	–
Impairment of trade receivables	18	**1,139**	5

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on lease liabilities	**426**	–

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Group	
	2019 **RMB'000**	2018 RMB'000
Fees	**318**	240
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**268**	267
Pension scheme contributions	**18**	18
	286	285
	604	525

(a) Independent non-executive directors

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

	2019 **RMB'000**	2018 RMB'000
Mr. Wong Chun Peng Stewart	**106**	80
Mr. Li Wai Kwan	**106**	80
Ms. Li Helen Hoi Lam	**106**	80
	318	240

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(cont'd)*

(b) Executive directors and the chief executive

Year ended 31 December 2019	Salaries, bonuses, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Mr. Liu Yong Cheng*	**68**	**6**	**74**
Mr. Liu Yong Qiang	**68**	**6**	**74**
Mr. Liu Chunde	**132**	**6**	**138**
	268	**18**	**286**

Year ended 31 December 2018	Salaries, bonuses, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Mr. Liu Yong Cheng*	68	6	74
Mr. Liu Yong Qiang	68	6	74
Mr. Liu Chunde	131	6	137
	267	18	285

* Mr. Liu Yong Cheng was also the chief executive of the Company during the year.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2018: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2018: three) highest paid employees who are neither a director nor the chief executive of the Company are as follows:

	Group	
	2019 RMB'000	2018 RMB'000
Salaries, bonuses, allowances and benefits in kind	**139**	203
Pension scheme contributions	**11**	18
	150	221

9. FIVE HIGHEST PAID EMPLOYEES *(cont'd)*

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

	Number of employees	
	2019	2018
Nil to HK$1,000,000	**2**	3

No emoluments have been paid by the Group to any directors or the five highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of the office during the year.

10. INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The major components of income tax expense of the Group during the year are analysed as follows:

	2019 **RMB'000**	2018 RMB'000
Current – Mainland China		
Charge for the year	**1,028**	3,435
Deferred tax	**(351)**	–
Total tax charge for the year	**677**	3,435

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and British Virgin Islands.

The statutory tax rate for the subsidiary in Hong Kong is 16.5%. No Hong Kong profits tax on the Group's subsidiary has been provided as there were no assessable profits arising in Hong Kong during the year.

The provision for current income tax in Mainland China is based on a statutory tax rate of 25% of the assessable profits of the PRC subsidiary of the Group as determined in accordance with the PRC Corporate Income Tax Law.

10. INCOME TAX *(cont'd)*

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	2019 RMB'000	2018 RMB'000
Profit/(loss) before tax	**(2,056)**	8,036
Tax at the statutory tax rate of 25%	**(514)**	2,009
Tax effect of tax rate differences between PRC and overseas loss-making entities	**793**	966
Losses attributable to an associate	**24**	–
Effect of expenses not deductible for tax	**388**	429
Temporary difference recognised from previous years	**(14)**	–
Tax losses not recognised	**–**	31
Tax charge at the Group's effective rate	**677**	3,435

The Group had tax losses arising in Hong Kong of RMB443,000 as at 31 December 2019 (2018: RMB442,000), that are available indefinitely for offsetting against future taxable profits of the company in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiary that has been loss – making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributable by the subsidiary established in Mainland China in respect of earnings generated from 1 January 2008.

As of 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiary established in Mainland China. In the opinion of the directors, it is not probable that this subsidiary will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with an investment in a subsidiary in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB20,608,000 as at 31 December 2019 (2018: RMB20,632,000).

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

11. DIVIDENDS

No dividend has been paid or declared by the Company during the year (2018: Nil).

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings per share amount for the year is based on profit/(loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 500,000,000 (2018: 453,082,191) in issue during the year, as further detailed in note 24 to the financial statements.

