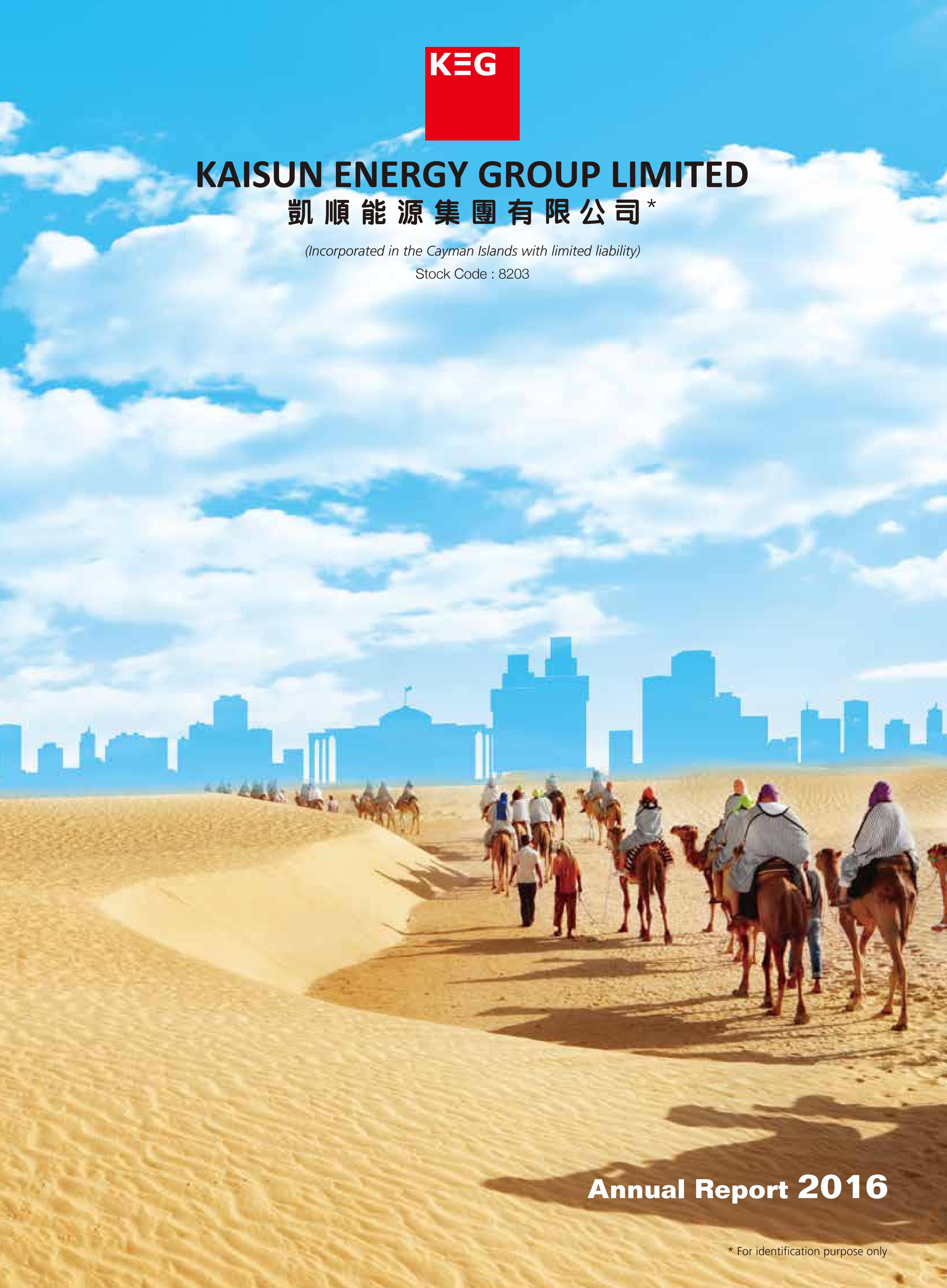
# KAISUN ENERGY GROUP LIMITED
# 凱順能源集團有限公司*

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code : 8203



## Annual Report 2016

* For identification purpose only

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

**GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This report, for which the directors (the "Directors") of Kaisun Energy Group Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

# Contents



*The English text of this annual report shall prevail over the Chinese text in case of inconsistencies.*

# Corporate Information

## Board of Directors

### Executive Directors

Mr. Chan Nap Kee, Joseph
*(Chairman and Chief Executive Officer)*
Dr. Chow Pok Yu, Augustine
*(Retired on 31 December 2016)*
Mr. Yang Yongcheng

### Independent Non-Executive Directors

Mr. Liew Swee Yean
Mr. Siu Siu Ling, Robert
Dr. Wong Yun Kuen
Mr. Anderson Brian Ralph

## Company Secretary

Mr. Leung Lit For
Ms. Young Helen

## Audit Committee

Mr. Liew Swee Yean *(Committee Chairman)*
Mr. Siu Siu Ling, Robert
Dr. Wong Yun Kuen
Mr. Anderson Brian Ralph

## Remuneration Committee

Dr. Wong Yun Kuen *(Committee Chairman)*
Mr. Chan Nap Kee, Joseph
Mr. Anderson Brian Ralph

## Nomination and Corporate Governance Committee

Mr. Siu Siu Ling, Robert *(Committee Chairman)*
Mr. Liew Swee Yean
Mr. Chan Nap Kee, Joseph

## Authorised Representatives

Mr. Chan Nap Kee, Joseph
Mr. Leung Lit For

## Compliance Officer

Dr. Chow Pok Yu, Augustine
*(Retired on 31 December 2016)*
Mr. Yang Yongcheng
*(Appointed on 31 December 2016)*

## Auditors

RSM Hong Kong

## Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## Head Office and Principal Place of Business in Hong Kong

Unit A, 23/F., Two Chinachem Plaza
68 Connaught Road Central, Central
Hong Kong

## Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## Principal Bankers

Wing Hang Bank Limited
Bank of Communications Co., Limited

## Website

www.kaisunenergy.com

## Stock Code

8203

# Financial Summary

A summary of the results and of the assets and liabilities of the Group for each of the last five financial years is set out as below:

## Results

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue | **35,218** | 18,673 | 36,878 | 266,188 | 583,154 |
| Loss before tax | **(3,665)** | (107,476) | (223,524) | (200,837) | (177,356) |
| Income tax (expense)/credit | **(9,864)** | 23,936 | 3,715 | 3,821 | (828) |
| Less: Loss/(profit) attributable to non-controlling interests | **113** | (7,534) | 18,357 | 29,080 | 3,983 |
| Loss attributable to owners of the Company | **(13,416)** | (91,074) | (201,452) | (167,936) | (174,201) |

## Assets and Liabilities

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total assets | **306,544** | 311,784 | 317,706 | 598,176 | 884,872 |
| Total liabilities | **(26,849)** | (15,782) | (56,528) | (119,271) | (202,749) |
| Owners' funds | **287,206** | 304,253 | 279,186 | 477,799 | 653,764 |

# Chairman's Statement

In 2016, Kaisun continued with our Belt and Road related business development, which includes our existing minerals and energy related operations as well as exploring different opportunities in the Belt and Road with our strategic partners. We have been operating in the Belt and Road regions even before the Belt and Road initiative was announced back in 2013. This experience has made Kaisun the pioneer and expert in the Belt and Road. So even though Kaisun is relatively small by market capitalization standards but media, businesses and even international organization hold us in high regard for our knowledge in the Belt and Road that goes beyond statistics and theories.

This experience, unfortunately has not converted into a meaningful bottom line. While our business team travelled around developing our Belt and Road business, we have also spent the last few years dealing with the after effects of the commodities slump. There was a great deal of non-cash loss items in our financial results for the past few years such as impairment on our mining assets as well as some on our supply chain management receivables. It was a decision made so the above would not burden us going forward. Many energy and mining related companies including some of our business partners struggle to dig themselves out of the hole after over leveraging themselves on this capital intensive industry. Kaisun is fortunate enough to have a collection of mining and energy seasoned directors to sit on the Board and advised the Group to restrain ourselves when our peers were going on a borrowing craze. To add, we are proud to say that Kaisun is actually one of the few listed companies in Hong Kong to have more independent non-executive directors than executive directors for gatekeeping purposes.

Another issue that we found ourselves facing was that we could have better internal control and risk management protocols to accommodate our Belt and Road business. Our risk exposure working in the Belt and Road countries are most likely higher than companies that do majority of their business in Hong Kong and in the PRC. Knowing that fact, we took a proactive stance in hiring an internal auditor back in 2013 to develop our own internal control and risk management procedures to go alongside our Belt and Road business development. In order to enhance further Kaisun's internal control procedures for the purpose of reorganizing its business units and preparing for our future cooperation with our strategic partners, we have recently engaged Moore Stephens Consulting Limited ("Moore Stephens") to carry out a review in respect of Kaisun's investment management and procurement management processes, report on its findings and make recommendations accordingly. Suggestions were given by Moore Stephens on how we can improve on our investment management and procurement management processes and they have been put into practice starting 2017.

With that said, we still owe our shareholders an apology for not performing well in the past few years. We do understand that no matter how much we do in the background, if it could not give our shareholders return everything would be meaningless. We have a great deal of long term supporters and investors of the Group starting to grow impatient as we go through this long and painful transitional period. This is why in order to show our gratitude to our shareholders and a further commitment to Kaisun, management of the Group was one of the underwriters in our recent fundraising efforts via a two for one rights issue (subscription price at closing price on date before announcement date). Management of the Group took up most of the rights shares at the end. We hope that this move will boost morale of our investors and with the extra fund available, we can diversify our Belt and Road portfolio further while strengthening our existing businesses.

# Chairman's Statement

We believe that 2017 will be a much greater year for Kaisun's development. This is because commodities prices have most likely bottomed out and on the other hand, Belt and Road related investments across the world is reaching a new high. The world is beginning to acknowledge the Belt and Road Initiative as the cure to the current global economic situation and now various concrete projects are beginning to embark. The Group will try to cease this golden opportunity and study various investment options. If one or more that suits the development direction of the Group arises, we will consider further fund raising through equity or debt, whichever option that will make the most sense to the Group and benefit our shareholders the most.

# Management Discussion and Analysis

## Business Review

### Kaisun Energy Group Existing Belt and Road Business

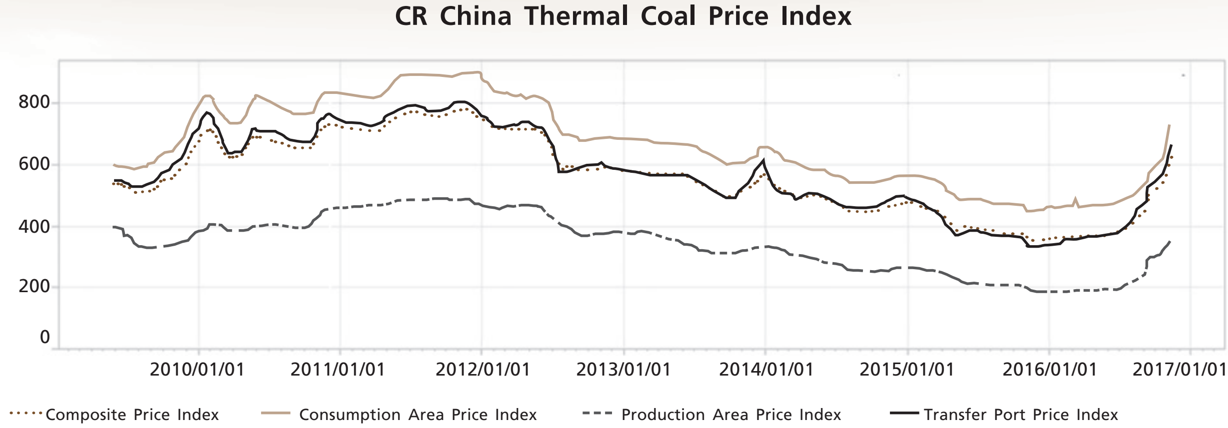
With years of experience in the Belt and Road and in the frontier market like Central Asia, the Group has established our footprint in different regions in the Belt and Road. One of the Group's greatest strength comes from our energy and mining background. This energy and mining experience has transformed into a business network with private and state-owned enterprises, government and international organizations. We consider this a great head start and a great advantage in our Belt and Road business development as we are able to quickly pitch our ideas and development plans to the right people. Also, we are able to become a more effective "super connector" while at the same time, grow and expand our existing operations. With that said, the Group now has a solid investment and business portfolio diversified into different regions of the Belt and Road such as Central Asia, Southeast Asia and of course, the PRC.

The Board and Management of the Group highly value our existing mining, energy, logistics, and supply chain management businesses as these are still the backbone of the Belt and Road initiative and the industries that drives development of a country and of the Group.

*PRC division — Shandong mining and metallurgical machineries production*

Tengzhou Kaiyuan Industrial Co. Ltd ("Tengzhou Kaiyuan") is a joint venture of the Company's subsidiary (70% shareholder) and the local Government Owned Enterprise (30% shareholder) that specializes in mining and metallurgical machineries production. This type of cooperation shows the essence of the Group's direction where we want to leverage on our Belt and Road connection to create value for the Group and for our investors. Tengzhou Kaiyuan has been with the Group since 2014 and given a recent recovery of coal prices (see diagram below), Tengzhou Kaiyuan has more than doubled its previous year's total sales (2016: HK$12.9 million, 2015: 5.7 million) and has finally turned in a profit. Management of the Group has done a great job on Tengzhou Kaiyuan building its reputation, increasing its production capacity and also making it flexible enough to weather through the tough times but still able to capture opportunities when they arise.

# Management Discussion and Analysis

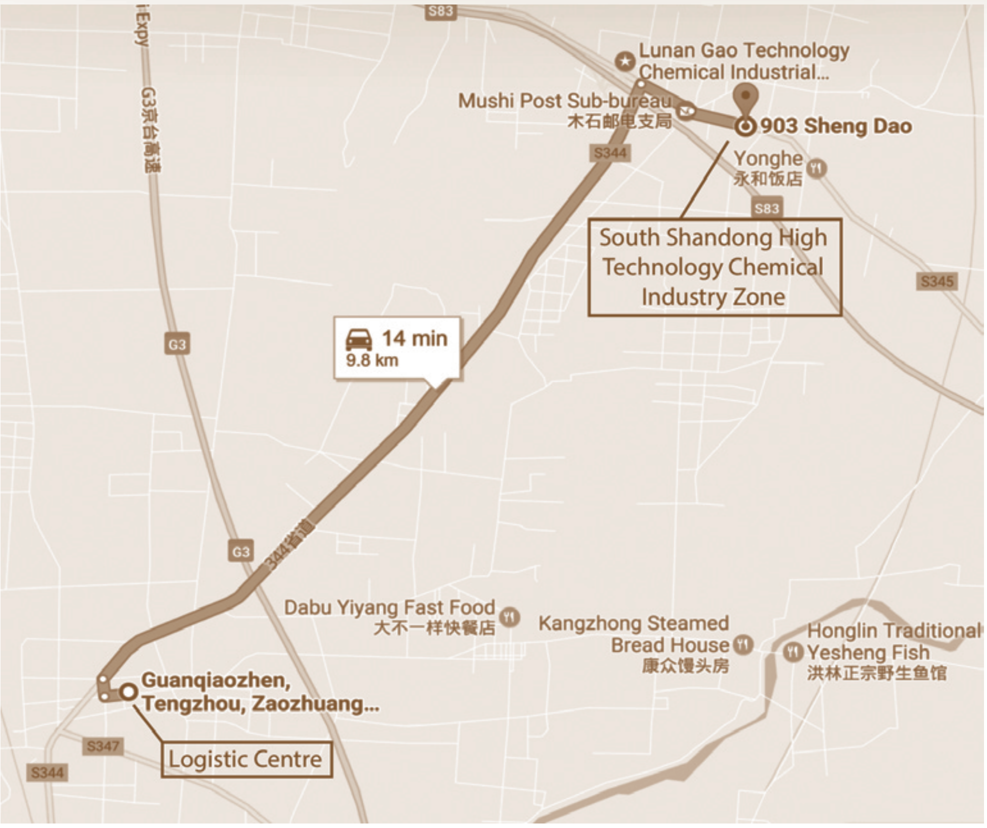



*(Source: http://www.sxcoal.com/price/index/155/en)*

### *PRC division — Shandong supply chain management business*

Shandong Kailai Energy Industrial Co., Limited ("山東凱萊能源物流有限公司") ("Shandong Kailai") is a joint venture of the Company's subsidiary (70% shareholder) and Shandong Baiyi Coal and Electricity Company Limited ("山東八一煤電化有限公司") (30% shareholder — a local government enterprise) that specializes in minerals supply chain management business. 2016 was not a particularly exciting year for Shandong Kailai in terms of financial results given only a few coal supply chain management business was conducted. But in reality, a great deal of effort was put in and plenty of groundwork work was laid out for the joint venture in 2016. One of the greatest achievements is that, after a long application process in 2016, on February 2017, Shandong Kailai officially receives an agreement issued by China's Jinan Railway Bureau permitting right to use a special section of railway line. What makes this agreement special is that Shandong Kailai will have the right to use a section of the railways where we will provide loading and storage services to minerals suppliers that wish to use our logistic center. Location wise, our logistic center will be in close proximity to South Shandong High Technology Chemical Industry Zone (魯南高科技化工園) — one of the top 10 chemical engineering industrial base in China (Please see below map for an approximate distance illustration). In order to complement this milestone of the company, Shandong Kailai designed the expansion plan of our logistic center where the ultimate goal is 3 million tons of minerals handling capacity per year.

# Management Discussion and Analysis

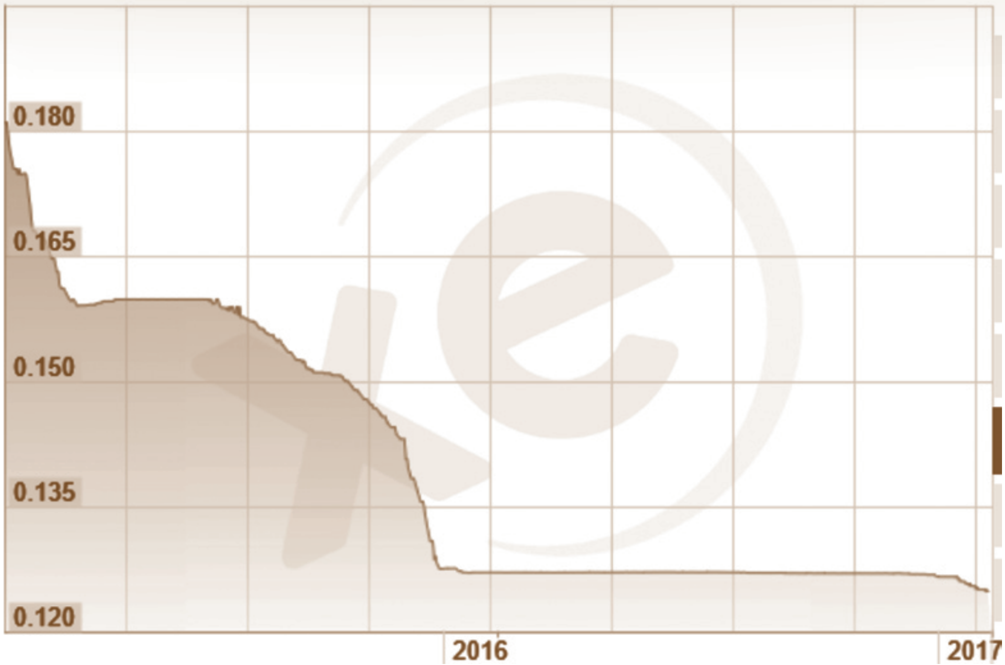



Another venture of Shandong Kailai is the development of a coal mine in Turpan, Xinjiang. Our Group's business relationship with Xinjiang goes back long before the Belt and Road initiative. We have great minerals logistics experience and various connections in Xinjiang and through our joint venture Shandong Kailai we would like to revisit this strategic location in the Belt and Road. Given PRC's energy development strategy set out in the Thirteenth Five-Year Plan for the National Economic and Social Development, and the nearby infrastructure development of Turpan, we believe that after proper development, this coal mine will be a great contributor to the Group.