	2019 RMB'000	2018 RMB'000
Earnings		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**(2,733)**	4,601

	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**500,000,000**	453,082,191

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Others RMB'000	Total RMB'000
31 December 2019						
At 31 December 2018 and 1 January 2019:						
Cost	22,347	169	20,919	7,597	786	51,818
Accumulated depreciation	(6,115)	(169)	(12,181)	(3,850)	(764)	(23,079)
Net carrying amount	16,232	–	8,738	3,747	22	28,739
At 1 January 2019, net of accumulated depreciation	16,232	–	8,738	3,747	22	28,739
Additions	–	–	–	81	–	81
Disposal	–	–	–	(214)	–	(214)
Depreciation provided during the year *(note 6)*	(1,213)	–	(2,095)	(745)	(12)	(4,065)
At 31 December 2019, net of accumulated depreciation	15,019	–	6,643	2,869	10	24,541
At 31 December 2019:						
Cost	22,347	169	20,919	6,879	786	51,100
Accumulated depreciation	(7,328)	(169)	(14,276)	(4,010)	(776)	(26,559)
Net carrying amount	15,019	–	6,643	2,869	10	24,541
31 December 2018						
At 31 December 2017 and 1 January 2018:						
Cost	20,751	169	20,919	6,363	784	48,986
Accumulated depreciation	(4,990)	(169)	(10,081)	(3,210)	(689)	(19,139)
Net carrying amount	15,761	–	10,838	3,153	95	29,847
At 1 January 2018, net of accumulated depreciation	15,761	–	10,838	3,153	95	29,847
Additions	1,596	–	–	1,234	2	2,832
Depreciation provided during the year *(note 6)*	(1,125)	–	(2,100)	(640)	(75)	(3,940)
At 31 December 2018, net of accumulated depreciation	16,232	–	8,738	3,747	22	28,739
At 31 December 2018:						
Cost	22,347	169	20,919	7,597	786	51,818
Accumulated depreciation	(6,115)	(169)	(12,181)	(3,850)	(764)	(23,079)
Net carrying amount	16,232	–	8,738	3,747	22	28,739

14. LEASES

The Group as a lessee

The Group has lease contracts for leasehold land and office buildings used in its operations. Lump sum payments were made upfront to acquire a leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Prepaid land lease payments (before 1 January 2019)

	2018 RMB'000
Carrying amount at 1 January 2018	1,588
Recognised in profit or loss during the year	(39)
Carrying amount at 31 December 2018	1,549

(b) The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments RMB'000	Leasehold land and office buildings RMB'000	Total RMB'000
As at 1 January 2019	**1,549**	**8,747**	**10,296**
Depreciation charge *(note 6)*	**(39)**	**(1,272)**	**(1,311)**
As at 31 December 2019	**1,510**	**7,475**	**8,985**

(c) Lease liabilities:

	2019 RMB'000
Carrying amount at 1 January	**9,364**
Accretion of interest recognised during the year	**426**
Payment	**(1,600)**
Carrying amount at 31 December	**8,190**
Analysed into:	
Current portion	**1,206**
Non-current portion	**6,984**

14. LEASES *(cont'd)*

The Group as a lessee *(cont'd)*

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 **RMB'000**
Interest on lease liabilities	**426**
Depreciation charge of right-of-use assets	**1,311**
Total amount recognised in profit or loss	**1,737**

(e) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 26(c) and 27, respectively, to the financial statements.

15. OTHER INTANGIBLE ASSETS

	Software RMB'000
Carrying amount at 1 January 2019, net of accumulated amortisation	–
Additions	18
Amortisation provided during the year *(note 6)*	(1)
At 31 December 2019	17
At 31 December 2019	
Cost	18
Accumulated amortisation	(1)
Net carrying amount	17

16. INVESTMENT IN AN ASSOCIATE

	2019 RMB'000	2018 RMB'000
Share of net assets	705	–
Loan to an associate (note 19)	3,600	–
	4,305	–

The Group's balance with the associate is disclosed in note 19 to the financial statements.

Particulars of the associate are as follows:

Company	Place of incorporation	Paid-up capital	Percentage of Owner-ship interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Guangzhou Guanghong Energy Technology Company Limited ("Guanghong Energy") (廣州廣宏能源科技有限公司)	Mainland China	RMB800,000	40%	40%	40%	Sale of compressed natural gas*

* The associate has not commenced its operation as at 31 December 2019.