*Central Asia division — Tajikistan Coal exploitation*

Our strategy on the exploitation of coal in Tajikistan has been simple in the past couple of years. Ever since the continuing depreciation of Tajikistan Somoni ("TJS") against the US$, management of the Group decided to leave production and preparation to a minimal in order to allowing us flexibility moving forward. This is because most of our coal sales is in Tajikistan which means our revenue is denominated in TJS while most of our costs is denominated in US$. This strategy has worked reasonably well in which our conservativeness has protected the Group from suffering losses from volatile exchange rates. During 2016, the exchange rate between TJS and US$ seemed to have stabled but under serious consideration management of the Group decided to put ramping up coal production on hold and once again we were correct going in that direction. From Jan 2017 up to March 2017, TJS actually depreciated further by approximately 1.7% from TJS/US$0.12696 to TJS/US$0.12478. Therefore, only very small scale of exploitation was done during the year in order to keep our machineries in good shape so that we can be ready when the opportunity comes.

## Management Discussion and Analysis




Nonetheless, our resources in Tajikistan did not go to waste as our team searched for other opportunities in the country and in Central Asia. This effort has turned into our Belt and Road leasing business in Tajikistan.

*Central Asia division — Leasing Business*

In 2016 we started our leasing business with our partner in Tajikistan but eventually we would like to conduct leasing business in the whole Central Asia as well as the CIS countries. One important thing to point out is that in order to avoid currency risks such as our coal exploitation business, our leasing business was conducted using US$ in 2016. The rationale in why we established our own leasing business will be discussed below.

It was after years of experience and actually operating in Tajikistan and Central Asia that management of the Group believes leasing is the best way to kick off our next business after coal exploitation. This is due to the fact that Belt and Road initiative's impact on regions such as Central Asia is tremendous. The number of new development projects are abundant which gives birth to the need of equipment and other types of machineries leasing. The Group is basically just trying to meet this Belt and Road driven demand in a country where leasing is not mainstream. On the other hand, leasing provides the Group with the flexibility and safety that other types of financing could not provide. Since ownership of the equipment or machineries in question belongs to the Group, leasing greatly reduces our risks in case of default.

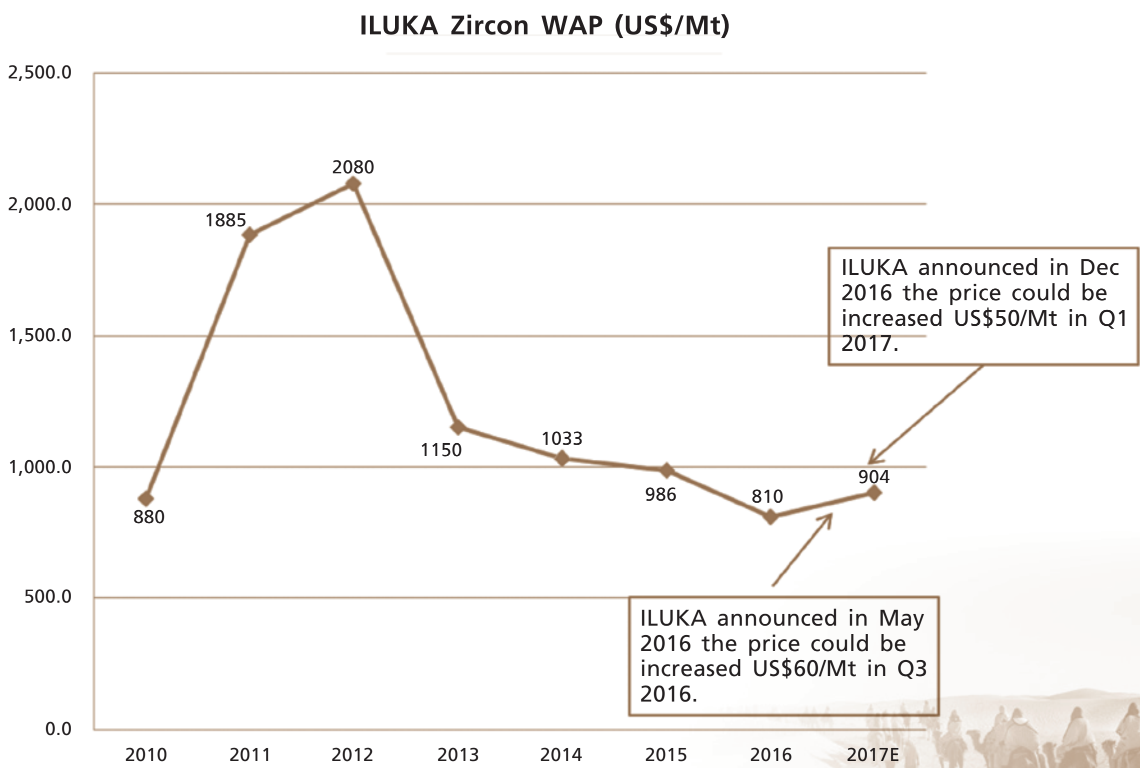
Also, leasing in Central Asia in general lacks scale and supervision. Therefore, by entering the leasing business in Tajikistan and Central Asia, we are a pioneer in the industry. By partnering with a local leasing company in Tajikistan in 2016, the Group now has a chance to tap into the business with great potential. Given the Belt and Road initiative's influence in Central Asia, management of the Group believes a carefully planned out leasing business would bring great value to the Group and to our investors.

## Management Discussion and Analysis

*Supply Chain Management Business*

The Group entered the supply chain management business back in 2012. As a rookie in the industry the Group spent a great deal of time and resources before becoming the industry veteran that we are today. With our current involvement in the Belt and Road related business and given our current robust business network, we have earned the respect of our peers and now we are able to command better terms than before. Even though it costs the Group less capital to conduct supply chain management business, this industry is still very capital intensive and puts a great deal of stress on the company's cash flow. After careful consideration and studying all available supply chain management business proposal given to the Group, we have decided to only carry out small scale supply chain management business in the Period. This is not to say the Group was to shy away from conducting supply chain management business but instead, we were selective regarding potential new contracts in which they must match the Group's development and risk profile.

One of the Group's recent great achievement is acting as a "super connector" in signing an agreement with Daiichi Kigenso Kagaku Kogyo Co., Ltd., ("DKKK") which is one of the world's largest Zirconium products manufacturer in relation to supply and procurement of zircon sand. DKKK is a Japan-based manufacturer of various zirconium oxide and composite oxides. As the world's top-ranking zirconium compound producer accounting for more than 50% of the global market share, DKKK holds a position of monopolizing the oxygen sensors of Japanese market for automobiles. Furthermore, DKKK is one of the two manufacturers in the world that has an integrated production system from crude ores to finished products. The Group is very excited to work with an industry veteran and leader in their field. From the graph below, we can see that zircon prices are expected to have bottomed out making our cooperation with DKKK that much more promising.



# Management Discussion and Analysis

The Group is also aware that one of our supply chain management business partner Up Energy Development Group Limited ("Up Energy") has been placed in the first delisting stage by the Stock Exchange of Hong Kong Limited. We have been closely monitoring their situation and the Group will respond accordingly to their future development.

*Listed Securities Investment*

Originally began in or around 2011/2012 as part of the Group's treasury management activities, listed securities investment became the Group's largest profit contributor in the year 2016. The Group first became involved in securities investment with an aim to generate a reasonable amount of return and to enhance the yield on cash. However, as the commodities market slump continued, the Group became more involved in securities investment for the past couple of years and hence this has been our normal course of business. Due to the growing gains on investment of listed securities, listed securities investment is now one of the principal activities of the Group. Management of the Group believes that commodities prices have bottomed out and our investment will not only be focused more on our existing business and principal activities, but also the recently established new economy business, which will be discussed in greater detail below.

*New economy business*

The Belt and Road initiative was never just about distributing production overcapacity to China's neighbors, for it also emphasize on matters such as the promotion of cultural exchange and improving cross-border trade and financial network. The Group already has an experienced business unit that deals in the more "traditional" type of business such as energy, resources, logistics and agriculture. However, in order to capture the opportunities that arises from the other side of the Belt and Road initiative, the Group decided in late 2016 to develop our very own "New Economy Business Unit" after careful studying of this industry. Management of the Group believes in making our current business and operation technologically updated and adaptive. At the same time, we look to develop and to establish businesses that are sustainable but also has staying power and growth potential. To begin, management of the Group has selected a group of young yet Belt and Road experienced individuals to lead this new economy business development project. The following guideline was also given to our new business unit when searching for our next potential investments/projects:

1) Must be Belt and Road related in order to match the Group's development direction;

2) Should not be capital intensive as compared to traditional businesses such as energy, logistics and infrastructures;

3) We should partner with industry veterans in order to leverage on their expertise, knowledge, and reputation and capital.

Following the guidelines above, our new economy business unit has identified three major types of business with great potential, and they are:

1) Event organizing — which includes public relations company, eSports, etc;

2) E-commerce platform — which includes establishing our own cross-border trade platform as well as starting a business in reputable platforms such as AliExpress;

3) Financial investments — which includes asset management companies leveraging on financial skills of KEG's existing management.

Our aim with this new economy business unit is to eventually develop the above businesses in the frontier markets. Nonetheless, to begin we will focus our efforts in the more familiar markets such as Belt and Road countries in the Asia-pacific. Our potential business partners and the Group will build up our brand and at the same time prepare to establish a presence in the frontier markets. The potential of the frontier market is huge and by being one of the first to develop new economy business by leveraging on our existing Belt and Road connection as well as our potential business partners' knowledge and reputation the outcome should be encouraging.

Management of the Group hopes that these business subunits under the newly established new economy business unit will bring the Group energy as well as create value to our investors. Our Board put special attention to this new economy business as this is a millennial trend that will drive the future economy.

The rationale and potential of each of the above major type business will be discussed in greater detail below from page 13 to page 22.

## Event organizing business

### Public relations company ("PR company"):

Event management and planning has been around for centuries and it will be for the years to come. Also, with the advancement of technology, how events are conducted is changing constantly. Press conferences used to be on television reaching millions and now they are broadcasted live over the internet reaching audiences all over the world. In the future, virtual reality will bring events directly into audiences' homes. Nonetheless, the significance of events will remain unchanged and it is to add value, whether to a new product, or to celebrate a prestigious milestone, or to a competition, etc. The basic principles of event planning and management will also be unaffected by advancing technologies. Event organizers will still need to plan out the details of the event (including responsibilities, schedules, duties, timeline and how they are interconnected), know their audience (selecting the right venue, the right broadcasting method, who to hire as guests), how to handle emergencies, and to improve upon each hosted event.

Tying it back to the Belt and Road, different events drives cultural exchanges between Belt and Road countries. For example, ever since Belt and Road initiative was put forward by President Xi Jinping, many Belt and Road events were being hosted in the last three years and we do not foresee this trend to stop anytime soon. Different conferences, summits, speeches are frequently hosted in Hong Kong and around the world under the Belt and Road name. The Group was involved in quite a few successful ones where we were the sponsors. Furthermore, in many of these events the Group was the one able to invite the guests and even handle some of the logistics. The Group's power to bring people together is due to our experience conducting business in Belt and Road countries. We were able to establish a large network with the likes of international organizations, government officials, scholars, State-owned enterprises, as well as large private companies. Since Kaisun is a forerunner in Belt and Road in Hong Kong — in both actual business experience as well as reputation, we should turn this into a business opportunity where we can host our own Belt and Road related events. As we can see from the article and charts below, Hong Kong is still Asia's leading destination to host large exhibitions and forums. Large scale Belt and Road conferences and summits occurs frequently in Hong Kong and there are numerous smaller scale events happening weekly. PR is a $14 billion industry worldwide *(Source: http://www.holmesreport.com/research/article/global-pr-industry-hits-$14bn-in-2016-as-growth-slows-to-5)* and grabbing a small percentage of that will still be significant to the Group's development.

## Management Discussion and Analysis


### HKECIA exhibition survey reaffirms vitality of Hong Kong as Asia's trading hub

(Hong Kong, 23 June 2016) The Hong Kong Exhibition & Convention Industry Association (HKECIA) today announced the results of its annual exhibition survey for the year 2015. The survey, which presents a valuable snapshot of the state of the Hong Kong exhibition industry, revealed a positive year for the industry in 2015. The total number of companies choosing to exhibit in Hong Kong rose slightly, following strong attendance from Mainland China and International exhibitors. At the same time, visitor numbers rose by almost 13% over 2014, led by a return of Hong Kong visitors and a solid rise in visitors from China.

Given the social and economic uncertainties of 2015 and their wider effects on the Hong Kong economy, the survey indicates that the exhibition industry remains robust. Hong Kong clearly remains a favoured destination for exhibitors and visitors alike, and continues to build on its wide reputation as the Trade Fair Capital of Asia.

The survey was based on the results of questionnaires sent to 89 "trade" and "trade & consumer" exhibitions utilising 2,000 sqm of floor space or above. Responses from 77 "trade" and "trade and consumer" exhibitions were received. Purely "consumer" exhibitions were not included in the results.

The HKECIA also organised the Global Exhibitions Day Conference on 8 June 2016, in support of the first ever Global Exhibitions Day, driven by UFI, the Global Association of the Exhibition Industry, and the International Association of Exhibitions and Events (IAEE) to highlight the exhibition industry's benefits for the economy and the fun of working in the industry. Over 130 HKECIA members and non-members attended the Global Exhibitions Day Conference with the theme of China's Belt & Road Initiative. The new initiative proposed by the PRC government aims to connect Asia, Europe and Africa to promote economic co-operation among countries along the five Belt and Road routes.

*(Source: http://www.exhibitions.org.hk/en/media-centre/127-exhibit-survey2015)*

**Highlight of some Large scale Belt and Road related events held in Hong Kong**

| Date | Name of Event | Venue | Organiser |
|---|---|---|---|
| 18 May 2016 | 1st Belt and Road Summit | Hong Kong Convention and Exhibition Centre | HKTDC |
| 11 September 2017 | 2nd Belt and Road Summit | Hong Kong Convention and Exhibition Centre | HKTDC |
| 2015–2016 | Belt and Road International Forum | Renaissance Harbour View Hotel | International Academy of the Belt and Road |

## Management Discussion and Analysis

| Date | Name of Event | Venue | Organiser |
|---|---|---|---|
| 7 December 2015 | "Xinhua Silk Road" information products at "One Belt, One Road" forum | Hong Kong Convention and Exhibition Centre | Xinhua News Agency |
| 19–20 October 2016 | Diplomatic Lecture — Belt and Road and Hong Kong's Opportunities | The Hong Kong Polytechnic University | Beijing-Hong Kong Academic Exchange Centre, Office of the Commissioner of the Ministry of Foreign Affairs of the People's Republic of China, The Hong Kong Polytechnic University |
| 13 August 2015 | Belt and Road Thematic Lecture | Renaissance Harbour View Hotel | All-China Federation of Returned Overseas Chinese, Hong Kong Young Entrepreneur Association |
| 6 March 2017 | Funding Scheme for Exchange in Belt and Road Countries | Chai Wan, Hong Kong | Committee on the Promotion of Civic Education, Commission on Youth |

# Management Discussion and Analysis

**eSports:**

Also under the event organizing business is eSports — which is competitive tournament of video games. eSports has been around for many years, starting from small-scale events hosted in people's homes transforming into a spectacle viewed by millions. This is also an industry currently being supported by the Hong Kong government. Due to the recent tourism declines, Hong Kong is looking to host "mega-events" in order to attract more tourists and eSports is one of the focal points in the list of ideal mega-events.


The 2017-18 Budget

Budget

財政預算案

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Budget Speech | Public Finance: Objectives and Approach | Consolidating Pillar Industries and Diversified Development | Economic Performance and Forecast | Investing for the Future, Sharing and Caring | Capacity Building | Government Revenue and Expenditure | Estimates | Videos | Photo Gallery

Budget Speech

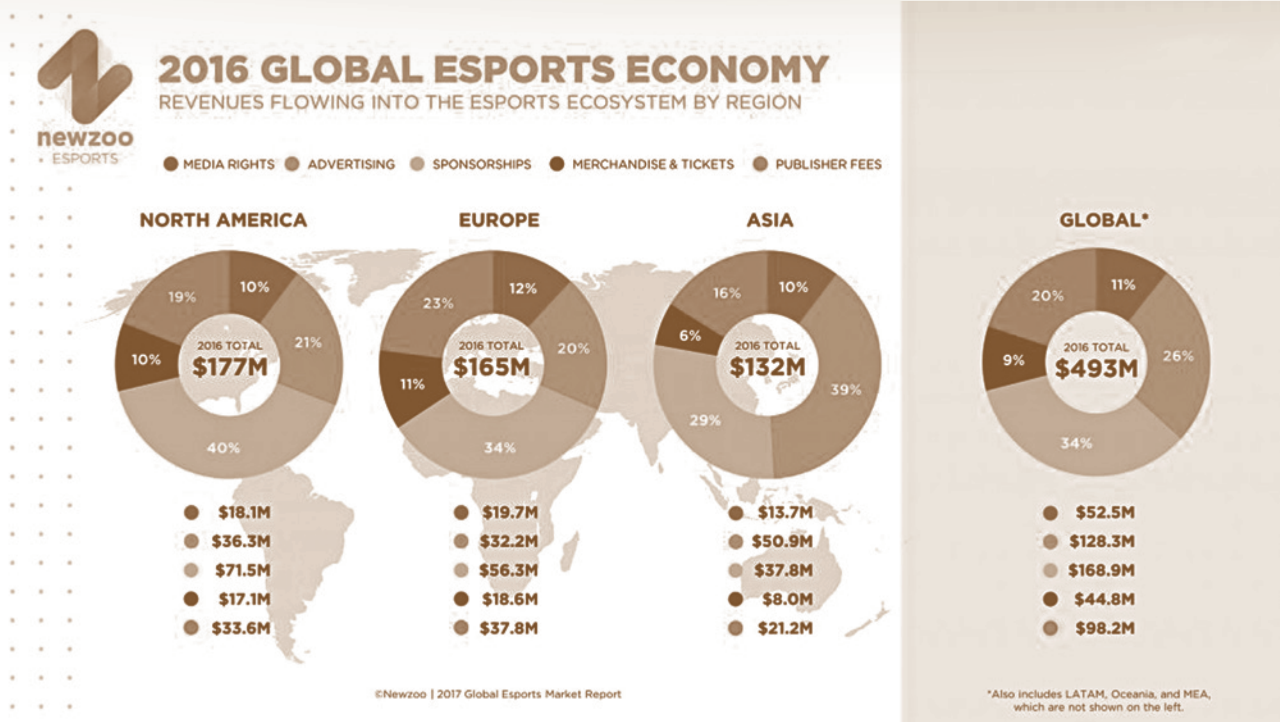
Innovation and Technology

126. E-sports has been developing rapidly in Hong Kong and other cities over the past few years. It has even become a form of international sports competition. E-sports is a new sector with economic development potential, which can help boost the local gaming industry and I&T development such as application of virtual reality technologies. We will invite Cyberport to study the latest technology and products development and explore further promotion of e-sports in Hong Kong.

*(Source: http://www.budget.gov.hk/2017/eng/budget17.html)*

The importance of eSports cannot be ignored as the total revenue generated in the eSports ecosystem is projected to be over a billion US$ in a couple of years (2016 total revenue — US$493 million). Traditional entertainment outlets such as movies and music are slowly losing its influence in the entertainment universe. Meanwhile, the video game industry (2016 total revenue — US$100 billion), together with the competition of video games — eSports, is taking the world by storm and will be the entertainment of choice in the foreseeable future. The audience of eSports is also the most- difficult-to-reach demographic — 21 to 34 years old, and these are the people who will have the highest spending power in the years to come.

## Management Discussion and Analysis




*Source: http://resources.newzoo.com/global-games-market-report*

The importance of eSports also goes beyond its entertainment value and content consumption: live interactions and participation from the viewers are a critical component to the experience, and viewers from all over the world are watching eSports competitions while also interacting with each other via online streaming platforms and other media outlets. Therefore, the cultural impact of eSports is massive.

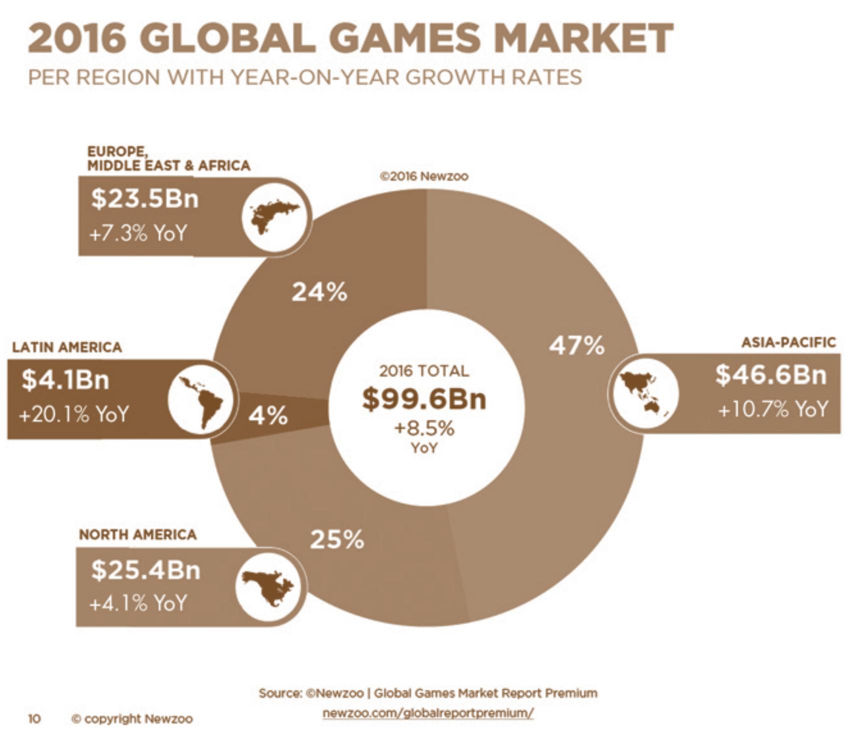
Seeing that the industry of eSports is bringing audiences around the world together, traditional media outlet are trying to capture a piece of this pie. ESPN, Fox sports, etc. all have their own dedicated eSports section on their websites, and they also broadcast eSports events on television. China, being one of the best supporting countries of eSports has developed many online platforms and TV channels dedicated to video games and eSports.

Governments from different countries have also become aware of eSports and its effect on their youth population and economy growth. Right now, many countries recognize eSports as an official sport and players are regarded as proper athletes to represent their countries. Smaller and less developed countries also realize that eSports professional competitors, unlike other traditional sports, are relatively less expensive to train, so even smaller countries can achieve success in the world stage. Therefore, many countries in the world are very supportive of eSports as it can help stimulate the economy and it is also a modern alternative to create exposure of their countries to the world.

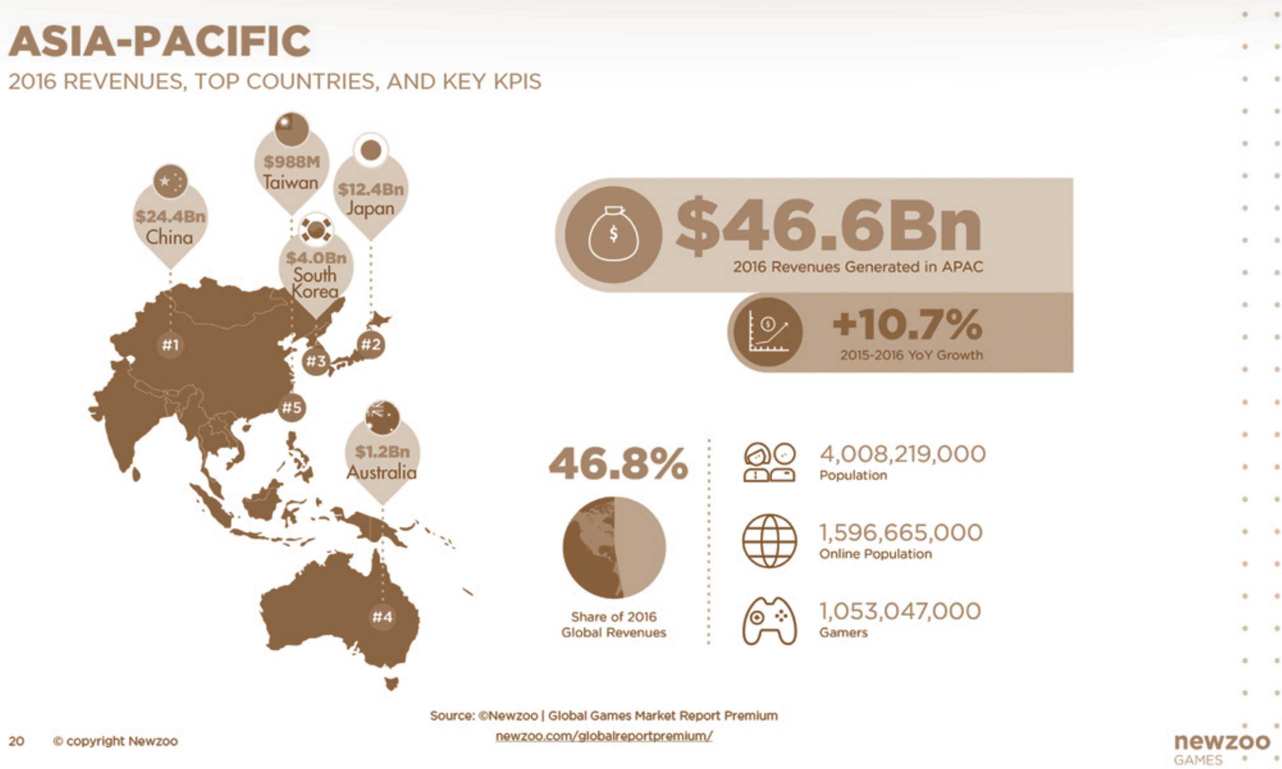
With that said, the Group is looking into the business of eSports and its future potential to generate a long lasting stable source of revenue for the Group. The Group has been in talks with an industry veteran located in the Asia-Pacific region to get our foot into the door. Initial focus of our operation will be in the Asia-Pacific countries. As we can see from the charts below, the largest gaming market growth comes from Asia-Pacific (a US$46.6 billion industry

## Management Discussion and Analysis

— contributing to 58% of global games market growth in 2016). The exposure and potential viewership is also substantial with Asia-Pacific gaming population of over 1 billion. Nonetheless, we will eventually leverage our experience in the Belt and Road countries and bring eSports to these markets that are with the greatest business potential.




## Management Discussion and Analysis



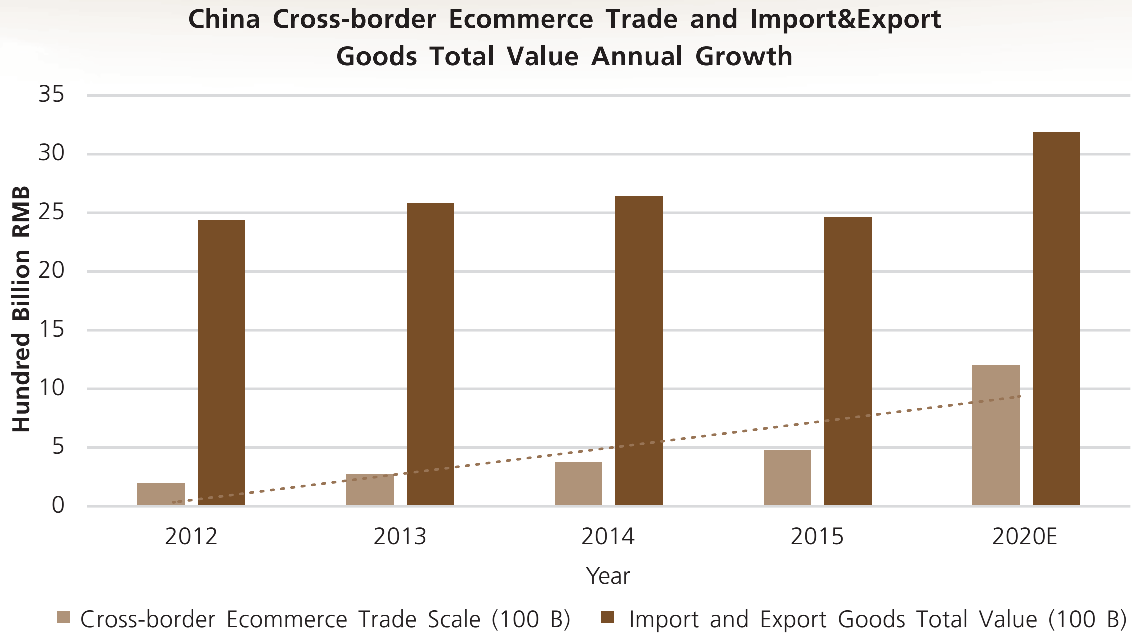

*(Source: http://resources.newzoo.com/global-games-market-report)*

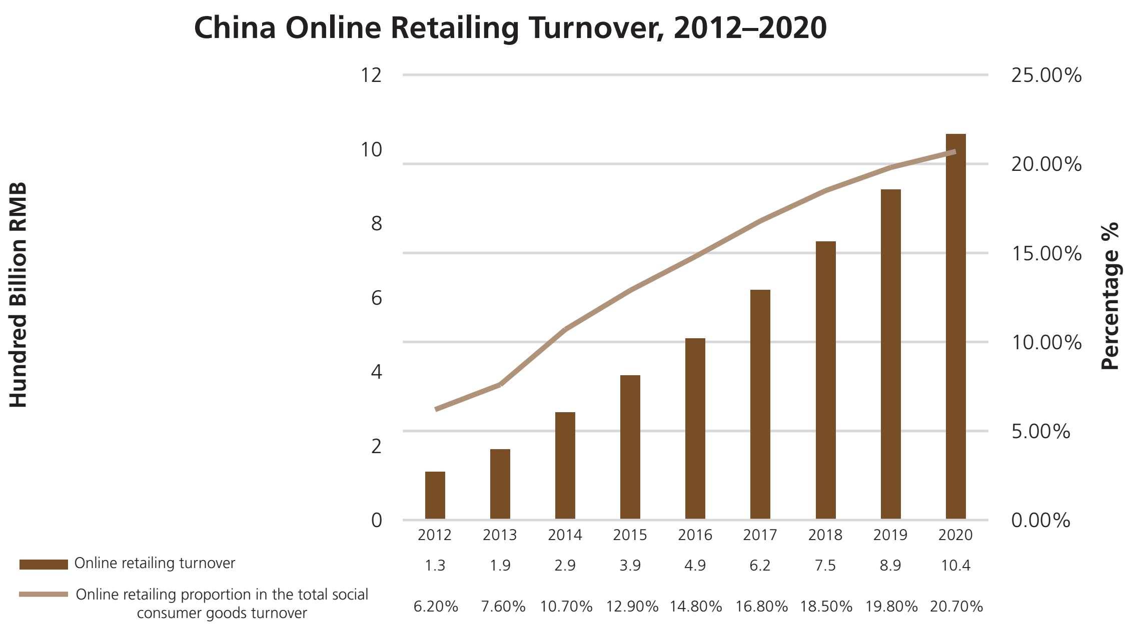
### E-commerce platform:

For the many years the Group has been involved in the Belt and Road development business, we have made a number of connections and these connections of ours have always been interested in Chinese made items, whether they be machineries, equipment, or even garments. These friends of the Group would always want us to help them buy these items, and usually in bulk. Nonetheless, the Group was not ready for such requests so we could not fulfill these needs from our Belt and Road partners. Now, our new economy business unit is ready to develop our own e-commerce trading platform in order to take advantage of these business opportunities. At the same time, we develop these platforms with sustainability as well as improving on our current business model in mind. In the future, potential buyers interested in our mining equipment or trading minerals will be able to use our e-commerce platform to conduct business. This will greatly increase our product exposure within China as well as the nearby Belt and Road countries.

But before we finish developing this platform, our business unit would like to test waters by running our own e-Commerce business in an internationally recognized platform — AliExpress. AliExpress is Alibaba Group's only cross border e-commerce platform. The reach and the users of this platform is vast. Also, this platform is sales, payment and logistics all-in-one platform. It is our hope that, through this easy to use platform, the Group can help our friends as well as other potential customers in the Belt and Road to obtain the products they need.

# Management Discussion and Analysis




*(Source: Ministry of Commerce of the People's Republic of China, National Bureau of Statistics of the People's Republic of China, AliResearch (2016))*

*(Source: https://www.bnext.com.tw/article/40842/BN-2016–09–06–110825–223)*

# Management Discussion and Analysis

**Financial investment:**

*Leveraging on asset management platform:*

One of the Group's goal is to diversify our investment in the Belt and Road's countries with high potential. Yet, due to various limitations such as our lack of experience in some countries we have mostly been focusing our efforts in China, Central Asia and a few other countries such as Vietnam and Georgia. There are many more countries in the Belt and Road that are worth investing but it will be unwise for the Group to go in blind. Take Iran for example, it is located in the intersection between the Belt and the Road and it is also Middle East's second largest economy. There are huge demands in infrastructures in Iran as well as the need to upgrade their airport and airplane fleets. Financial market wise, the Tehran Stock Exchange offers one of the best returns in 2016 with its index 29% higher than its 2015 counterpart.

*(Source: http://www.tse.ir/en/news/newsPages/news_N41645.html)*

Nonetheless, with high potential returns there are still related risks when investing in these countries and it takes more than just Belt and Road experience in order to succeed. It will require a mixture of country and product knowledge, global trend and its effect on the country, as well as daily monitoring in order to achieve the greatest returns while mitigating risks to the fullest. This is why the Group is considering investing in an asset management company ("AMC") that will leverage on the market's liquidity to create scale in order to diversify our Belt and Road investment into countries that have great potential but less familiar to the Group. This will also ease off on the Group's need to keep doing fund raising as we can now leverage on the AMC. The AMC will also monitor investments introduced by the Group as well as our Belt and Road partners. The Group foresees as our investment partners and number of investment increases, we can build an even greater network of Belt and Road connection and at the same time, diversifying our Belt and Road investments so that it will have a chance to enjoy a great return while mitigating risks through the scale of the AMC's investment. Below are some key points and some of the largest funds fuelled by the Belt and Road initiative.

## Key Points

- China's "**One Belt, One Road**" initiative has fuelled private equity activities between China and SE Asia:
  - 4 funds that represent **US$67.8 bn in target fund pool**, have been launched since 2014
  - The **RMB100 bn (US$15.4 bn)** Sino-Singapore (Chongqing) Connectivity Private Equity Fund is the **largest fund for Asia**
- US$820.3 m in transaction total by China's PE firms in SE Asia for the **first 4 months in 2016, highest** on record and surpass the totals for 2014 and 2015
- **Buyout** and privatisation of the Singapore-listed **Biosensors** International Group is the **largest** deal

| Fund Management Firm(s) | Fund Name | Inception/ Closing Date | Target/ Closing Size | Geographical Focus | Industry Focus |
|---|---|---|---|---|---|
| UOB Venture Management (Shanghai) Ltd. | Sino-Singapore (Chongqing) Connectivity Private Equity Fund | Apr/2016 | US$15.4 bn | City of Chongqing & Singapore | Aviation sectors, financial services & infrastructure |

# Management Discussion and Analysis

| Fund Management Firm(s) | Fund Name | Inception/ Closing Date | Target/ Closing Size | Geographical Focus | Industry Focus |
|---|---|---|---|---|---|
| Gobi Partners, Malaysia Venture Capital Management Bhd. | Gobi MAVCAP ASEAN SuperSeed Fund | Mar/2016 | US$14.5 m | Indonesia, Malaysia & Singapore | Start-ups within a broad spectrum of industries |
| China Insurance Investment Co., Ltd. | China Insurance Investment Fund I | Jan/2016 | US$49.1 bn | Countries within the "One Belt, One Road" | Infrastructure |
| CITIC Bank Zhenhua (Beijing) Equity Investment Fund Management Co., Ltd. | Belt & Road Fund | Jun/2015 | US$3.3 bn | Countries within the "One Belt, One Road" | Infrastructure |

**Fig.26** **Source: Asia Private Equity Review**

*(Source: http://asiape.com/media/APER_EC/APER_EC_GC_201605.html)*

### *Fund raising activity — Rights Issue*

In order to further develop the Group's Belt and Road business as well as to strengthen our capital base, on 1 December 2016, the Group proposed a rights issue on the basis of one rights share for every two existing shares (subscription price at par to the closing price of share on date before announcement date). This fundraising activity has been completed on 16 January 2017 and HK$86.29 million was successfully raised after deducting relevant expenses.

What is more meaningful about this rights issue is that our senior management was one of the underwriters. This is once again, our senior management's way of showing commitment and confidence towards the Group and our development direction. Hopefully, this extra commitment will boost the morale and confidence of our existing shareholders. We also wish to use this opportunity to introduce our shareholders to various great Belt and Road opportunities such as the new economy business and at the same time, give boost to our existing business and bring them to a new level of success.

To reiterate on our 1 December 2016 announcement, the use of proceeds are as follows:

1) For expansion of mining and metallurgical machineries production, and supply chain management services for mineral business;

2) For business or investment opportunities in countries and regions covered by the Belt and Road initiative;

3) General working capital.

# Management Discussion and Analysis

The reason for rights issue instead of using alternative means to raise capital is because, after considering other alternatives, rights issue (with subscription price at par to the closing price of share on date before announcement date) would most likely be the option to have one of the lower finance costs, time efficient, enable all existing shareholders to participate in the future development of the Group on equal terms and also impact the share price the least. After a few months, we would see that our share price after 10 shares to 1 share consolidation (as advised by Stock Exchange in compliance with Rule 17.76 of the GEM Listing Rules) would remain at about the same level as our announcement date back in December 2016.

## Future Business Development

Future development of the Group will continue to be Belt and Road related. Management of the Group believes 2017 will be Belt and Road initiative's golden era in which more and more actual investments will take place and better synergy will be produced across countries and the investing companies. We will continue to pay close attention to our existing business while at the same time try to nurture our new economy business. New investment and business expansion wise we will be using funds raised from our recent rights issue but further investments and expansion might require additional fund raising and different financing options such as debt financing. The Board as well as management of the Group will unquestionably study all of our options with utmost care and choose the one that will be the most beneficial to the Group's progression and to our investors.

Future business development of each of our division will be discussed below:

*PRC division — Shandong mining and metallurgical machineries production*

The Group's mining and metallurgical machineries production in 2017 still depends very much on the coal market performance. Management of the Group believes that there is growth potential to our machineries production business and we could consider adding an extra production line to meet that growth. Nonetheless, after proper streamlining in the past couple of years, our Shandong mining and metallurgical machineries production business is capable of surviving through tough times as well as capturing opportunities whenever they arise.

*PRC division — Shandong supply chain management business*

The joint venture will expand our logistic center as planned in 2016 after we obtained in February 2017 the right to use a section of the railway. Hopefully after the expansion our logistic hub can better fulfill the coal demands of nearby coal users. This joint venture will also continue to carry out the development of Turpan, Xinjiang coal mine accordingly.

*Central Asia division — Tajikistan Coal exploitation*

The Group's treatment towards our Tajikistan Coal exploitation will remain the same as the past few years. We must wait until the TJS/US$ exchange rate stabilize to the point that management of the Group feels comfortable before we can ramp up production again. Over the past few years we did not see a demand problem of coal in Tajikistan but production must make economic sense for the Group before we can consider producing in scale again.

*Central Asia division — leasing business*

The Group would like to continue conducting leasing business with our Tajikistan partner in order to get a better feel of what it is like to run a leasing business in Central Asia. Once we find ourselves with a greater understanding of the industry and developed a better know-how we should be able to expand our leasing business to the rest of Central Asia and to the CIS. We do not foresee that it will be difficult for find clients as we have many business partners still conducting business in or would like to expand their business to these regions.

# Management Discussion and Analysis

*Supply chain management business*

Supply chain management business will continue in 2017 with the same amount of attention it was given in 2016. Management of the Group believes that commodities prices have bottomed out in 2016 and we will find ourselves presented with a lot more opportunities. However, supply chain management business puts a great deal of stress on our cash flow so management of the Group will choose not only the business with the greatest margin, but will also have our Belt and Road development and risk profile in mind. For example, we hope to repeat our DKKK success in 2017 with another leader in the commodities business.

*Listed securities investment*

Listed securities investment activities will continue in 2017 with dedicated personnel producing weekly stock reports to keep our investment committee informed with potential securities investment opportunities. Listed securities investments will continue to be one of the principal activities and normal course of business of the Group.