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

	2019 RMB'000	2018 RMB'000
Current assets	4,384	–
Current liabilities	(3,822)	–
Net assets	562	–
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	40%	40%
Carrying amount of the investment	705	–
Revenue	–	–
Interest expense	(152)	–
Loss and total comprehensive loss for the year	(238)	–

17. INVENTORIES

	2019 RMB'000	2018 RMB'000
Compressed natural gas	50	52

18. TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**19,168**	17,469
Impairment	**(1,193)**	(54)
	17,975	17,415

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the transaction date and net of loss allowance, is as follows:

	2019 RMB'000	2018 RMB'000
within 3 months	**10,974**	15,636
3 to 6 months	**1,016**	1,739
6 to 12 months	**1,594**	38
1 to 2 years	**4,391**	2
	17,975	17,415

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	**54**	49
Impairment losses *(note 6)*	**1,139**	5
At end of year	**1,193**	54

18. TRADE RECEIVABLES *(cont'd)*

The increase (2018: increase) in the loss allowance was due to the following significant changes in the gross carrying amount:

(i) Increase in the loss allowance of RMB1,139,000 (2018: RMB5,000) as a result of an increase in trade receivables which were past due over 3 months.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As of 31 December 2019

		Past due				
	Current	Less than 3 month	3 to 6 month	6 to 12 month	1 to 2 years	Total
Expected credit loss rate	**2.31%**	**2.94%**	**3.43%**	**12.33%**	**–**	**6.22%**
Gross carrying amount (RMB'000)	**4,426**	**6,751**	**1,037**	**6,954**	**–**	**19,168**
Expected credit losses (RMB'000)	**101**	**199**	**36**	**857**	**–**	**1,193**

As of 31 December 2018

		Past due				
	Current	Less than 3 month	3 to 6 month	6 to 12 month	1 to 2 years	Total
Expected credit loss rate	0.31%	0.31%	0.31%	0.31%	7.65%	0.31%
Gross carrying amount (RMB'000)	9,847	5,838	1,744	38	2	17,469
Expected credit losses (RMB'000)	30	19	5	–	–	54

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 RMB'000	2018 RMB'000
Prepayments	**5,709**	5,823
Due from a related party *(note 28 (b))*	**3,752**	–
Deposits for acquisition of a subsidiary	**2,687**	–
Deposits and other receivables	**1,641**	2,711
Prepaid land lease payments	**–**	39
Impairment	**(110)**	–
	13,679	8,573

An amount due from an associate is unsecured, with an interest rate of 4.75% per annum, repayable within 2 years and non-trade in nature. There was no recent history of default and past due amounts for the loan to the associate. As at 31 December 2019, the loss allowance was assessed to be minimal (31 December 2018: nil).

Deposits and other receivables mainly represent deposits with suppliers. Expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. As at 31 December 2019, the Group estimated expected losses for other receivables to be RMB110,000. (31 December 2018: nil).

Deposits and other receivables are non-interest-bearing, unsecured and repayable on demand.

20. CASH AND CASH EQUIVALENTS

	2019 RMB'000	2018 RMB'000
Cash and cash equivalents	**27,402**	37,318
Denominated in:		
RMB	**7,669**	12,378
HK$	**19,733**	24,940
	27,402	37,318

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

21. TRADE PAYABLES

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

	2019 RMB'000	2018 RMB'000
Within 1 month	–	140

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

22. OTHER PAYABLES AND ACCRUALS

	2019 RMB'000	2018 RMB'000
Other tax payable	**2,208**	2,118
Accrued payroll	**1,022**	866
Payable for purchase of property, plant and equipment	**341**	459
Contract liabilities *(note (a))*	**182**	343
Other payables	**1,110**	690
	4,863	4,476

Note:

(a) Details of contract liabilities are as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000	1 January 2018 RMB'000
Short-term advances received from customers			
Sales of goods	**182**	343	989

Contract liabilities include short-term advances received to deliver compressed natural gas. The decrease in contract liabilities in 2019 was mainly due to the decrease in short – term advances received from customers in relation to sales of compressed natural gas at the end of the year.