*New economy business*

The Group's new economy business unit will continue to look for different investment opportunities but one of the focus of the new economy business unit would be to establish a solid foundation for each of the previously discussed business sectors, to reiterate, the three major types of business focus are:

1) Event organizing — which includes public relations company, eSports, etc.;

2) E-commerce platform — which includes establishing our own cross-border trade platform as well as starting a business in reputable platforms such as AliExpress;

3) Financial investments — which includes asset management companies.

For most of these projects, the Group is in talks with an industry veteran for cooperation. Management of the Group as well as our new economy business unit believes that a joint venture type of cooperation would best suit our needs. Since most of the above businesses requires a certain level of industry knowledge and experience as well as reputation, it would not make business sense for our Group to start from scratch. The Group believes in leveraging on our partner's industry experience and reputation while at the same time, bring in our Belt and Road connections and flavour in order to achieve great synergy.

*Our existing strategic partners*

The Group is still working closely with our strategic partners such as China Energy Engineering Group Northwest Power Construction Engineering Co., Ltd. (belongs to China Energy Engineering Group Corporation Limited — a fortune 500 company) and China National Technical Import & Export Corporation (Belongs to China General Technology (Group) Holding Ltd. — a fortune 500 company) in looking for business opportunities in the Belt and Road.

We will continue to explore business opportunities in the Belt and Road regions such as Central Asia, the Caucasus, Middle East, etc. for infrastructure, energy and electricity, as well as any other potential projects where the Group and our strategic partners can mutually benefit.

# Management Discussion and Analysis

The following discussion and analysis should be read in conjunction with our financial statements together with the accompanying notes included in this annual report. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board.

## Financial Review

Revenue of the Group for the year 2016 amounted to approximately HK$35.2 million, represented an increase of approximately 88.6% when compared with the same period in 2015 (2015: HK$18.7 million). The significant increase was due to the Group reviving the supply chain management business portion again. Revenue arose from the provision of supply chain management services for mineral business, production and exploitation of coal in Tajikistan and Shandong mining and metallurgical machineries production amounted to HK$21.0 million, HK$1.3 million and HK$12.9 million respectively.

The Group's gross profit for the year 2016 increased approximately 207.4% to approximately HK$4.9 million when compared with the same period in 2015 (2015: HK$(4.5) million). Gross profit arising from the provision of supply chain management services for mineral business was approximately HK$137,000, from Shandong mining and metallurgical machineries production is approximately HK$4.7 million and gross profit arising from production and exploitation of coal in Tajikistan amounted to HK$41,000.

For the year 2016, the gain on disposal of financial assets at fair value through profit or loss decreased approximately 50.3% to HK$4.5 million when compared with the same period in 2015 (2015: HK$9.1 million). The fair value gain on financial assets at fair value through profit or loss was HK$29.9 million, represented approximately 21 times to that of approximately HK$1.4 million for the year ended 31 December 2015.

For the year 2016, the total administrative and other operating expenses from the Group's operations was approximately HK$45.7 million, a decrease of approximately 65.1% as compared with the same period in 2015 (2015: HK$131.1 million).

For the year 2016, the loss from operations was approximately HK$3.7 million, a decrease of approximately 96.6% when compared with the same period in 2015 (2015: HK$118.8 million).

The Group recorded loss for the year 2016 of approximately HK$13.5 million, represented a decrease of approximately 83.8% when compared with the same period in 2015 (2015: HK$83.5 million).

The total comprehensive income attributable to owners of the Company for the year 2016 amounted to approximately HK$(15.9) million (2015: HK$(103.3) million).

At as 31 December 2016, the Group has cash balance of approximately HK$1.5 million hold in a securities broker. The fair value of listed securities amounted to HK$102.7 million.

# Management Discussion and Analysis

The details of financial assets at fair value through profit of loss are set out as follow:

| Company Name | Number of sharers held as at 31 December 2016 | % of share-holding as at 31 December 2016 | Unrealized gain/(loss) on fair value change for the year ended 31 December 2016 HK$ | Dividends received for the year ended 31 December 2016 HK$ | Fair value as at 31 December 2016 HK$ | Fair value as at 31 December 2015 HK$ | % of the Group's net assets as at 31 December 2016 | Investment cost HK$ | Reasons for fair value loss |
|---|---|---|---|---|---|---|---|---|---|
| **Hong Kong Listed Securities** | | | | | | | | | |
| OP Financial Investments Limited (1140) *(Note 1)* | 36,756,000 | 2.00 | 27,622,120 | 918,900 | 81,598,320 | — | 29.2 | 53,976,200 | — |
| LEAP Holdings Group Limited (1499) *(Note 2)* | 7,050,000 | 0.27 | 395,750 | — | 3,666,000 | 5,387,200 | 1.3 | 5,677,200 | — |
| Jai Meng Holdings Limited (8101) *(Note 3)* | 110,000,000 | 3.80 | 5,435,000 | — | 13,860,000 | — | 5.0 | 8,425,000 | — |
| Sau San Tong Holdings Limited (8200) *(Note 4)* | 14,000,000 | 0.77 | (2,926,000) | — | 1,274,000 | 4,200,000 | 0.5 | 4,200,000 | Drop in Share price |
| Pantronics Holdings Limited (1611) *(Note 5)* | 1,970,000 | 0.66 | (675,400) | — | 2,324,600 | — | 0.8 | 3,000,000 | Drop in Share price |
| Rui Kang Pharmaceutical Group Investments Limited (8037) *(Note 6)* | — | — | — | — | — | 116,280 | — | — | — |
| **Total** | | | 29,851,470 | 918,900 | 102,722,920 | 9,703,480 | 36.8 | 75,278,400 | |

*Notes:*

1. OP Financial Investments Limited (HKEx: 1140) — OP Financial Investments Limited ("OP Financial" or "OP Financial Investments Limited") is a Hong Kong listed Investment Company with the mandate allowing OP Financial to invest in various assets, financial instruments, and businesses globally. OP Financial produce medium to long term shareholder returns by developing customized investment solutions for and alongside institutional and corporate investors in the region. OP Financial's co-investors are mainly large financial institutions and organizations targeting either high growth opportunities within China or strategic investments outside the region. OP Financial also invests in funds of listed and unlisted equities to generate diversified returns. Over time, these funds will serve as the foundation of a marketable proprietary financial services platform for attracting new investment partners.

2. Leap Holdings Group Limited (HKEx: 1499) — Leap Holdings Group Limited is principally engaged in the provision of (i) foundation works and ancillary services; and (ii) construction wastes handling at the public fill reception facilities managed by the Government in Hong Kong. Leap Holdings Group Limited undertook primarily construction projects in the private sector in Hong Kong and was generally engaged as a subcontractor or sub-subcontractor.

3. Jia Meng Holdings Limited (HKEx: 8101) — The principal activity of Jia Meng Holdings Limited is investment holding. The principal activities of the Jia Meng Holdings Limited's subsidiaries are: (i) design, manufacture and sales of mattress and soft bed products in the People's Republic of China (the "PRC") and export mattress to overseas markets; (ii) securities investment in Hong Kong and (iii) property investment in Hong Kong.

4. Sau San Tong Holdings Limited (HKEx: 8200) — Sau San Tong Holdings Limited is principally engaged in the provision of beauty and slimming services from slimming centres, distribution sales of cosmetic and skin care products and sale of other health and beauty products. The slimming centres, which are operated under the "Sau San Tong" brand name, provide services such as whole and partial body slimming, weight management, body treatment services and facial treatment services to its customers.

5. Pantronics Holdings Limited (HKEx: 1611) — Headquartered in Hong Kong, Pantronics Holdings Limited began it's business as an OEM manufacturer over 30 years ago and, between the years 2001 and 2004, Pantronics Holdings Limited have evolved to become a manufacturer in the EMS industry. Pantronics Holdings Limited manufactures power-related electrical and electronic products, including solenoid coils, battery charger solution and power supply, LED lighting and others such as PCBA and parts assembly.

6. Rui Kang Pharmaceutical Group Investments Limited (HKEx: 8037) — The principal activities of Rui Kang Pharmaceutical Group Investments Limited are (i) manufacture, research and development, sale and distribution of consumer cosmetics, health related and pharmaceutical products, health supplement wine, dental materials and equipment in the PRC and Hong Kong, (ii) provision of medical laboratory testing services and health check services in Hong Kong, and (iii) trading of securities in Hong Kong.

## Liquidity and Financial Resources

As at 31 December 2016, the Group has bank and cash balances of approximately HK$36.3 million (2015: HK$103.6 million).

## Final Dividend

In order to retain resources for the Group's business development, the Board does not recommend the payment of a final dividend for the year 2016 (2015: HK$Nil).

## Gearing Ratio

The Group's gearing ratio, which represents the ratio of the Group's long term debts over the Group's total assets, was Nil as at 31 December 2016 (2015: Nil).

## Capital Structure

During the year 2016, the Company have not issue any new share.

## Foreign Exchange Exposure

Majority of the trading transactions, assets and liabilities of the Group were denominated in HK$, TJS, US$ and RMB. As at 31 December 2016, the Group had no significant exposure under foreign exchange contracts, interest, currency swaps or other financial derivatives.

## Placement of New Shares and Use of Proceeds

The Company did two fund raisings in year 2015. On 7 May 2015, the Company allotted and issued 523,400,000 ordinary shares of HK$0.01 each in the capital of the Company by way of placing at a placing price of HK$0.089 per share. The Company raised approximately HK$44,250,000 (net of expenses). On 17 June 2015, the Company allotted and issued 628,000,000 ordinary shares of HK$0.01 each in the capital of the Company by way of placing at a placing price of HK$0.14 per share. The Company raised approximately HK$83,520,000 (net of expenses). The total proceeds of the two placings were HK$127,770,000. The net proceeds have been and will be applied as per the manner set out in the announcements of the Company dated 27 April 2015 and 2 June 2015, that is general working capital of the Group in particular the business development in the Central Asia part of the Silk Road.

For the 20 months up to 31 December 2016, approximately HK$91.5 million had been used as intended, including approximately: (i) HK$22.8 million on capital expenditure of the Shandong project; (ii) HK$15.8 million on providing working capital for Central Asia's operation; and (iii) HK$52.9 million for general working capital.

The Company intends to use the remaining proceeds, which was approximately HK$36.3 million of general working capital, as intended.

## Income Tax

Details of the Group's income tax expense for the year 2016 are set out in note 10 to the consolidated financial statements.

# Management Discussion and Analysis

## Human Resources

As at 31 December 2016, the Group had 97 (2015: 101) staff in Hong Kong, China and Tajikistan. The Group continues to employ, promote and reward its staff with reference to their performance and experience. In addition to their basic salaries, the Group's employees are also entitled to other fringe benefits such as provident fund. The management will continue to closely monitor the human resources requirements of the Group, and will also put emphasis on the staff quality. During the year 2016, the Group had not experienced any significant labour disputes which led to the disruption of its normal business operations. The Directors consider the Group's relationship with its employees to be good.

The total staff costs, including Directors' emoluments, amounted to approximately HK$20.3 million (2015: HK$26.4 million) for the year 2016.

## Segment Report

The detailed segmental analysis are provided in note 37 to the consolidated financial statements.

## Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2016.

## Litigation

As at 31 December 2016, the Group had no significant pending litigation.

# Biography of Directors and Senior Management

## Executive Directors

**Mr. Chan Nap Kee, Joseph**, aged 56, is the chairman and chief executive officer, member of remuneration committee and nomination and corporate governance committee of the Group. He was appointed as an executive director in September 2008. He received his MSc in International Marketing from the University of Strathclyde, BSc in Aviation Management from Coventry University and a diploma in China Investment and Trade from Peking University.

Mr. Chan has 30 years of experience in commercial and investment banking, and asset management. From 1994 to now, Mr. Chan has been a founding partner of Oriental Patron Financial Group where he is also an executive director of Oriental Patron Asia Limited and Oriental Patron Securities Limited Mr. Chan is also a non-executive director of HNA Infrastructure Company Limited (Stock Code: 357), a company listed on the Main Board of the Stock Exchange since October 2007. He was appointed non-executive director of North Asia Strategic Holdings Limited (Stock Code: 8080), a company listed on the Growth Enterprise Market of the Stock Exchange. On social services, Mr. Chan is chairman of Silk Road Economic Development Research Centre, Executive Vice President of Hong Kong Energy and Minerals United Association, Vice Chairman of China Hong Kong Economic Trading International Association and Vice President of Hong Kong Hubei Fraternity.

He holds licenses respectively of Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), and Type 9 (asset management) under the Securities and Futures Ordinance (cap. 571 of the Laws of Hong Kong).

**Dr. Chow Pok Yu, Augustine**, aged 64, was appointed as an executive director in November 2008. He was director of Harmony Asset Limited (Stock Code: 0428), a company listed on the Hong Kong Stock Exchange, until 26 May 2015. He is director of two overseas listed companies namely Celsion Corporation (AMEX: CLSN) and Medifocus Inc. (TSX Venture: MFS). He is chairman of Harmony Asset Management Limited.

Dr. Chow has vast experience in managing public listed companies that are involved in manufacturing, marketing and financial services, and specializes in mergers and acquisitions.

Dr. Chow holds a MSc from London Business School and PhD from University of South Australia. He also holds PhD and Engineering Doctorate from City University of Hong Kong.

Dr. Chow retired with effect from 31 December 2016.

# Biography of Directors and Senior Management

**Mr. Yang Yongcheng**, aged 47. He was appointed as an executive director in February 2009. He graduated from the Yikezhao League School of Finance (伊盟財經學校) in Inner Mongolia of the PRC and the China Central Radio & TV University, majoring in financial accounting. He holds an EMBA from the Zhongnan University of Economics and Law.

Mr. Yang has been involved in senior positions for corporate management for a long period of time, has profound knowledge of the human and economic development environment in the Mengxi region of Inner Mongolia of the PRC, and possesses extensive experience in corporate investment, product and market development as well as operation of minerals enterprises.

## Independent Non-Executive Directors

**Mr. Liew Swee Yean**, aged 53, is the chairman of audit committee and member of nomination and corporate governance committee of the Board.

Mr. Liew has over 20 years of experience in finance and general management and is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Liew holds a Master of Business Administration (Executive) Degree from the City University of Hong Kong. He was an independent non-executive director of Siberian Mining Group Limited, a company listed on the Main Board of the Stock Exchange, until 18 February 2014.

**Mr. Siu Siu Ling, Robert**, aged 64, is the chairman of nomination and corporate governance committee and member of audit committee. He is a sole proprietor of the firm Messrs. Robert Siu & Co., Solicitors. Mr. Siu is an independent non-executive director of Finet Group Limited (Stock Code: 8317), Future World Financial Holdings Limited (Stock Code: 572) and Skyway Securities Group Limited (Stock Code: 1141), all of which are listed on the Hong Kong Stock Exchange.

Mr. Siu holds a bachelor's degree in laws from the University of London and a postgraduate certificate in laws from the University of Hong Kong. He also holds a Master of Laws from the University of Greenwich. He has been admitted as a solicitor in Hong Kong since 1992 and has been admitted as a solicitor in England and Wales since 1993. His main legal practice is in the field of commercial and corporate finance.

He was an independent non-executive director of DT Capital Limited (Stock Code: 0356), a company listed on the Main Board of the Stock Exchange until 29 July 2014, Mr. Siu was appointed as a director of MBMI Resources Inc., a company listed on Toronto Stock Exchange (TSX-V: MBR) from December 2012 to March 2015.

**Dr. Wong Yun Kuen**, aged 59, is the chairman of remuneration committee and member of audit committee. He received two B.S. degrees in Geology and Mathematics from University of Wyoming, and Master and Ph.D. degree in Geophysics from Harvard University, and was "Distinguished Visiting Scholar" in finance at Wharton School of the University of Pennsylvania. Dr. Wong has worked in financial industries in the United States and Hong Kong for many years, and has considerable experience in corporate finance, investment and derivative products. He is a member of Hong Kong Securities Institute and a life member of American Geophysical Union.

He is the Chairman and executive director of UBA Investments Limited, executive director of Ngai Shun Holdings Limited, the independent non-executive director of Kingston Financial Group Limited, DeTai New Energy Group Limited, GT Group Holdings Limited, Sincere Watch (Hong Kong) Limited and Far East Holdings International Limited and China Sandi Holdings Limited until 15 September 2016 when he was redesignated as non-executive director.

# Biography of Directors and Senior Management

He was also an independent non-executive director of Huajun Holdings Limited until 25 September 2014, Huge China Holdings Limited until 1 January 2015, Kong Sun Holdings Limited until 7 November 2014, KuangChi Science Limited until 23 August 2014 and Bauhaus International (Holdings) Limited until 26 December 2016, all listed on Hong Kong Stock Exchange.

**Mr. Anderson Brian Ralph**, aged 73, is member of audit committee and remuneration committee. He holds a Bachelor of Science Degree in Metalliferous Mining Engineering from the Camborne School of Mines, the University of Exeter and a Master of Science Degree in Petroleum Reservoir Engineering from the University of London.

Mr. Anderson has more than 50 years of global experience (of which 32 years with Shell International) in the mining and energy resources industries.

During his tenure as a Chairman of Royal Dutch/Shell Group of Companies ("Shell") in North East Asia, he was responsible for developing Shell's future business, in particular through the formation of important strategic alliances with two of the major state-owned Chinese petroleum corporations, which have since led to multi-billion dollar investment commitments in the petroleum and petrochemicals sectors in China, including important new business opportunities in coal gasification.

Mr. Anderson's China experience also includes a 6-year involvement with the prestigious China Council for International Co-operation on the Environment and Development and which includes Ministerial and Vice-Ministerial level appointees from within the PRC government, and top-level international members from government and global multilateral organization and businesses. He represented the Shell's group of companies as a council member for 4 years, and has participated as a member of two taskforces involved with energy and sustainable development policy for China.

Mr. Anderson is a founding member and a director of Acura Limited, an energy marketing and consulting firm, and is the chairman and managing director of Anderson Energy (Hong Kong) Limited, an energy consulting firm advising corporate clients globally.

## Senior Management

All the executive directors of the Company are respectively responsible for various aspects of the business and operation of the Group. All executive Directors are regarded as members of the senior management team of the Group.

# Report of the Directors

The board ("Board") of directors ("Directors") of the Company is pleased to submit its report together with the audited consolidated financial statements ("Financial Statements") of the Company and its subsidiaries (collectively as "the Group") for the year ended 31 December 2016.

## Principal Activities and Segment Analysis of Operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 33 to the Consolidated Financial Statements.

An analysis of the Group's performance for the year ended 31 December 2016 by segments is set out in note 37 to the Consolidated Financial Statements.

## Results and Appropriations

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss on page 63.

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2016.

## Business Review

A review of the business of the Group for the year 2016 and a discussion on the Group's future business development and the principal risks and uncertainties facing the Group are provided in the Chairman's Statement, Management Discussion and Analysis from pages 5 to 28. In addition, the financial risk management objectives and policies of the Group can be found in note 6 of the Consolidated Financial Statements. An analysis of the Group's performance during the year 2016 using financial key performance indicators is provided in the Financial Summary on page 4.

On 1 December 2016, Rights issue and share consolidation were proposed. For details, please refer to "**EVENTS AFTER THE REPORTING PERIOD**" — "Proposed Rights issue and Share consolidation" on page 41 of this annual report and the announcement of the Company dated 1 December 2016. On 10 October 2016, Shandong Kailai Energy Logistic Company, a Company's indirect subsidiary, entered into two Share Transfer Agreements to acquire 10% and 90% shares of a mining company. For details, please refer to "**EVENTS AFTER THE REPORTING PERIOD**" — "Acquisition of equity capital of Mining Company" on page 41 of this annual report.

The Group has complied with the relevant laws and regulations that have significant impact on the operations of the Group.

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

In addition, details regarding the Group's performance by reference to environmental and social-related key performance indicators and policies, as well as relationships with its employees, customers and suppliers during this financial year, required to be disclosed pursuant to Rule 13.91 of the Listing Rules. For more information, please refer to the first environmental, social and governance report to be issued by the Group. This report will be available for viewing and downloading from the websites of the Group and Hong Kong Stock Exchange after its publication.

# Report of the Directors

## Reserves

Movements in the reserves of the Group during the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity of the Group.

## Donations

Charitable and other donations made by the Group during the year ended 31 December 2016 amounted to HK$Nil (2015: HK$Nil).