(b) Other payables are non-interest-bearing and repayable on demand.

23. DEFERRED TAX

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

Deferred tax liabilities

	Right-of-use assets RMB'000	Total deferred tax liabilities RMB'000
At 31 December 2018	–	–
Effect of adoption of HKFRS 16	2,187	2,187
At 1 January 2019 (restated)	2,187	2,187
Deferred tax credited to profit or loss	(318)	(318)
Gross deferred tax liabilities at 31 December 2019	1,869	1,869

Deferred tax assets

	Lease liabilities RMB'000	Impairment allowance on financial assets RMB'000	Total deferred tax assets RMB'000
At 31 December 2018	–	–	–
Effect of adoption of HKFRS 16	2,341	–	2,341
At 1 January 2019 (restated)	2,341	–	2,341
Deferred tax credited/(charged) to profit or loss	(293)	326	33
Gross deferred tax assets at 31 December 2019	2,048	326	2,374

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2019 RMB'000	2018 RMB'000
Net deferred tax assets recognised in consolidated statement of financial position	**505**	–

24. SHARE CAPITAL

	2019 RMB'000	2018 RMB'000
Authorised 10,000,000,000 ordinary shares of HK$0.01 each	**88,632**	88,632
Issued and fully paid: 500,000,000 ordinary shares of HK$0.01 each (2018: 500,000,000)	**4,135**	4,135

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

	Number of shares in issue	Share capital RMB'000
At 1 January 2018	100,000,200	886
Issue of shares *(note (a))*	125,000,000	1,015
Capitalisation issue of shares *(note (b))*	274,999,800	2,234
At 31 December 2018, 1 January 2019 and 31 December 2019	500,000,000	4,135

Notes:

(a) In connection with the Company's initial public offering, 125,000,000 shares of HK$0.01 each were issued at a price of HK$0.48 per share for a total cash consideration, before expense, of approximately HK$60,000,000 (equivalent to RMB48,737,000).*

(b) On 18 May 2018, pursuant to the written resolutions of the shareholders of the Company passed on 20 April 2018, the directors were authorised to capitalise an amount of HK$2,749,998 or approximately RMB2,234,000 from the amount standing to the credit of the share premium account of the Company to pay up in full at par 274,999,800 shares for allotment and issue to the persons whose names appear on the register of members of the Company on the date of the written resolutions (or as they may direct) on a pro rata basis.

* Dealings on these shares on the Stock Exchange commenced on 18 May 2018.

25. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 48 of the financial statements.

Share premium

The difference between the proceeds from issue of shares and nominal values of shares issued was credited to the Company's share premium account.

On 13 December 2017, the Company allotted and issued 71 and 29 ordinary shares to Hongsheng Enterprise Limited and Yongsheng Enterprise Limited for settlement of shareholders' loan from Mr. Liu Yong Qiang and Mr. Liu Yong Cheng, amounting to HK$13,888,000 and HK$5,673,000, respectively. The difference between the capitalisation of shareholders' loan and nominal value of the 100 shares issued was credited to the Company's share premium accounts.

Capital reserve

The capital reserve of the Group represents the paid-up capital of the companies comprising the Group prior to the incorporation of the Company and the reserve arising from the reorganisation.

Exchange fluctuation reserve

The exchange fluctuation reserve comprises all relevant exchange differences arising from the translation of the financial statements of foreign operations.

Statutory reserve

In accordance with the Company Law of the PRC, the subsidiary of the Group which is a domestic enterprise is required to allocate 10% of its profit after tax, as determined in accordance with the relevant PRC accounting standards, to its statutory surplus reserve until the reserve reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

26. CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no significant contingent liabilities (31 December 2018: nil).

27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

2019

	Lease liabilities RMB'000
At 31 December 2018	**–**
Effect of adoption of HKFRS 16	**9,364**
At 1 January 2019	**9,364**
Changes from financing cash flows	**(1,600)**
Interest expense	**426**
At 31 December 2019	**8,190**

2018

	Amount due to a director RMB'000
At 1 January 2018	218
Changes from financing cash flows	(228)
Foreign exchange movement	10
At 31 December 2018	–

(b) Total cash outflow for leases included in consolidated statement of cash flows is as follows:

	2019 RMB'000
Within financing activities	**(1,600)**

28. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for:		
Plant and machinery	**1,875**	–
Acquisition of a subsidiary	**17,343**	–
	19,218	–

(b) Operating lease arrangements

The Group leases certain of its buildings under operating lease arrangements. Leases for buildings are negotiated for terms ranging from one to ten years. As at 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000
Within one year	1,818
In the second to third years, inclusive	3,305
After three years	6,600
	11,723

29. RELATED PARTY TRANSACTIONS

Details of the Group's related parties are as follows:

Name	Relationship with the Company
Mr. Liu Yong Cheng	Director
Guanghong Energy	An associate

(a) The Group had the following transactions with related parties during the year:

	2019 RMB'000	2018 RMB'000
Loan to an associate: Guanghong Energy	3,600	–
Loans from a director: Mr. Liu Yong Cheng	–	272
Interest income from loan to an associate: Guanghong Energy	143	–

The loan to Guanghong Energy was unsecured, with an interest rate of 4.75% per annum, repayable within 2 years and non-trade in nature.

(b) Outstanding balances with related parties:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Due from an associate: Guanghong Energy	3,752	–

The balance with Guanghong Energy is unsecured, with an interest rate of 4.75% per annum, repayable within 2 years and non-trade in nature (31 December 2018: nil).

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

	2019 RMB'000	2018 RMB'000
Short-term employee benefits	400	381
Pension scheme contributions	28	30
Total compensation paid to key management personnel	428	411

Further details of directors' and the chief executive's remuneration are included in note 8 to the financial statements.

30. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

As at 31 December 2019

Financial assets

	Financial assets at amortised cost RMB'000
Trade receivables	17,975
Financial assets included in prepayments, other receivables and other assets	7,970
Cash and cash equivalents	27,402
	53,347

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Lease liabilities	8,190
Financial liabilities included in other payables and accruals	1,451
	9,641

30. FINANCIAL INSTRUMENTS BY CATEGORY *(cont'd)*

As at 31 December 2018

Financial assets

	Financial assets at amortised cost RMB'000
Trade receivables	17,415
Financial assets included in prepayments, other receivables and other assets	2,711
Cash and cash equivalents	37,318
	57,444

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	140
Financial liabilities included in other payables and accruals	1,149
	1,289

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets included in prepayments, other receivables and other assets, trade payables, financial liabilities included other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of the non-current portion of financial assets included in prepayments, other receivables and other assets have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for financial assets included in prepayments, other receivables and other assets as at 31 December 2019 were assessed to be insignificant.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

Foreign currency risk refers to the risk on fluctuation of fair value or future cash flows of financial instruments which arises from changes in exchange rates. Fluctuations in exchange rates between the RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HK$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities), and the Group's equity.

	Increase/ (decrease) in HK$/RMB rate %	Increase/ (decrease) in profit/loss before tax RMB'000	Increase/ (decrease) in in equity RMB'000
2019			
If the RMB weakens against the HK$	**5**	**(437)**	**(1,657)**
If the RMB weakens against the HK$	**(5)**	**437**	**1,657**
2018			
If the RMB weakens against the HK$	5	(425)	(1,897)
If the RMB weakens against the HK$	(5)	425	1,897