## Fixed Assets

Details of the movements in fixed assets of the Group are set out in note 16 to the Consolidated Financial Statements.

## Share Capital

Particulars of the share capital of the Company are set out in note 29 to the Consolidated Financial Statements.

## Distributable Reserves

Distributable reserves of the Company as at 31 December 2016 amounted to HK$191,963,775 (2015: HK$266,569,207). Under Section 34 of the Companies Law of the Cayman Islands, the reserves are available for distribution to shareholders subject to the provisions of the articles of association of the Company (the "Articles") and no distribution shall be paid to shareholders of the Company ("Shareholders") out of the reserves unless the Company shall be able to pay its debts as they fall due in the ordinary course of business of the Group.

## Five Years Financial Summary

A summary of the published results and the assets and liabilities of the Group for each of the last five financial years is set out on page 4.

## Permitted Indemnity Provision

A permitted indemnity provision for the benefit of the Directors is currently in force throughout the financial year.

The Company has taken out and maintained directors' liability insurance throughout the year 2016, which provides approximate cover for the Directors of the Group.

## Purchase, Sale or Redemption of Shares

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries has purchased or sold any of its listed securities, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 20,110,000 Shares of the Company at a total consideration of about HK$1,190,000.

# Report of the Directors

## Pension Scheme

According to the legislation of Hong Kong relating to the Mandatory Provident Fund ("MPF"), with effect from 1 December 2000, the Group is required to participate in the MPF scheme operated by approved trustees in Hong Kong and to make contributions for its eligible employees. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contributions is limited to HK$1,500 for each eligible employee) as calculated under the MPF legislation.

## Shared-based Compensation Scheme

The Company operates a share award schemes (the "Share Award Schemes") for the purpose of assisting in recruiting, retaining and motivating key staff members. Eligible participants of the schemes include the Company's directors (including independent non-executive directors) and other employees of the Group.

### I Share Award Scheme

The Company adopted the Share Award Scheme on 10 May 2013 (the "Adoption Date"). The purpose of the Share Award Scheme is to recognise the contributions by certain Employees and to provide them with incentives in order to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group. The Committee shall not make any further award of Awarded Shares which will result in the aggregate nominal value of the Shares awarded under the Share Award Scheme exceeding ten per cent of the issued share capital of the Company at the time of such Award.

Please refer to the announcement of the Company dated 10 May 2013 for details of the Share Award Scheme.

During the year 2016, based on the Company's instructions, the trustee of the Share Award Scheme had purchased a total of 20,110,000 shares of the Company on the Stock Exchange at a total consideration of about HK$1,190,000. As at the date of this report, after share consolidation of every ten (10) Shares of the Company into one (1) Consolidated Share which became effective on 16 February 2017, the total number of shares in the Share Award Scheme became 2,011,000.

No share was awarded to any director or employee of the Company under the Share Award Scheme during the year 2016.

### II(a) Share Award Scheme 2016

The Company adopted the Share Award Scheme 2016 on 14 June 2016 ("New Share Award Scheme"). The purposes and objectives of the New Share Award Scheme are to recognise the contributions by certain Employees and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. Subject to any early termination as may be determined by the Board by a resolution of the Board, the New Share Award Scheme shall be valid and effective for a term of 5 years commencing from the date of the New Share Award Scheme. The Board shall not make any further award of Awarded Shares which will result in the total number of issued Shares awarded by the Board under the New Share Award Scheme exceeding 10% of the total number of issued Shares from time to time.

Please refer to the Company's announcement dated 14 June 2016 and circular dated 15 June 2016 for details of the New Share Award Scheme.

### II(b) Proposed Issue of New Shares under Specific Mandate

Following the adoption of the New Share Award Scheme, the Board has resolved to allot and issue up to 113,052,000 New Shares, within one year after the date of approval of the Extraordinary General Meeting ("EGM") of the Shareholders' resolution for approving the Specific Mandate, to the Trustee at the nominal value of HK$0.01 per Share under the Specific Mandate to be sought from the Shareholders in the EGM for the purpose of satisfying future grants of Awards under the New Share Award Scheme ("Specific Mandate"). The New Shares will be allotted and issued when and to the extent that Awards to any Selected Employees have been granted and the Board resolves to satisfy such Awards by the allotment of such New Shares.

The Company convened the EGM on 30 June 2016, and Shareholders' approval for the Specific Mandate were obtained by way of poll.

Please refer to the Company's announcement dated 14 June 2016 and circular dated 15 June 2016 for details on the proposed issue of new shares under specific mandate, and the Company's announcement dated 30 June 2016 on poll results of the EGM for approving the Specific Mandate.

## Directors

The Directors during the year 2016 and up to the date of this report were:

### Executive Directors:

Mr. Chan Nap Kee, Joseph *(Chairman and Chief Executive Officer)*
(note: redesignated to Chief Executive Officer from Acting Chief Executive Officer effective from 26 October 2016)
Dr. Chow Pok Yu, Augustine *(Retired on 31 December 2016)*
Mr. Yang Yongcheng

### Independent Non-Executive Directors:

Mr. Liew Swee Yean
Mr. Siu Siu Ling, Robert
Dr. Wong Yun Kuen
Mr. Anderson Brian Ralph

According to Article 86 of the articles of association of the Company ("the Articles"), the directors shall have the power from time to time and at any time to appoint any person as a director to fill a casual vacancy on the Board or, as an addition to the existing Board provided that the number of directors so appointed by the Board shall not exceed any maximum number determined from time to time by the Shareholders in general meeting. Any director so appointed by the Board shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the following annual general meeting of the Company ("AGM") (in the case of an addition to the Board), and shall then be eligible for re-election at that meeting.

During the year 2016, in accordance with Article 86 of the Articles, no director will retire from office and shall then be eligible for re-election at that meeting.

# Report of the Directors

According to Article 87 of the Articles, one-third of the directors for the time being (or, if the number of directors is not three (3) or a multiple of three (3), the number nearest to but not less than one-third), shall retire at each AGM by rotation, provided that every director shall be subject to retirement by rotation at least once every three (3) years. The retiring directors shall then be eligible for re-election at the AGM.

In accordance with Article 87 of the Articles, Mr. Chan Nap Kee, Joseph and Mr. Liew Swee Yean will retire from offices by rotation at the forthcoming AGM, and being eligible, offer themselves for re-election at the forthcoming AGM.

According to Code provisions A.4.3 of Appendix 15 Corporate Governance Code and Corporate Governance Report of the Rules Governing the Listing of Securities on the GEM of Stock Exchange (the "GEM Listing Rules"), if an independent non-executive director serves more than 9 years, his further appointment should be subject to a separate resolution to be approved by shareholders.

As Mr. Liew Swee Yean, Mr. Siu Siu Ling, Robert and Dr. Wong Yun Kuen served for more than 9 years in year 2017, accordingly, his further appointment in 2017 should be subject to a separate resolution to be approved by shareholders, which will be attained by way of re-election at the AGM. Mr. Liew Swee Yean, Mr. Siu Siu Ling, Robert and Dr. Wong Yun Kuen offer himself for re-election at the AGM.

The Company has received from each of Mr. Liew Swee Yean, Mr. Siu Siu Ling Robert, Dr. Wong Yun Kuen and Mr. Anderson Brian Ralph, being the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company still considers each of the independent non-executive directors to be independent.

## Directors' Service Contracts

The term of office for each of Mr. Liew Swee Yean, Mr. Siu Siu Ling Robert, Dr. Wong Yun Kuen and Mr. Anderson Brian Ralph, being the independent non-executive directors, is for a term of one year and may be extended for such period as agreed in writing by the directors concerned and the Company. Currently, Mr. Liew Swee Yean has been appointed as an independent non-executive director up to 7 November 2017, Mr. Siu Siu Ling Robert has been appointed as an independent non-executive director up to 31 December 2017, Dr. Wong Yun Kuen has been appointed as an independent non-executive director up to 29 September 2017, while Mr. Anderson Brian Ralph has been appointed as an independent non-executive director up to 22 January 2018.

Save as disclosed above, none of the directors has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Details of the directors' emoluments are set out in note 13 to the Consolidated Financial Statements.

## Directors' Remuneration

It is proposed that the Board be authorised to fix the directors' remuneration at the forthcoming AGM. The remuneration, including any bonus payments, housing allowance and share award, to be paid to the directors, are recommended by the remuneration committee of the Board ("Remuneration Committee") with reference to the directors' duties, responsibilities and performance and the results of the Group.

## Directors' Interests in Contracts

There were no contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company was a party and in which a director had a material interest, whether directly or indirectly, subsisting as at the end of the year or at any time during the year 2016 under review.

## Directors' And Chief Executives' Interests And Short Positions In The Shares, Underlying Shares And Debentures Of The Company Or Any Associated Corporations

The interest and short positions of the directors and chief executives in the Shares, of the Company after rights issue and share consolidation are as follow:

| Name of Directors | Capacity | Number of Shares as at 16 Jan 2017 (after allotment of rights shares) | Number of Shares as at 24 March 2017 (after share consolidation of 10 shares into 1 share effective on 16 February 2017) | Approximate percentage of the total issued shares |
|---|---|---|---|---|
| Chan Nap Kee, Joseph | Beneficial owner | 1,591,322,985 | 159,132,298 | 28.15% |
| Yang Yongcheng | Beneficial owner | 6,150,000 | 615,000 | 0.11% |
| Liew Swee Yean | Beneficial owner | 2,040,000 | 204,000 | 0.04% |
| Siu Siu Ling, Robert | Beneficial owner | 2,040,000 | 204,000 | 0.04% |
| Wong Yun Kuen | Beneficial owner | 5,250,000 | 525,000 | 0.09% |
| Anderson Brian Ralph | Beneficial owner | 1,500,000 | 150,000 | 0.03% |

# Report of the Directors

As at 31 December 2016, the interests and short positions of the directors and the chief executives in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by the directors are as follows:

## Long position in Shares and underlying Shares

| Name of Directors | Capacity | Number of Shares | Number of Underlying Shares | Approximate percentage of the total issued Shares as at 31 December 2016 |
|---|---|---|---|---|
| Chan Nap Kee, Joseph | Beneficial owner | 1,657,316,216 *(note 1)* | — | 43.98% |
| Chow Pok Yu, Augustine *(Retired on 31 December 2016)* | Beneficial owner | 4,000,000 *(note 2)* | — | 0.11% |
| Yang Yongcheng | Beneficial owner | 4,100,000 *(note 3)* | — | 0.11% |
| Liew Swee Yean | Beneficial owner | 2,040,000 *(note 4)* | — | 0.05% |
| Siu Siu Ling, Robert | Beneficial owner | 2,040,000 *(note 4)* | — | 0.05% |
| Wong Yun Kuen | Beneficial owner | 3,500,000 *(note 4)* | — | 0.09% |
| Anderson Brian Ralph | Beneficial owner | 1,500,000 *(note 4)* | — | 0.04% |

Save as disclosed above, as at 31 December 2016, none of the directors or chief executive of the Company had any interest or short position in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Ordinance) which is required to be notified to the Company and the Stock Exchange pursuant to divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or any interests required to be entered in the register maintained in accordance with Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors.

*Notes:*

1. As at 31 December 2016, Mr. Chan was interested in total of 1,657,316,216 shares, of these, Mr. Chan was deemed to be interested in the 1,520,994,456 shares by virtue of the SFO representing 40.36% of the issued share capital of the Company pursuant to the proposed rights issue as stated in the Company's announcement dated 1 December 2016.

   The remaining 136,321,760 shares was beneficially owned by Mr. Chan representing 3.62% of the issued share capital of the Company. Of these 136,321,760 shares beneficially owned by Mr. Chan, 20,040,000 shares were awarded to Mr. Chan Nap Kee, Joseph as Director on 30 December 2015 under the Share Award Scheme adopted since 10 May 2013.

2. These were the shares awarded to Dr. Chow Pok Yu Augustine as Director on 30 December 2015 under the Share Award Scheme. Dr. Chow Pok Yu, Augustine retired on 31 December 2016.

3. Of these, 4,000,000 shares were awarded to Mr. Yang as Director on 30 December 2015 under the Share Award Scheme.

4. Of these, 1,500,000 shares were awarded to each of Mr. Liew Swee Yean, Mr. Siu Siu Ling Robert, Dr. Wong Yun Kuen and Mr. Anderson Brian Ralph as Director on 30 December 2015 under the Share Award Scheme.

## Interests and Short Positions of Substantial Shareholders in Shares and Underlying Shares

As at 31 December 2016, so far as is known to the Directors and chief executive of the Company, the persons (not being a Director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

### Long positions in Shares and underlying Shares

| **Name of shareholder** | **Capacity** | **Number of Shares** *(Note 1)* | **Approximate percentage of interest in Shares** *(Note 2)* |
|---|---|---|---|
| Zhang Zhi Ping | Interest of a controlled corporation | 218,490,000 (L) *(Note 3)* | 5.80% |
| Zhang Gaobo | Interest of a controlled corporation | 218,490,000 (L) *(Note 3)* | 5.80% |
| Oriental Patron Financial Group Limited ("OPFGL") | Interest of a controlled corporation | 218,490,000 (L) *(Note 3)* | 5.80% |
| Koala Securities Limited ("Koala Securities") | Beneficial owner | 363,208,394 (L) *(Note 4)* | 9.64% |
| Prime Paradise Limited ("PPL") | Interest of a controlled corporation | 363,208,394 (L) *(Note 4)* | 9.64% |
| Leading Nation Investment Limited ("LNIL") | Interest of a controlled corporation | 363,208,394 (L) *(Note 4)* | 9.64% |
| Sunrise (China) Technology Group Limited ("STGL") | Interest of a controlled corporation | 363,208,394 (L) *(Note 4)* | 9.64% |
| Yeung Po Yee, Bonita | Interest of spouse | 1,657,316,216 *(L)* *(Note 5)* | 43.98% |

*Notes:*

1. The letter "L" denotes long position in the Shares.

2. The percentage is calculated on the basis of that the number of issued Shares of 3,768,405,700 as at 31 December 2016.

3. So far as the Directors were aware of and based on the disclosure of interests notices filed by Zhang Zhi Ping, Zhang Gaobo and OPFGL on 19 June 2015, among these 218,490,000 Shares, 86,380,000 Shares were beneficially owned by Pacific Top Holding Limited and 132,110,000 Shares were beneficially owned by Profit Raider Investments Limited. Pacific Top Holding Limited was wholly owned by Oriental Patron Financial Services Group Limited, which was in turn owned as to 95% by OPFGL. Profit Raider Investments Limited was wholly owned by OP Financial Investments Limited, which was owned as to 35.05% by Ottness Investments Limited. Ottness Investments Limited was wholly owned by OPFGL. OPFGL was owned as to 51% by Zhang Zhi Ping and 49% by Zhang Gaobo. Accordingly, Zhang Zhi Ping and Zhang Gaobo were taken to be interested in the Shares in which Pacific Top Holding Limited and Profit Raider Investments Limited were interested by virtue of the SFO.

# Report of the Directors

4. These Shares represented the maximum number of Rights Shares to be underwritten by Koala Securities pursuant to the Underwriting Agreement. So far as the Directors were aware of, based on the disclosure of interests notices filed by each of Koala Securities, PPL, LNIL and STGL on 2 December 2016 (which were the last notices filed by each of them) and as confirmed by Koala Securities, Koala Securities was wholly owned by PPL, which was in turn owned as to 80% by LNIL. LNIL was wholly owned by STGL. Accordingly, PPL, LNIL and STGL were taken to be interested in the Shares in which Koala Securities was interested by virtue of the SFO.

5. These were total number of Shares in which Mr. Chan beneficially owned and was interested in pursuant to the SFO according to proposed rights issue of the Company announced on 1 December 2016. As the spouse of Mr. Chan, Ms. Yeung Po Yee, Bonita was taken to be interested in the Shares in which Mr. Chan was interested by virtue of the SFO.

Save as disclosed above, the Directors were not aware of any other person (other than the directors and the chief executives of the Company) who, as at 31 December 2016, had, or was deemed to have, interests or short positions in the Shares or underlying Shares, which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 & 3 of Part XV of the SFO.

## 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 2016 under review.

## Major Customers and Suppliers

The percentages of cost of sales and sales for the year 2016 attributable to the Group's major suppliers and customers are as follows:

| | |
|---|---|
| Cost of sales | |
| — the largest supplier | 44.78% |
| — five largest suppliers combined | 66.54% |
| | |
| Sales | |
| — the largest customer | 39.09% |
| — five largest customers combined | 81.41% |

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers mentioned above.

## Compliance with the Code on Corporate Governance Practices

The Company has complied with most of the code provisions as set out in the Code of Corporate Governance Practices contained in Appendix 15 to the GEM Listing Rules during the year ended 31 December 2016. Details of compliance and deviation are set out in the Corporate Governance Report on pages 43 to 57.

## Directors' Interest in Competing Business

None of the directors or their respective associates (as defined in GEM Listing Rules) had any interests in any business which compete or may compete with the Group or any other conflicts of interest with the Group.

## Pre-Emptive Rights

There is no provision for pre-emptive rights under the Articles and there are no restrictions against such rights under the laws in the Cayman Islands.

## Subsidiaries

Particulars of the Company's subsidiaries are set out in note 33 to the Consolidated Financial Statements.

## Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors as at the latest practicable date prior to the issue of this annual report, the Company has maintained a sufficient public float in accordance with the GEM Listing Rules.

## Events after the Reporting Period

### (1) Proposed Rights Issue and Share Consolidation

On 1 December 2016, the Company and Koala Securities Limited, entered into the underwriting agreement to implement the rights issue on the basis of one rights Share for every two Shares at the subscription price of HK$0.048 per rights Share ("Rights Issue") and a total of 1,884,202,850 rights Shares were issued on 16 January 2017.

For details of Rights Issue, please refer to the announcement dated 1 December 2016, the prospectus dated 20 December 2016 and the announcement dated 13 January 2017 by the Company in relation to the Rights Issue.

As stated in the Company's announcement dated 1 December 2016, the Share Consolidation was proposed in compliance with Rule 17.76 of the GEM Listing Rules whereby every ten (10) existing issued and unissued Shares of HK$0.01 each in the share capital of the Company would be consolidated into one (1) Consolidated Share of HK$0.10 each ("Share Consolidation").

The resolution approving the Share Consolidation was passed on the Extraordinary General Meeting held on 15 February 2017 and the Share Consolidation became effective on 16 February 2017.

For details of Share Consolidation, please refer to the announcement dated 1 December 2016, the circular dated 24 January 2017, and the announcement dated 15 February 2017 by the Company in relation to the Share Consolidation.

### (2) Acquisition of Shares of Mining Company

On 10 October 2016, Shandong Kailai Energy Logistic Company Limited (an indirect 70% owned subsidiary of Kaisun Energy Group Limited) ("Kailai") , entered into two share transfer agreements with Mr. Zhou Xinliang and Ms. Yan Weihua to acquire 90% and 10% shares of Xinjiang Turpan Xingliang Mining Limited ("Xingliang") each owned respectively for total cash consideration of RMB 10 million. The transaction was completed on 8 February 2017.

Both Mr. Zhou Xinliang and Ms. Yan Weihua are independent third parties and are not connected parties under Chapter 20 of the GEM Listing Rules. Kailai's Board members are also not connected to the sellers under Chapter 20 of the GEM Listing Rules.

# Report of the Directors

(a) *Background and details of Xingliang*

Xingliang is a Xinjiang mining company incorporated on 4 May 2011. It holds a mining license with coal output of 90,000 tonne per year. Kailai (the Company's 70% subsidiary) obtained ownership of Xinliang on 8 February 2017 with government approval on the transfer of the valid mining license from the sellers.

(b) *Reasons and purpose of Acquisition*

Kailai is a coal trader and a logistic provider in Shandong. The Kailai Board considered the coal market bottomed out and coal assets are now relatively cheap.

Our fellow shareholder in Kailai, ie. Shandong Baiyi, a member of State-owned-enterprise 山東能源棗莊礦業（集團）有限責任公司 (Shandong Energy Zaozhuang Mining Group Co., Ltd) (website: www.zkjt.com.cn), have capabilities and proven record to lead our Kailai team to develop Xingliang.

## Auditors

At the Company's last Annual General Meeting, RSM Hong Kong was re-appointed as auditor of the Company.