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(cont'd)*

Credit risk *(cont'd)*

Maximum exposure and year-end staging

The tables below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

As of 31 December 2019

	12-month ECLs	**Lifetime ECLs**			
	Stage 1 RMB'000	**Stage 2 RMB'000**	**Stage 3 RMB'000**	**Simplified approach RMB'000**	**Total RMB'000**
Trade receivables*	**–**	**–**	**–**	**19,168**	**19,168**
Financial assets included in prepayments, other receivables and other assets					
– Normal**	**8,080**	**–**	**–**	**–**	**8,080**
Cash and cash equivalents					
– Not yet past due	**27,402**	**–**	**–**	**–**	**27,402**
	35,482	**–**	**–**	**19,168**	**54,650**

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	–	–	–	17,415	17,415
Financial assets included in prepayments, other receivables and other assets					
– Normal**	2,711	–	–	–	2,711
Cash and cash equivalents					
– Not yet past due	37,318	–	–	–	37,318
	40,029	–	–	17,415	57,444

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 18 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(cont'd)*

Liquidity risk

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

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	As at 31 December 2019				
	On demand RMB'000	**Less than 3 months RMB'000**	**3 to less than 12 months RMB'000**	**1 to 5 years RMB'000**	**Total RMB'000**
Lease liabilities	**–**	**395**	**1,179**	**7,857**	**9,431**
Financial liabilities included in other payables and accruals	**1,451**	**–**	**–**	**–**	**1,451**
	1,451	**395**	**1,179**	**7,857**	**10,882**

	As at 31 December 2018				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade payables	140	–	–	–	140
Financial liabilities included in other payables and accruals	1,149	–	–	–	1,149
	1,289	–	–	–	1,289

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

33. EVENTS AFTER THE REPORTING PERIOD

On 17 December 2019, the Company and Stable Development Company Limited ("Stable Development"), among others, entered into a sale and purchase agreement, pursuant to which the Company agreed to acquire the entire issued share capital of Jet Union Technology Limited, a company incorporated in the BVI and principally engaged in the automated car wash business in the PRC through its wholly-owned subsidiaries, and on 18 December 2019, the Company and Stable Development, among others, entered into a supplemental agreement, pursuant to which the consideration for the acquisition of Jet Union Technology Limited was revised to RMB20,029,908 (the "Acquisition"), which was settled by cash of RMB3,800,000 and the allotment and issue of 55,490,000 Shares and the issue of convertible bonds in the principal amount of HK$8,056,310 (the "Convertible Bonds"). The Acquisition was completed on 6 January 2020 ("acquisition date"). The Group completed the Acquisition to expand its business to automated car wash business. On 7 February 2020 and 8 May 2020, the Company allotted and issued 6,540,000 Shares and 37,970,000 Shares, respectively, at the conversion price of HK$0.181 per share to Stable Development pursuant to its conversion notices, and the Convertible Bonds have been fully converted. As the accounting for the business combination as at acquisition date are incomplete at the time the financial statements authorised for issue, it is not appropriate to disclose further details about the Acquisition.

On 19 January 2020, Excellence Enterprise Holdings Limited, a wholly-owned subsidiary of the Company, Mr. Liu Yong Cheng and Mr. Liu Yong Qiang entered into a sale and purchase agreement, pursuant to which Excellence Enterprise Holdings Limited has conditionally agreed to purchase from Mr. Liu Yong Cheng and Mr. Liu Yong Qiang the entire issued share capital of Evergreen Leader Limited at the consideration of Malaysian Ringgit 29,000,000, which shall be satisfied by the allotment and issue of an aggregate of 166,470,000 Shares and the issue of the convertible bonds in the aggregate principal amount of HK$29,129,880 upon the completion.

On 21 January 2020, the Company granted share options (the "options") to eligible individuals (the "Grantees") pursuant to the share option scheme adopted by the Company on 20 April 2018. The options shall entitle the Grantees to subscribe for a total of 49,500,000 shares. The exercise price of the options granted was HK$0.166 per share and the options are exercisable for a period of five years from the date of grant subject to vesting conditions of the options.