RSM Hong Kong retires, and, being eligible, offer themselves for re-appointment. A resolution for re-appointment of RSM Hong Kong will be put at the forthcoming Annual General Meeting.

For and on behalf of the Board

**Chan Nap Kee, Joseph**
*Chairman*

Hong Kong, 24 March 2017

# Corporate Governance Report

## Corporate Governance

### Our Governance Framework

Kaisun operates with a clear and effective governance structure

**THE BOARD**
Leadership, Internal Control and Risk Management

**Audit Committee**
- Reviews internal controls and risk management systems
- monitors internal and external auditors
- Oversees financial reporting process

**Remuneration Committee**
- Sets remuneration policy for Executive Directors
- Determines Executive Director's remuneration and incentives

**Nomination and Corporate Governance Committee**
- Recommends Board appointment
- Reviews Board structure and composition
- Review Group's practices on corporate governance

**FURTHER INFORMATION**

**Audit Committee Report**
Page 51 to 53

**Remuneration Committee Report**
Page 49 to 50

**Nomination and Corporate Governance Committee Report**
Page 50 to 51

**Risk Management and Internal Controls Report**
Page 53 to 54

# Corporate Governance Report

Kaisun's governance framework serves as a guide for the Board and management in the performance and fulfillment of their respective obligations to Kaisun and its stakeholders. The key components of Kaisun's governance framework, including guidelines, policies and procedures ensures

(i) the existence of a capable and qualified Board with diverse backgrounds and skills;

(ii) the establishment of appropriate roles for the Board and various committees; and

(iii) a collaborative and constructive relationship between the Board and the management.

The following constitutes key components of Kaisun's governance framework. They are posted on the Company's website: www.kaisunenergy.com

- List of Director and their Role and Function
- Terms of References of the various corporate governance related Board Committees
- Articles of Association
- Memorandum of Association.

The Board also regularly assesses and enhances its governance framework, practices and principles in light of regulatory regimes as well as Company needs.

## Appointment of four independent Directors with a diverse background

In view of good corporate governance, regarding board composition, we are one of the few listed companies in Hong Kong where we have more Independent Non-executive Directors than Executive Directors. As at the date of this Annual Report, the Board comprises six Directors: two Executive Directors and four Independent Non-executive Directors ("INEDs"). INEDs comprise two-third of the Board which exceeds the Listing Rules requirement that INEDs shall represent at least one-third of the Board. The rationale behind such appointment is that the Company should be monitored by Independent Non-executive Directors on behalf of public shareholders.

During 2016, there were 4 Independent Non-executive Directors drawn from diverse and complementary backgrounds spanning mining, accounting and legal professional. They bring valuable experience and insight in the following areas of experience and expertise, driving the corporate strategy and growth of the Group:

| EXPERIENCE/EXPERTISE | NAME OF DIRECTORS |
| --- | --- |
| **EXPERIENCE AND EXPERTISE IN MINING FIELD**<br>Past experience as a senior executive in a major energy company<br>Expertise as a geological expert | Mr. Anderson Brian Ralph<br>Dr. Wong Yun Kuen |
| **MACRO-ENVIRONMENT AFFECTING THE GROUP**<br>Expertise in the economic, political or social environment affecting the Group and its operations | Dr. Wong Yun Kuen<br>Mr. Anderson Brian Ralph |
| **"AUDIT COMMITTEE" ACCOUNTING EXPERTISE**<br>Expertise based on the definition of "Audit Committee accounting expertise" under the Listing Rules | Mr. Liew Swee Yean |
| **LEGAL EXPERTISE**<br>Legal expertise for advising general management or business | Mr. Siu Siu Ling |

Note: Director's full Biography are set out on pages 29 to 31

# Corporate Governance Report

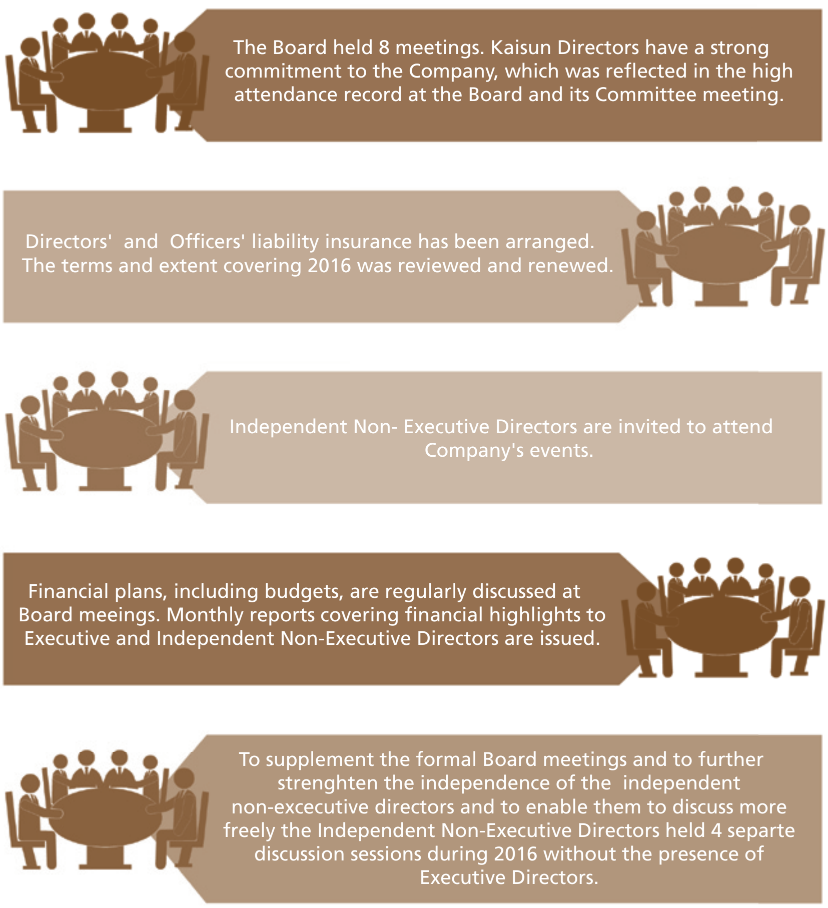
## How the Board Works Together

The Board and management fully appreciate their respective roles and are supportive of the development and maintenance of a healthy corporate governance culture.

The Board relies on management for the day-to-day operation of the business. It monitors what management is doing. In terms of strategy formulation, the Board works closely with management in thinking through the Group's direction and long-term plans, as well as the various opportunities and risks associated therewith and that are facing the Group generally.

The Independent Non-Executive Directors provide independent challenge and review, bringing a wide range of experiences, specific expertise, and fresh objective perspectives. As members of the various Board committees, they also undertake governance work with a particular focus as noted under the respective terms of reference of the various Board committees.

## Summary of key features at Kaisun Board during 2016



# Corporate Governance Report

## Code on Corporate Governance Practices

The Board is committed to maintain good standard of corporate governance practices and procedures. As stated in the third quarterly report, the Company has engaged Moore Stephens Consulting Limited ("Moore Stephens"), an independent external reviewer, to perform review on the internal control system. Details of implementation of recommendations by Moore Stephens are stated under "RISK MANAGEMENT AND INTERNAL CONTROL REVIEW REPORT" on page 53 and page 54 of this Annual Report. Except for the deviations described below, the Company has complied with the code provisions set out in the Corporate Governance Code (the "CG code") contained in Appendix 15 to the GEM Listing Rules throughout the year 2016 under review.

The Code Provision A.2.1 stipulates that the role of chairman and chief executive officer should be separated and should not be performed by the same individual. From 2 November 2010 to 26 October 2016, Mr. Chan Nap Kee, Joseph, chairman, took up the role of acting chief executive officer and he was redesignated to Chief Executive Officer with effect from 26 October 2016. As Mr. Chan is both Chairman and Chief Executive Officer, Code Provision A.2.1 has been deviated.

The Code Provision A.5.6 stipulates that the nomination committee (or the board) should have a policy concerning diversity of board members, and should disclose the policy or a summary of the policy in the corporate governance report. The Nomination and Corporate Governance Committee of the Company (the "Nomination Committee") would review the board composition from time to time and it considered that the board diversity is in place and therefore written policy is not required. Due to the amendment of the Listing Rules effective 1 September 2013, a board diversity policy (the "Board Diversity Policy") has been adopted in December 2013. The Board Diversity would be considered from a number of aspects, including but not limited to skills, experience, knowledge, expertise, culture, independence, age and gender.

## Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions by directors ("Directors") of the Company on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year 2016. The Company has also made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

## The Board of Directors

### Composition of the Board of Directors (the "Board")

As at 31 December 2016, the Board comprised six directors, including two executive directors, namely Mr. Chan Nap Kee Joseph and Mr. Yang Yongcheng and four independent non-executive directors, namely Mr. Liew Swee Yean, Mr. Siu Siu Ling Robert, Dr. Wong Yun Kuen and Mr. Anderson Brian Ralph. Mr. Chan Nap Kee Joseph is the chairman and the chief executive officer of the Board. He was redesignated to Chief Executive Officer from Acting Chief Executive Officer on 26 October 2016.

Dr. Chow Pok Yu Augustine retired as Executive Director and Compliance Officer on 31 December 2016.

Mr. Yang Yongcheng was appointed as Compliance Officer effective from 31 December 2016.

# Corporate Governance Report

One of the independent non-executive directors has appropriate professional qualifications, or accounting or related financial management expertise. Biographical details of the directors are set out on pages 29 to 31 of this annual report.

Each of the independent non-executive directors has entered into a service contract with the Company for a term of one year, which may be extended for such period as agreed in writing between the director concerned and the Company.

There is no financial, business, family or other material or relevant relationship among the directors.

### Independent Non-Executive Directors

The Company has received from each of its independent non-executive directors an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company is of the view that all the independent non-executive directors meet the independence guidelines as set out in Rule 5.09 of the GEM Listing Rules and still considers that they are independent.

### Role and Function of the Board

The principal role of the Board is to formulate the operational strategies and establish a risk management and internal control system together with a high standard of corporate governance to ensure proper management of the Group. The daily operational matters of the Group are delegated by the Board to the management.

### Board Meetings

Eight regular Board meetings were held during the year ended 31 December 2016. The Board meetings involved the active participation of the directors either in person or by telephone or through other electronic means of communication.

At least 14 days notice has been given to all directors of each of the Board meetings.

Attendance of each of the directors at Board meetings during the year ended 31 December 2016 is set out as follows:

| **Number of Board Meetings** | **8** | |
|---|---|---|
| *Executive Directors:* | | |
| Mr. Chan Nap Kee, Joseph *(Chairman and Chief Executive Officer)* | 8/8 | 100% |
| Dr. Chow Pok Yu, Augustine *(Retired on 31 December 2016)* | 8/8 | 100% |
| Mr. Yang Yongcheng | 7/8 | 88% |
| *Independent Non-Executive Directors:* | | |
| Mr. Liew Swee Yean | 8/8 | 100% |
| Mr. Siu Siu Ling, Robert | 8/8 | 100% |
| Dr. Wong Yun Kuen | 8/8 | 100% |
| Mr. Anderson Brian Ralph | 8/8 | 100% |
| Average attendance rate | 98.21% | |

### Annual General Meeting

All Directors attended the Annual General Meeting held on 30 June 2016.

## Company Secretaries

All Directors have access to the advice and services of the Joint Company Secretaries, Mr. Leung Lit For and Miss Young Helen. Both Mr. Leung and Miss Young have confirmed that they have taken no less than 15 hours of the relevant professional training for the year ended 31 December 2016 in compliance with Rule 5.15 of the GEM Listing Rules.

## Chairman and Chief Executive Officer

The Code Provision A.2.1 stipulates that the role of chairman and chief executive officer should be separated and should not be performed by the same individual.

From 2 November 2010 to 26 October 2016, Mr. Chan Nap Kee Joseph, chairman, took up the role of acting chief executive officer and he was redesignated to Chief Executive Officer with effect from 26 October, 2016. As Mr. Chan is both Chairman and Chief Executive Officer, Code Provision A.2.1 has been deviated.

## Remuneration Committee Report

### Composition of the Remuneration Committee

The Company established the Remuneration Committee. The current Remuneration Committee comprised one executive director and two independent non-executive directors, namely Mr. Chan Nap Kee Joseph, Dr. Wong Yun Kuen and Mr. Anderson Brian Ralph. Dr. Wong Yun Kuen is the chairman of the Remuneration Committee.

### Role and Function of the Remuneration Committee

In order to comply with amendments to the GEM Listing Rules on 30 March 2012, new terms of reference that supersedes previous terms of reference of the Remuneration Committee were adopted. The new written terms of reference which describes its authorities and duties is available on the Company's website www.kaisunenergy.com under "Investor Relations" section with heading of "Corporate Governance".

The primary duties of the Remuneration Committee is to determine, with delegated responsibility, the remuneration packages of individual executive directors and senior management.

### Remuneration Policy

The formulation of the Group's remuneration strategy and policy is based on the principles of equity and market competitiveness so as to drive staff to work towards the mission of the Group and to retain talents. As a long-term incentive plan and with the aim at motivating directors and employees in the continued pursuit of the Company's goal and objectives, the Company has adopted two share award schemes under which the Company may award Company's shares purchased or shares allotted and issued by the Company to the directors/employees of the Company as award.

### Remuneration Committee Meetings

The Remuneration Committee has held one meeting during the year ended 31 December 2016. During the meeting, the Remuneration Committee had reviewed and approved the increment in salary, housing allowance, bonus payment and share award for the executive directors and the senior management by way of resolutions passed by all committee members. However, the executive directors did not participate in determining their own remuneration.

# Corporate Governance Report

During the year 2016 under review, the Remuneration Committee had undertaken the following duties:

(i) approved the salary, housing allowance and bonus payment for an executive director and the senior management of the Company; and

(ii) administered the share award schemes of the Company.

Attendance of each of the directors at the Remuneration Committee meetings for the year ended 31 December 2016 is set out as follows:

| **Number of Remuneration Committee Meetings** | **1** | |
|---|---|---|
| Dr. Wong Yun Kuen *(Committee Chairman)* | 1/1 | 100% |
| Mr. Chan Nap Kee, Joseph | 1/1 | 100% |
| Mr. Anderson Brian Ralph | 1/1 | 100% |
| Average attendance rate | 100% | |

## Nomination and Corporate Governance Committee Report

### Composition of the Nomination and Corporate Governance Committee

The Company established a Nomination and Corporate Governance Committee ("NC") with written terms of reference which deals clearly with its authorities and duties. The NC comprises three members, namely Mr. Siu Siu Ling (chairman of NC), Mr. Liew Swee Yean and Mr. Chan Nap Kee, Joseph.

The primary duties of the NC is to make recommendations to the Board on appointment or reappointment of Directors, and to develop and review Group's policies and practices on corporate governance and to make recommendations to the Board.

Written terms of reference were adopted in compliance with the GEM Listing Rules, and is available on the Company's website www.kaisunenergy.com under "Investor Relations" section with heading of "Corporate Governance".

Below is the summary of the Board Diversity Policy:

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance and hence the purpose of the Board Diversity Policy aims to build and maintain a Board with a diversity of Directors, in terms of skills, experience, knowledge, expertise, culture, independence, age and gender. These differences will be taken into account in determining the optimum composition of the Board. The NC will discuss the measurable objectives for implementing diversity on the Board from time to time and recommend them to the Board for adoption.

The NC will report annually on the composition of the Board under diversified perspectives, and monitor the implementation of this policy to ensure the effectiveness of this policy. It will also discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

# Corporate Governance Report

Attendance of each of the directors at the Nomination and Corporate Governance Committee meetings for the year ended 31 December 2016 is set out as follows:

| **Number of Nomination and Corporate Governance Committee Meetings** | **1** | |
|---|---|---|
| Mr. Siu Siu Ling, Robert *(Committee Chairman)* | 1/1 | 100% |
| Mr. Chan Nap Kee, Joseph | 1/1 | 100% |
| Mr. Liew Swee Yean | 1/1 | 100% |
| Average attendance rate | 100% | |

## Auditors' Remuneration

For the year ended 31 December 2016, the fee paid or payable to external auditors in respect of audit and non-audit services amounted to HK$2,560,000 and HK$150,000 respectively.

## Preparation of Accounts

The Directors are responsible for overseeing the preparation of the annual accounts which give a true and fair view of the Group's state of affairs of the results and cash flows for the year 2016 under review. In preparing the accounts for the year ended 31 December 2016, the directors have approved adoption of all the applicable standards and interpretations of International Financial Reporting Standards ("IFRSs").

The quarterly, interim and annual results of the Company are announced in a timely manner after the end of the relevant periods.

## Audit Committee Report

### Composition of the Audit Committee

The Company established the audit committee (the "AC") with written terms of reference that sets out the authorities and duties of the committee.

The primary duties of the AC are to review and supervise the financial reporting process and internal control and risk management systems of the Group, maintain an appropriate relationship with the Company's auditors and provide advice and comments to the Board.

The AC comprises four independent non-executive directors, namely Mr. Liew Swee Yean, Mr. Siu Siu Ling Robert, Dr. Wong Yun Kuen and Mr. Anderson Brian Ralph, and Mr. Liew Swee Yean is the chairman of the AC.

During the year 2016, the audit committee held four meetings to review and supervise the financial reporting process. The results for the year 2016 have been reviewed by the Audit Committee who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and adequate disclosures have been made.

### Role and Function of the Audit Committee

In order to comply with amendments to the GEM Listing Rules, on 30 March 2012, new terms of reference that supersedes previous terms of reference of the Audit Committee were adopted. The new written terms of reference which describes its authorities and duties is available on the Company's website www.kaisunenergy.com under "Investor Relations" section with heading of "Corporate Governance".

## Corporate Governance Report

The primary duties of the AC are to review and supervise the financial reporting process and internal control system of the Group and provide an important link between the Board and the Company's auditors on those matters within the scope of the Group's audit. It also reviews the effectiveness of the external and internal audit and conducts risk evaluation.

The AC is provided with sufficient resources to discharge its responsibilities and is supported by the Finance Department of the Company. The AC is accountable to the Board.

### Audit Committee Meetings

During the year 2016, the AC has held four meetings to review and supervise the financial reporting process and the AC has reviewed the quarterly, interim and annual results, internal controls and risk management systems. The AC was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made. The AC also carried out and discharged its other duties as set out in the Corporate Governance Code (the "CG Code").

Attendance of each of the independent non-executive directors at the AC meetings during the year ended 31 December 2016 is set out as follows:

| **Number of Audit Committee Meetings** | | **4** | |
|---|---|---|---|
| Mr. Liew Swee Yean *(Committee Chairman)* | 4/4 | | 100% |
| Mr. Siu Siu Ling, Robert | 4/4 | | 100% |
| Dr. Wong Yun Kuen | 4/4 | | 100% |
| Mr. Anderson Brian Ralph | 3/4 | | 75% |
| Average attendance rate | | 93.75% | |

During the year 2016, the AC had undertaken the following duties:

(i) made recommendations to the Board on the appointment, reappointment or removal of the external auditors (the "Auditors") and approved the audit fees and terms of engagement of the Auditors, or any questions of resignation or dismissal of the Auditors;

(ii) reviewed the quarterly, interim and annual financial statements prior to recommending them to the Board for approval;

(iii) reviewed the Auditors' management letter and the management's response thereto, and to ensure that recommendations made by the Auditors are carried out;

(iv) reviewed the operation and effectiveness of the Company's financial control, internal control and risk management systems;

(v) reviewed the appropriateness of reporting and accounting policies and disclosure practices; and

(vi) reviewed the work of the Internal Audit Department, ensuring coordination between the Internal Audit Department and the Auditors, and reviewing and monitoring the effectiveness of the internal audit function.

During the year 2016, the Board, through the AC, reviewed the effectiveness of the Group's system of internal control over financial, operational and compliance issues, broad-based risk management processes, and physical and information systems security. To formalize the annual review of internal control system, the AC made reference to the globally recognised framework with modifications to include some controls which are specific to the Group's operation. The AC concluded that, in general, the Group has set up a sound control environment and installed necessary control mechanisms to monitor and correct noncompliance.

The Board, through the review of the AC, is satisfied that the Group has fully complied with the Code Provisions on internal controls as set forth in the CG Code for the year 2016.

The Group's financial statements for the year ended 31 December 2016 have been reviewed by the AC, who is of the opinion that such statements comply with applicable accounting standard and legal requirements, and that adequate disclosures have been made.

## Risk Management and Internal Control Review Report

The Board has overall responsibility for the risk management and internal control systems of the Company and for reviewing their effectiveness. The risk management and internal control systems of the Company 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. As the Group's investment in the Belt and Road becomes more robust, the Board feels that our internal control protocols must grow alongside with it. The Group has gone through an internal control improvement and upgrade process. During the period, this process was led by the Board and the Audit Committee with revision activities carried out and recommendations on establishing new procedures, in addition to relevant implementation method given by Moore Stephens and the Group's Internal Auditor.

The Company has an Internal Audit Function, and Risk Management and Internal Control System are reviewed throughout the year 2016 and any findings in this regard will be reported to the Audit Committee on a quarterly basis. Our Internal Auditor has performed the Internal Audit Function of the Company throughout the Period. Kaisun has gone through a process of reorganization to prepare for our future cooperation with our strategic partners. We are currently also going through the process of reviewing and improving on our internal audit (which includes critical items such as internal control and risk assessment framework and procedures update) with the aim to provide an update to our current internal control system so as to improve our operational effectiveness and efficiency and better risk management as well as to complement our reorganization. For procurement, litigation check, background check, due diligent check, site visit check, financial check and credit search to our potential suppliers have been carried out for preparation of proposal to the Board. The project is recommended by Project Team and is approved by the Board. For investment, litigation check, background check, due diligent check, site visit check, financial check and credit search to our potential suppliers have been carried out. The project is recommended by Transaction Team and is approved by the Board. The Board monitored the implementation of the project by the Project Team.

As stated in the Company's Third Quarter Report dated 26 October 2016, the Company engaged Moore Stephens as our internal control reviewer to conduct a review of our internal control systems and make recommendations to the Company for this purpose. Based on the agreement between Moore Stephens and our Group's Audit Committee and executive management during the fieldwork, the internal control focused on two business activities: (i) Investment

# Corporate Governance Report

Management, and (ii) Procurement, Accounts Payable and Payments. This is once again, due to our increasing involvement in the Belt and Road investments the Board considers that it is extremely important to have our investment process procedures updated and fit to the Group's future development.

Moore Stephens has made recommendations to the Company and the Board on

(i) procurement policies and procedures and

(ii) investment policies and procedures.

The procurement policies and procedures and the investment policies and procedures were approved by the Board before circulation to all Staffs. We have also incorporated all the comments recommended by Moore Stephen before sending it out to the Board. On 31 December 2016, the new (i) procurement policies and procedures and (ii) investment policies and procedures have full been implemented and executed. On 13 January 2017, the revised new (i) procurement policies and procedures and (ii) investment policies and procedures have been circulated to all relevant staff members of the Group.

In addition to our qualified accounting staff, the Company has engaged an experienced internal control officer to further improve its risk management and internal control systems.

### Review of Risk Management and Internal Control Effectiveness

The Board has conducted an annual review of the effectiveness of the Group's risk management and internal control systems for the year ended 31 December 2016, covering the material financial, operational and compliance controls, and considered that the Group's risk management and internal control systems are effective and adequate. The Audit Committee has also annually reviewed the adequacy of resources, qualifications, experience and training programs of the Group's internal audit staff and accounting and financial reporting staff and because most of our accounting staff have professional qualifications with audit and financial experience as well, the Audit Committee considered that the staffing is adequate and the staffs are competent to carry out their roles and responsibilities.

## Continuous Professional Development for Directors, Senior Management and Staff

The Directors, senior management and staff are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors, senior management and staff to enroll in a wide range of professional development courses and seminars organised by professional bodies in Hong Kong so that they can continuously update and further improve their relevant knowledge and skills.

# Corporate Governance Report

According to the records maintained by the Company, the current Directors received the following training during the year ended 31 December 2016:

| Name and title of director | Updates on Laws, Rules and others | Training provider | Time spent |
|---|---|---|---|
| Mr. Chan Nap Kee, Joseph<br>Chairman and Chief Executive Officer | The HKVAC 6th Asia Private Equity Forum (20 January 2016) | Hong Kong Venture Capital and Private Equity Association (HKVAC) | 6.5 hours |
| | HKVAC 15th China Private Equity Summit 2016 (30 May 2016) | | 6.5 hours |
| | Development in Financial Services Across South East Asia (24 February 2016) | Baker & Mckenzie | 3.5 hours |
| | "One Belt and One Road and the Future of Hong Kong" by Dr. Chan Man-hung (24 October 2016) | Hong Kong Energy and Minerals United Associations | 2.5 hours |
| | **Total** | | **19 hours** |
| Mr. Yang Yongcheng,<br>Executive Director | Guardian Role of Professionals in Upholding Ethical Governance (30 June 2016) | Hong Kong Institute of Certified Public Accountants | 2 hours |
| | PRC Tax on Offshore Indirect Equity Transfer — Experience sharing (8 August 2016) | | 2 hours |
| | **Total** | | **4 hours** |
| Mr. Liew Swee Yean,<br>Independent non-executive director | The Hong Kong Competition Ordinance — Prevention of Abuse of Substantial Market Power (19 October 2016) | Stephenson Harwood | 1 hour |
| | Forensic Accounting and Fraud Investigation (28 January 2016) | Accounting Development Foundation Limited | 2 hours |
| | 2016 Financial Reporting Update (16 November 2016) | RSM Hong Kong | 2 hours |
| | Anti-Money Laundering/Counter-Terrorist Financing (6 October 2016) | TG Securities Limited | 1 hour |
| | ACCA Technical Seminar on "Hong Kong Tax Updates 2016" (26 November 2016) | Association of Chartered Certified Accountants | 4 hours |
| | Putting COSO 2013 Framework into Practice (9 November 2016) | Hong Kong Institute of Certified Public Accountants | 3 hours |
| | ESG Risk Management and Internal Control (10 November 2016) | | 2 hours |
| | 2016 SMP Symposium (25 November 2016) | | 6 hours |
| | **Total** | | **21 hours** |
| Dr. Wong Yun Kuen,<br>Independent non-executive director | Seminar on Compliance in the HKEx's Consultation Conclusion on Risk Management and Internal Control: Review of the Corporate Governance Code and Corporate Governance Report (13 January 2016) | The Chamber of Hong Kong Listed Companies | 1 hour |
| | Environmental, Social and "Governance Reporting Guide, Appendix 27, Main Board Listing Rules" and"Changes to Corporate Governance Code and Corporate Governance Report" (4 February 2016) | Patrick Mak & Tse | 1 hour |
| | Deloitte INED Series. Workshop #20: Opportunities for Professionals of the Construction Sector brought by the One Belt One Road Initiative (29 April 2016) | Deloitte | 2 hours |
| | Memorandum on Director's Responsibilities (25 July 2016) | Sidley Austin/ICAC | 2 hours |

## Corporate Governance Report

| Name and title of director | Updates on Laws, Rules and others | Training provider | Time spent |
|---|---|---|---|
| | BDO: Listed companies sustainability forum — "from compliance to value creation" (29 September 2016) | BDO | 4 hours |
| | A Journey of Key Intermediaries Compliance Matters (13 December 2016) | Hong Kong Securities and Investment Institute | 1 hour |
| | Taught "Money and Banking" (September to November 2016) | Act as Lecturer for SCOPE, City University of Hong Kong | 10 hours |
| | **Total** | | **21 hours** |
| Mr. Siu Siu Ling, Robert<br>Independent non-executive director | Dementia (25 January 2016) | The Hong Kong Academy of Law | 1 hour |
| | Limited Liability Partnership (3 February 2016) | | 1 hour |
| | Legal Systems Vulnerability for Lawyers (15 June 2016) | | 1.5 hours |
| | Anti — money Laundering (5 July 2016) | | 1 hour |
| | Conflict of Interest and Confidentiality (29 August 2016) | | 1 hour |
| | Conflict of Interest (1 September 2016) | | 1 hour |
| | Civil Justice Reform (2 September 2016) | | 1.5 hours |
| | "A Delayed Project, A Select Committee (Majority) Report and Director's Duties in Hong Kong" (20 October 2016) | Hong Kong Institute of Certified Public Accountants | 2 hours |
| | **Total** | | **10 hours** |
| Mr. Anderson Brian Ralph,<br>Independent non-executive director | Board and Their Effectiveness (19 September 2016) | Hong Kong Institute of Directors | 2 hours |
| | **Total** | | **2 hours** |

## Social Responsibility

As one of the pioneers of the Belt and Road initiative, it is our responsibility to educate and to promote the Belt and Road initiative to the people of Hong Kong. It is without a doubt that the Belt and Road initiative will drive China including Hong Kong's economic growth in the next few years. Hong Kong, as an international hub of China and financial centre will certainly play an important role in the Belt and Road development. We find that youth in Hong Kong is still reluctant to move out of their comfort zone and try to continue their careers in the Belt and Road countries. This is especially true when it comes to working in countries in the frontier market.

To enhance people's understanding on the Belt and Road and some of the countries in these frontier markets, the Group, together with different respectable establishments such as the Hong Kong Polytechnic University, Silk Road Economic Development Research Centre, China Hong Kong Economic Trading International Association, Hong Kong Energy and Minerals United Associations just to name a few, held a series of conference on Silk Road Strategy (First one began on April 2015). Perspective on the Belt and Road initiative and knowledge on different Belt and Road countries such as Tajikistan, Georgia, Myanmar, etc. were delivered to students, press and scholars alike. Our hope is that through these educational events, not only are we spreading Belt and Road awareness to the public, but at the same time, to promote cultural exchange between Belt and Road countries with Hong Kong.

# Corporate Governance Report


As stated previously, cultural exchange is one of the Belt and Road initiative focus and we would like to contribute to that effort. Through working with different people in various Belt and Road countries we have developed an understanding of many of their cultures and the potential their people can bring to our Group as well as to Hong Kong. There are many people with Belt and Road background that currently resides in Hong Kong, whether they are born and raised here or travelling between countries. These individuals are actually perfect candidates to carry out Belt and Road related business due to their background and experience.

Nonetheless, many of these individuals of different backgrounds are given a bad reputation in Hong Kong. The Group is in the midst of developing a program that would hopefully help them integrate into the community more smoothly. This program would likely include:

1) internship program dealing with Belt and Road related operations. The Group believes that hiring people with different background will put their skills to good use and they will also bring different type of energy to the Group.

2) co-hosting various social events and educational seminars that would promote the awareness of Belt and Road as well as the acceptance of rich diversity of cultures in our community.

## Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Group.

The statement by the Auditors of the Company about their reporting responsibilities is set out on pages 61 to 62 of this report.

# Independent Auditor's Report

RSM

**TO THE SHAREHOLDERS OF KAISUN ENERGY GROUP LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of Kaisun Energy Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 63 to 120, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") 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 Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

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

1. Recoverability of inventories

2. Recoverability of trade receivables and trade deposits paid

## KEY AUDIT MATTERS *(Continued)*

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Recoverability of inventories**<br><br>Refer to page 100 (financial statements disclosures), page 78 (significant accounting policies) and page 85 (key estimates).<br><br>The Group held HK$3.6 million of inventories as at 31 December 2016.<br><br>• Inventory is carried at the lower of cost and net realisable value. The determination of net realisable value involves significant management judgements and estimates. | Our procedures in respect of the recoverability of inventories included:<br><br>• testing on a sample basis the accuracy of the ageing of inventories<br><br>• identifying aged and obsolete inventory when attending inventory counts<br><br>• analysing the level of aged and obsolete inventory and the related provision<br><br>• testing the expected quantities and prices of future sales of inventory items by reviewing sales after the reporting date<br><br>• assessing the reasonableness of management's assumptions about expected future usage of consumables and spare parts inventories in light of historical usage and our knowledge of the business environment |

# Independent Auditor's Report

## KEY AUDIT MATTERS *(Continued)*

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Recoverability of trade receivables and trade deposits paid**<br><br>Refer to pages 101 to 102 (financial statements disclosures), page 79 to 80 (significant accounting policies) and page 85 (key estimates).<br><br>The Group's trade receivables and trade deposits amounted to HK$29.0 million and HK$92.0 million respectively in relation to the Group's provision of supply chain management services for the mineral business segment as at 31 December 2016.<br><br>Assessing the recoverability of past due accounts involves significant management judgement. | Our audit procedures in respect of the recoverability of trade receivables and trade deposits paid included:<br><br>• testing on a sample basis the accuracy of the ageing of trade receivables<br><br>• reviewing the receipts of cash after the year end for significant accounts<br><br>• holding discussions with management to understand their collection actions in respect of overdue accounts and the basis of any impairment provisions for irrecoverable amounts<br><br>• reviewing critically management's impairment provision in light of the Group's recent collection experience and also available credit information about customers<br><br>• considering the adequacy of the disclosures in the consolidated financial statements in relation to credit risk on trade receivables and trade deposits paid |

## OTHER INFORMATION

The directors are responsible for the Other Information. The Other Information comprises all of 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.

# Independent Auditor's Report

## RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee assists the directors 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. We report our opinion 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 skepticism throughout the audit. We also:

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

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

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

# Independent Auditor's Report

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- 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.

- 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, 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 Wong Tak Man, Stephen.

**RSM Hong Kong**
*Certified Public Accountants*
Hong Kong
24 March 2017

# Consolidated Statement of Profit or Loss

*For the year ended 31 December 2016*

| | Note | 2016 HK$ | 2015 HK$ |
|---|---|---|---|
| **Revenue** | 8 | **35,217,800** | 18,673,469 |
| Cost of goods sold | | **(30,361,758)** | (23,196,558) |
| **Gross profit/(loss)** | | **4,856,042** | (4,523,089) |
| Gain on disposal of financial assets at fair value through profit or loss | | **4,508,570** | 9,064,930 |
| Fair value gain on financial assets at fair value through profit or loss | | **29,851,470** | 1,428,290 |
| Other income and gains | 9 | **2,829,717** | 6,345,890 |
| Administrative and other operating expenses | | **(45,710,503)** | (131,095,306) |
| **Loss from operations** | | **(3,664,704)** | (118,779,285) |
| Impairment loss on intangible assets | 18 | **—** | (8,966,352) |
| Gain on disposal of subsidiaries | 34 | **—** | 20,269,458 |
| **Loss before tax** | | **(3,664,704)** | (107,476,179) |
| Income tax (expense)/credit | 10 | **(9,864,319)** | 23,936,454 |
| **Loss for the year** | 11 | **(13,529,023)** | (83,539,725) |
| **Attributable to:** | | | |
| Owners of the Company | | **(13,416,000)** | (91,073,480) |
| Non-controlling interests | | **(113,023)** | 7,533,755 |
| | | **(13,529,023)** | (83,539,725) |
| **Loss per share (cents)** | | | |
| Basic | 15 | **(3.58)** | (27.78) |

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

*For the year ended 31 December 2016*

| | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|
| **Loss for the year** | **(13,529,023)** | (83,539,725) |
| **Other comprehensive income for the year, net of tax** | | |
| *Items that may be reclassified to profit or loss:* | | |
| Exchange differences on translating foreign operations | **(1,587,470)** | (10,028,735) |
| **Total comprehensive income for the year** | **(15,116,493)** | (93,568,460) |
| **Attributable to:** | | |
| Owners of the Company | **(15,857,207)** | (103,324,920) |
| Non-controlling interests | **740,714** | 9,756,460 |
| | **(15,116,493)** | (93,568,460) |

# Consolidated Statement of Financial Position

*At 31 December 2016*

| | Note | 2016 HK$ | 2015 HK$ |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | 16 | 1,975,466 | 5,197,403 |
| Goodwill | 17 | — | — |
| Intangible assets | 18 | — | — |
| Available-for-sale financial assets | 19 | 2,316,656 | — |
| Long-term deposits | 20 | 4,466,624 | — |
| Long-term other receivables | 24 | 577,200 | — |
| | | 9,335,946 | 5,197,403 |
| **Current assets** | | | |
| Inventories | 22 | 3,637,564 | 3,403,369 |
| Trade and bills receivables | 23 | 32,238,371 | 38,281,935 |
| Deposits, prepayments and other receivables | 24 | 122,275,845 | 151,581,312 |
| Bank and cash balances | 25 | 36,333,327 | 103,616,026 |
| Financial assets at fair value through profit or loss | 21 | 102,722,920 | 9,703,480 |
| | | 297,208,027 | 306,586,122 |
| **Current liabilities** | | | |
| Trade payables | 26 | 3,047,156 | 4,263,938 |
| Other payables and accruals | 27 | 11,375,893 | 8,762,867 |
| Current tax liabilities | | 7,500,265 | 2,519,325 |
| | | 21,923,314 | 15,546,130 |
| **Net current assets** | | 275,284,713 | 291,039,992 |
| **Total assets less current liabilities** | | 284,620,659 | 296,237,395 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 28 | 4,925,492 | 235,668 |
| | | 4,925,492 | 235,668 |
| **NET ASSETS** | | 279,695,167 | 296,001,727 |

# Consolidated Statement of Financial Position

*At 31 December 2016*

| | Note | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 29 | **37,684,057** | 37,684,057 |
| Reserves | 31 | **249,521,933** | 266,569,207 |
| Equity attributable to owners of the Company | | **287,205,990** | 304,253,264 |
| Non-controlling interests | | **(7,510,823)** | (8,251,537) |
| **TOTAL EQUITY** | | **279,695,167** | 296,001,727 |

Approved by the Board of Directors on 24 March 2017 and are signed on its behalf by:

**CHAN Nap Kee, Joseph**

**YANG Yongcheng**

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2016*

| | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Shares held under share award scheme** *(note 32)* | **Share premium** *(note 31(b)(i))* | **Foreign currency translation reserve** *(note 31(b)(ii))* | **Accumulated losses** | **Total** | **Non-controlling interests** | **Total equity** |
| | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ |
| At 1 January 2015 | 26,170,057 | (614,895) | 1,176,818,023 | (6,165,841) | (917,021,525) | 279,185,819 | (18,007,997) | 261,177,822 |
| Total comprehensive income for the year | — | — | — | (12,251,440) | (91,073,480) | (103,324,920) | 9,756,460 | (93,568,460) |
| Issue of shares on placement *(note 29)* | 11,514,000 | — | 116,263,470 | — | — | 127,777,470 | — | 127,777,470 |
| Purchase of shares held under the share award scheme | — | (3,912,835) | — | — | — | (3,912,835) | — | (3,912,835) |
| Award of shares held under share award scheme | — | 4,527,730 | — | — | — | 4,527,730 | — | 4,527,730 |
| Changes in equity for the year | 11,514,000 | 614,895 | 116,263,470 | (12,251,440) | (91,073,480) | 25,067,445 | 9,756,460 | 34,823,905 |
| At 31 December 2015 and 1 January 2016 | 37,684,057 | — | 1,293,081,493 | (18,417,281) | (1,008,095,005) | 304,253,264 | (8,251,537) | 296,001,727 |
| Total comprehensive income for the year | — | — | — | (2,441,207) | (13,416,000) | (15,857,207) | 740,714 | (15,116,493) |
| Purchase of shares held under the share award scheme | — | (1,190,067) | — | — | — | (1,190,067) | — | (1,190,067) |
| Changes in equity for the year | — | (1,190,067) | — | (2,441,207) | (13,416,000) | (17,047,274) | 740,714 | (16,306,560) |
| At 31 December 2016 | 37,684,057 | (1,190,067) | 1,293,081,493 | (20,858,488) | (1,021,511,005) | 287,205,990 | (7,510,823) | 279,695,167 |

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2016*

| | 2016 HK$ | 2015 HK$ |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Loss before tax | (3,664,704) | (107,476,179) |
| Adjustments for: | | |
| Depreciation | 2,738,633 | 3,149,838 |
| Amortisation of intangible assets | — | 5,772,871 |
| Award of shares held under share award scheme | — | 4,527,730 |
| Allowance for trade receivables | — | 9,608,830 |
| Allowance for deposits paid, prepayments and other receivables | — | 45,984,189 |
| Impairment loss on intangible assets | — | 8,966,352 |
| Fair value gain on financial assets at fair value through profit or loss | (29,851,470) | (1,428,290) |
| Gain on disposal of financial assets at fair value through profit or loss | (4,508,570) | (9,064,930) |
| Gain on disposal of subsidiaries (note 34) | — | (20,269,458) |
| Write off of prepayments and other receivables | 12,435 | 6,433,608 |
| Reversal of allowance for doubtful debts | (380,043) | — |
| Write off of fixed assets | 404,125 | 8,092,043 |
| Loss on disposal of fixed assets | 41,591 | — |
| Interest income | (943,184) | (5,346,752) |
| Operating loss before working capital changes | (36,151,187) | (51,050,148) |
| Increase in inventories | (234,195) | (640,132) |
| Decrease/(increase) in trade and bills receivables | 6,423,607 | (11,319,585) |
| Decrease/(increase) in deposits, prepayments and other receivables | 29,293,032 | (13,799,304) |
| Decrease in trade payables | (1,216,782) | (3,709,659) |
| Increase/(decrease) in other payables and accruals | 2,613,026 | (3,313,705) |
| Cash generated from/(used in) operations | 727,501 | (83,832,533) |
| Purchase of financial assets at fair value through profit or loss | (78,118,750) | (25,961,330) |
| Net proceeds from disposal of financial assets at fair value through profit or loss | 19,459,350 | 26,751,070 |
| Income tax paid | (96,697) | (788,033) |
| Net cash used in operating activities | (58,028,596) | (83,830,826) |

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2016*

| | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest received | **943,184** | 5,346,752 |
| Purchases of fixed assets | **(160,788)** | (1,085,663) |
| Proceeds from disposals of fixed assets | **41,005** | — |
| Purchase of available-for-sale financial assets | **(2,316,656)** | — |
| Long-term deposits paid | **(4,466,624)** | — |
| Increase in long-term other receivables | **(577,200)** | — |
| Net proceeds from disposal of subsidiaries *(note 34)* | **—** | 780 |
| Net cash (used in)/generated from investing activities | **(6,537,079)** | 4,261,869 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from issue of shares on placement | **—** | 127,777,470 |
| Payment on share award scheme | **(1,190,067)** | (3,912,835) |
| Net cash (used in)/generated from financing activities | **(1,190,067)** | 123,864,635 |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | **(65,755,742)** | 44,295,678 |
| Effect of foreign exchange rate changes | **(1,526,957)** | 4,690,627 |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | **103,616,026** | 54,629,721 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | **36,333,327** | 103,616,026 |
| **ANALYSIS OF CASH AND CASH EQUIVALENTS** | | |
| Bank and cash balances | **36,333,327** | 103,616,026 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 1. GENERAL INFORMATION

Kaisun Energy Group Limited ("the Company") was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is Unit A, 23/F., Two Chinachem Plaza, 68 Connaught Road Central, Central, Hong Kong. The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 33 to the consolidated financial statements.