The Company received notices issued by the new pneumonia prevention and control committee for Jingzhou Economic and Technological Development Zone (荊州經濟技術開發區新型肺炎防控指揮部) in February, pursuant to which the Group was required to suspend its business operation temporarily in order to facilitate better prevention and control of the COVID-19 situation in Mainland China, and nonessential vehicles were prohibited from transporting on the major roads in the city. Accordingly, the Group suspended its business operation, including its gas refueling stations in Jingzhou, Hubei Province. On 14 March 2020, the Group received an official notice from the relevant authority approving the resumption of the Group's business operation in Jingzhou, Hubei Province.

On 3 April 2020, Excellence Enterprise Holdings Limited, Mr. Yu Ting Hin and Mr. Fai Wai Lap Felip entered into a sale and purchase agreement, pursuant to which Excellence Enterprise Holdings Limited agreed to acquire the entire issued share capital of Silver Max AP Company Limited at the consideration of Malaysia Ringgit 9,800,000, which shall be satisfied by the allotment and issue of an aggregate of 62,360,000 Shares and the issue of the convertible bonds in the aggregate principal amount of HK$7,465,600, and was aimed to acquire the four service apartment units at the residential housing development area in Kuala Lumpur, Malaysia. The acquisition of Silver Max AP Company Limited was completed on 21 April 2020.

The ECL at 31 December 2019 was estimated based on forecast economic conditions as at that date. Since early January 2020, the coronavirus outbreak has spread across Mainland China and beyond, causing disruption to business and economic activity. The impact on GDP and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECL under HKFRS 9 in 2020.

34. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations.

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 **RMB'000**	2018 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**2**	1
CURRENT ASSETS		
Prepayments	**3,368**	544
Due from a subsidiary	**45,084**	44,086
Cash and cash equivalents	**8,139**	13,600
Total current assets	**56,591**	58,230
CURRENT LIABILITIES		
Accruals	**281**	–
Due to subsidiaries	**1,618**	1,589
Total current liabilities	**1,899**	1,589
NET CURRENT ASSETS	**54,692**	56,641
TOTAL ASSETS LESS CURRENT LIABILITIES	**54,694**	56,642
Net assets	**54,694**	56,642
EQUITY		
Share capital *(note)*	**4,135**	4,135
Reserves *(note)*	**50,559**	52,507
Total equity	**54,694**	56,642

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(cont'd)*

Note:

A summary of the Company's reserves is as follows:

	Share capital RMB'000	Share premium RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
At 1 January 2018	886	16,351	1	(1,524)	15,714
Loss for the year	–	–	–	(3,036)	(3,036)
Other comprehensive income for the year:					
Exchange differences on translation of foreign operations	–	–	4,343	–	4,343
Total comprehensive income for the year	–	–	4,343	(3,036)	1,307
Share issue expenses	–	(9,116)	–	–	(9,116)
Issue of shares of the Company	1,015	47,722	–	–	48,737
Capitalisation of issue of shares	2,234	(2,234)	–	–	–
At 31 December 2018 and at 1 January 2019	4,135	52,723	4,344	(4,560)	56,642
Loss for the year	–	–	–	(3,174)	(3,174)
Other comprehensive income for the year:					
Exchange differences on translation of foreign operations	–	–	1,226	–	1,226
Total comprehensive income for the year	–	–	1,226	(3,174)	(1,948)
At 31 December 2019	4,135	52,723	5,570	(7,734)	54,694

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 8 May 2020.

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements and the Prospectus, is set out below.

RESULTS

	For the year ended 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	**73,760**	85,418	65,665	63,696	84,003
Gross Profit	**6,713**	16,950	9,262	7,896	11,483
Profit/(loss) before income tax	**(2,056)**	8,036	(4,364)	5,529	8,577
Profit/(loss) for the year	**(2,733)**	4,601	(5,417)	3,796	6,049
Profit/(loss) for the year (excluding Listing expenses)	**(2,733)**	9,569	6,574	3,939	6,049

ASSETS AND LIABILITIES

	As at 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Total assets	**99,371**	93,814	48,811	58,137	55,909
Total liabilities	**16,007**	8,016	10,598	45,610	50,634
Total equity	**83,364**	85,798	38,213	12,527	5,275