## 2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable International Financial Report Standards ("IFRSs") issued by the International Accounting Standards Board. IFRSs comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards ("IAS"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules") and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed below.

The International Accounting Standards Board has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

## 3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

### (a) Application of new and revised IFRSs

The International Accounting Standards Board has issued a number of new and revised IFRSs that are first effective for annual periods beginning on or after 1 January 2016. Of these, the following new or revised IFRSs are relevant to the Group:

*Amendments to IAS 1 Presentation of Financial Statements: Disclosure Initiative*

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify various presentation issues relating to:

- Assessment of materiality versus minimum disclosure requirements of a standard.
- Disaggregation of specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position. There is also new guidance on the use of subtotals.
- Confirmation that the notes do not need to be presented in a particular order.
- Presentation of other comprehensive income items arising from equity-accounted associates and joint ventures.

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

### (b) New and revised IFRSs in issue but not yet effective

The Group has not early applied new and revised IFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2016. These new and revised IFRSs include the following which may be relevant to the Group.

| | **Effective for accounting periods beginning on or after** |
|---|---|
| Amendments to IAS 7 Statement of Cash Flows: Disclosure initiative | 1 January 2017 |
| Amendments to IAS 12 Income Taxes: Recognition of deferred tax assets for unrealised losses | 1 January 2017 |
| IFRS 9 Financial Instruments | 1 January 2018 |
| IFRS 15 Revenue from Contracts with Customers | 1 January 2018 |
| Amendments to IFRS 2 Share-based Payment: Classification and measurement of share-based payment transactions | 1 January 2018 |
| Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts | 1 January 2018 |
| IFRS 16 Leases | 1 January 2019 |
| Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures : Sale or contribution of assets between an investor and its associate or joint venture | To be determined |

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course.

## 3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

### (b) New and revised IFRSs in issue but not yet effective *(Continued)*

*IFRS 9 Financial Instruments*

The standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The standard introduces a new approach to the classification of financial assets which is based on cash flow characteristics and the business model in which the asset is held. A debt instrument that is held within a business model whose objective is to collect the contractual cash flows and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at amortised cost. A debt instrument that is held within a business model whose objective is achieved by both collecting the contractual cash flows and selling the instruments and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at fair value through other comprehensive income. All other debt instruments are measured at fair value through profit or loss. Equity instruments are generally measured at fair value through profit or loss. However, an entity may make an irrevocable election on an instrument-by-instrument basis to measure equity instruments that are not held for trading at fair value through other comprehensive income.

The requirements for the classification and measurement of financial liabilities are carried forward largely unchanged from IAS 39 except that when the fair value option is applied changes in fair value attributable to changes in own credit risk are recognised in other comprehensive income unless this creates an accounting mismatch.

IFRS 9 introduces a new expected-loss impairment model to replace the incurred-loss impairment model in IAS 39. It is no longer necessary for a credit event or impairment trigger to have occurred before impairment losses are recognised. For financial assets measured at amortised cost or fair value through other comprehensive income, an entity will generally recognise 12-month expected credit losses. If there has been a significant increase in credit risk since initial recognition, an entity will recognise lifetime expected credit losses. The standard includes a simplified approach for trade receivables to always recognise the lifetime expected credit losses.

The de-recognition requirements in IAS 39 are carried forward largely unchanged.

IFRS 9 substantially overhauls the hedge accounting requirements in IAS 39 to align hedge accounting more closely with risk management and establish a more principle based approach.

The Group's financial assets that are currently classified as available-for-sale include certain unlisted equity securities. The Group expects to irrevocably designate these equity securities as fair value through other comprehensive income. This will give rise to a change in accounting policy. The unlisted equity securities are currently measured at cost less impairment with any impairment losses recognised in profit or loss. IFRS 9 requires fair value measurement with fair value changes recognised in other comprehensive income without recycling.

## 3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

### (b) New and revised IFRSs in issue but not yet effective *(Continued)*

*IFRS 9 Financial Instruments (Continued)*

The new expected credit loss impairment model in IFRS 9 may result in the earlier recognition of impairment losses on the Group's trade receivables and other financial assets. The Group is unable to quantify the impact until a more detailed assessment is completed.

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15 replaces all existing revenue standards and interpretations.

The core principle of the standard is that an entity recognises revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to become entitled in exchange for those goods and services.

An entity recognises revenue in accordance with the core principle by applying a 5-step model:

1. Identify the contract with a customer

2. Identify the performance obligations in the contract

3. Determine the transaction price

4. Allocate the transaction price to the performance obligations in the contract

5. Recognise revenue when or as the entity satisfies a performance obligation

The standard also includes comprehensive disclosure requirements relating to revenue.

The Group is unable to estimate the impact of the new standard on the consolidated financial statements until a more detailed analysis is completed.

*IFRS 16 Leases*

IFRS 16 replaces IAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). IFRS 16 carries forward the accounting requirements for lessors in IAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

### (b) New and revised IFRSs in issue but not yet effective *(Continued)*

*IFRS 16 Leases (Continued)*

The Group's office property and factory premise leases are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under IFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

As disclosed in note 36, the Group's future minimum lease payments under non-cancellable operating leases for its office and factory premises amounted to HK$914,142 as at 31 December 2016. The Group will need to perform a more detailed assessment in order to determine the new assets and liabilities arising from these operating leases commitments after taking into account the transition reliefs available in IFRS 16 and the effects of discounting.

## 4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. certain financial instruments that are measured at fair value).

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

### (a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by the other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (a) Consolidation *(Continued)*

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary; and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated foreign currency translation reserve relating to that subsidiary.

Intra-group transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

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

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

### (b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the sum of the consideration transferred over the Group's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Group.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (b) Business combination and goodwill *(Continued)*

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

### (c) Foreign currency translation

*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the Company's functional and presentation currency.

*(ii) Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (c) Foreign currency translation *(Continued)*

*(iii) Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

— Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### (d) Fixed assets

Fixed assets including buildings and leasehold land (classified as finance leases), held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (d) Fixed assets *(Continued)*

Depreciation of fixed assets is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

| | |
|---|---|
| Leasehold land | Over the term of lease |
| Buildings | 2%–4.5% |
| Leasehold improvements | 20%–30% |
| Plant and machinery | 9%–20% |
| Office equipment | 15%–25% |
| Furniture and fixtures | 10%–20% |
| Motor vehicles | 10%–30% |

The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at the end of each reporting period.

### (e) Leases

*Operating leases*

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

### (f) Intangible assets

Intangible assets acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure is expensed as incurred.

Amortisation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at the end of each reporting period.

### (g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

### (i) Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

The Group classifies its financial assets in the following category: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*(i) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are either financial assets classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these financial assets are recognised in profit or loss.

*(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or uncollectibility. Typically trade and other receivables, bank balances and cash are classified in this category.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (i) Financial assets *(Continued)*

*(iii) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are not classified as loans and receivables or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are reclassified from equity to profit or loss. Interest calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less impairment losses.

### (j) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

### (k) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

### (l) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

### (m) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (n) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### (o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from the sales of manufactured goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the shareholders' rights to receive payment are established.

### (p) Employee benefits

*(i) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

*(ii) Pension obligations*

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

### (q) Share-based payments

The Group issues equity-settled share-based payments to certain directors, employees and consultants.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non-market based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Equity-settled share-based payments to consultants are measured at the fair value of the services rendered or if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and is recognised as an expense.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (r) Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

### (s) Taxation

Income tax represents the sum of the current tax and deferred tax.

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (t) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount 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. If this is the case, recoverable amount is determined for the CGU to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the CGU.

Value in use is the present value of the estimated future cash flows of the asset/CGU. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/CGU whose impairment is being measured.

Impairment losses for CGUs are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the CGU. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

### (u) Impairment of financial assets

At the end of each reporting period, the Group assesses whether its financial assets (other than those at fair value through profit or loss) are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (group of) financial asset(s) have been affected.

For available-for-sale equity instruments, a significant or prolonged decline in the fair value of the investment below its cost is considered also to be objective evidence of impairment.

In addition, for trade receivables that are assessed not to be impaired individually, the Group assesses them collectively for impairment, based on the Group's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

Only for trade receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

For financial assets measured at amortised cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (u) Impairment of financial assets *(Continued)*

In respect of available-for-sale equity securities, an increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated in revaluation reserve; impairment losses are not reversed through profit or loss.

### (v) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

### (w) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not applicable are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

### Fixed assets and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's fixed assets. This estimate is based on the historical experience of the actual useful lives and residual values of fixed assets of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

The carrying amount of fixed assets as at 31 December 2016 was HK$1,975,466 (2015: HK$5,197,403).

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts, in particular of a loss event, requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

As at 31 December 2016, accumulated impairment loss for bad debt and doubtful debts amounted to HK$153,534,672 (2015: HK$153,914,715).

### Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed. No allowance for slow-moving inventories was made for the year ended 31 December 2016 (2015: Nil).

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on current market conditions and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer's taste and competitor's actions in response to severe industry cycles. The Group will reassess the estimates by the end of each reporting period.

## 6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, price risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

### (a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in HK$, United States dollars ("US$"), Renminbi ("RMB") and Tajikistan Somoni ("TJS"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 6. FINANCIAL RISK MANAGEMENT *(Continued)*

### (a) Foreign currency risk *(Continued)*

At 31 December 2016, if the HK$ had weakened 0.5 per cent against the RMB with all other variables held constant, consolidated loss after tax for the year would have been HK$344,878 (2015: HK$482,236) lower, arising mainly as a result of the foreign exchange gain on bank and cash balances and other receivables denominated in RMB. If the HK$ had strengthened 0.5 per cent against the RMB with all other variables held constant, consolidated loss after tax for the year would have been HK$344,878 (2015: HK$482,236) higher, arising mainly as a result of the foreign exchange loss on bank and cash balances and other receivables denominated in RMB.

### (b) Price risk

The Group is exposed to equity price risk mainly through its investment in equity securities. The management manages this exposure by maintaining a portfolio of investments with different risk and return profiles. The Group's equity price risk is mainly concentrated on equity securities quoted on the Stock Exchange.

The sensitivity analysis below has been determined based on the exposure to equity price risk at the end of the reporting period.

If equity prices had been 10% (2015: 10%) higher/lower consolidated loss after tax for the year ended 31 December 2016 would decrease/increase by HK$10,272,292 (2015: HK$970,348). This is mainly due to the changes in fair value of financial assets at fair value through profit or loss.

### (c) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. The directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

It has policies in place to ensure that sales are made to customers with an appropriate credit history. As at 31 December 2016, the Group's largest trade receivables amounted HK$12,608,388 (2015: HK$10,336,122) represent approximately 39% (2015: 27%) of the total trade receivables. The Group performs ongoing credit evaluation of its customers' financial condition and requires no collateral from its customers. The allowance for doubtful debts is based upon a review of the expected collectability of all trade and other receivables.

### (d) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

## 6. FINANCIAL RISK MANAGEMENT *(Continued)*

### (d) Liquidity risk *(Continued)*

The maturity analysis based on contractual undiscounted cash flows of the Group's non-derivative financial liabilities is as follows:

| | Less than 1 year HK$ | Between 1 and 2 years HK$ | Between 2 and 5 years HK$ | Over 5 years HK$ |
|---|---|---|---|---|
| **At 31 December 2016** | | | | |
| Trade payables | **3,047,156** | — | — | — |
| Other payables and accruals | **11,375,893** | — | — | — |
| **At 31 December 2015** | | | | |
| Trade payables | 4,263,938 | — | — | — |
| Other payables and accruals | 8,762,867 | — | — | — |

### (e) Interest rate risk

The Group's exposure to interest rate risk arises from its bank deposits. These deposits bear interests at variable rates varied with the then prevailing market condition.

At 31 December 2016, if interest rates at that date had been 10 basis points lower with all other variables held constant, consolidated loss after tax for the year would have been HK$34,942 (2015: HK$151,014) higher, arising mainly as a result of lower interest income on bank deposits. If interest rates had been 50 basis points higher, with all other variables held constant, consolidated loss after tax for the year would have been HK$174,709 (2015: HK$755,068) lower, arising mainly as a result of higher interest income on bank deposits.

### (f) Categories of financial instruments at 31 December 2016

| | **2016 HK$** | 2015 HK$ |
|---|---|---|
| **Financial assets** | | |
| Available-for-sale financial assets | **2,316,656** | — |
| Financial assets at fair value through profit or loss: | | |
| Held for trading | **102,722,920** | 9,703,480 |
| Loans and receivables (including cash and cash equivalents) | **188,694,900** | 290,767,050 |
| **Financial liabilities** | | |
| Financial liabilities at amortised cost | **14,423,049** | 13,026,805 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 6. FINANCIAL RISK MANAGEMENT *(Continued)*

### (g) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

## 7. FAIR VALUE MEASUREMENTS

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 following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

### (a) Disclosures of level in fair value hierarchy at 31 December:

| | Fair value measurements using: Level 1 | |
|---|---|---|
| | **2016** | 2015 |
| **Description** | **HK$** | HK$ |
| **Recurring fair value measurements:** | | |
| **Financial assets** | | |
| Financial assets at fair value through profit or loss | | |
| Listed securities | **102,722,920** | 9,703,480 |

### (b) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2016:

The Group's financial controller is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes. The financial controller reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Board of Directors at least twice a year.

## Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 8. REVENUE

| | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|
| Sales of goods | | |
| — Production and exploitation of coal | **1,333,870** | 1,853,732 |
| — Provision of supply chain management services for mineral business | **21,012,012** | 11,162,182 |
| — Mining and metallurgical machineries products | **12,871,918** | 5,657,555 |
| | **35,217,800** | 18,673,469 |

## 9. OTHER INCOME AND GAINS

| | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|
| Interest income on: | | |
| — Bank deposits | **121,472** | 393,150 |
| — Deposits received from suppliers | **821,712** | 4,953,602 |
| Total interest income for financial assets that are not at fair value through profit or loss | **943,184** | 5,346,752 |
| Dividend income from equity investments | **918,900** | — |
| Reversal of allowance for doubtful debts | **380,043** | — |
| Sundry income | **587,590** | 999,138 |
| | **2,829,717** | 6,345,890 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 10. INCOME TAX EXPENSE/(CREDIT)

| | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|
| Current tax — Hong Kong | | |
| Provision for the year | **268,608** | 1,464,295 |
| Underprovision for prior years | **4,858,876** | — |
| Current tax — Overseas | | |
| Provision for the year | **13,922** | — |
| Underprovision for prior years | **33,089** | 1,875 |
| Deferred tax *(note 28)* | **4,689,824** | (25,402,624) |
| | **9,864,319** | (23,936,454) |

Hong Kong Profits Tax has been provided at a rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the year ended 31 December 2016.

PRC enterprise income tax has been provided at a rate of 25% (2015: 25%).

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

The reconciliation between the income tax expense/(credit) and the product of loss before tax multiplied by the Hong Kong Profits Tax rate is as follows:

| | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|
| Loss before tax | **(3,664,704)** | (107,476,179) |
| Tax at the domestic income tax rate of 16.5% (2015: 16.5%) | **(604,676)** | (17,733,570) |
| Tax effect of income that is not taxable | **(4,899,171)** | (28,716,800) |
| Tax effect of expenses that are not deductible | **7,277,205** | 14,795,480 |
| Tax effect of tax loss not recognised | **3,847,547** | 6,743,178 |
| Tax effect of utilisation of tax losses not previously recognised | **(325,733)** | — |
| Temporary difference not recognised | **8,137** | (48,426) |
| Under-provision for prior year | **4,891,965** | 1,875 |
| Effect of different tax rates of subsidiaries operating in other jurisdiction | **(330,955)** | 1,021,809 |
| Income tax expense/(credit) | **9,864,319** | (23,936,454) |

## 11. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging/(crediting) the following:

| | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|
| Auditor's remuneration | | |
| Current | 2,450,000 | 2,600,000 |
| Under-provision for prior year | 110,000 | 280,000 |
| | 2,560,000 | 2,880,000 |
| Cost of inventories sold of supply chain management services for mineral business | 9,498,944 | 11,016,854 |
| Depreciation | 2,738,633 | 3,149,838 |
| Allowance of trade receivables | — | 9,608,830 |
| Allowance for deposits paid prepayments and other receivables | — | 45,984,189 |
| Amortisation of intangible assets | — | 5,772,871 |
| Write off of fixed assets | 404,125 | 8,092,043 |
| Loss on disposal of fixed assets | 41,591 | — |
| Write off of prepayments and other receivables | 12,435 | 6,433,608 |
| Impairment loss on intangible assets | — | 8,966,352 |
| Gain on disposal of financial assets at fair value through profit or loss (held for trading) | (4,508,570) | (9,064,930) |
| Fair value gain on financial assets at fair value through profit or loss | (29,851,470) | (1,428,290) |
| Reversal of allowance of doubtful debts | (380,043) | — |
| Operating lease rentals in respect of land and buildings | 888,440 | 1,610,698 |
| Net exchange loss | 3,615,955 | 9,108,386 |

## 12. EMPLOYEE BENEFITS EXPENSES

| | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|
| Employee benefits expense: | | |
| — Salaries, bonus and allowances | 19,560,080 | 21,624,660 |
| — Equity-settled share-based payments | — | 4,527,730 |
| — Retirement benefit scheme contribution | 734,012 | 275,111 |
| | 20,294,092 | 26,427,501 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 12. EMPLOYEE BENEFITS EXPENSES *(Continued)*

### Five highest paid individuals

The five highest paid individuals in the Group during the year included two (2015: two) directors whose emoluments are reflected in the analysis presented in note 13. The emoluments of the remaining three (2015: three) individuals are set out below:

| | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|
| Basic salaries, bonuses, allowances and benefits in kind | 4,071,600 | 3,549,396 |
| Equity-settled share-based payments | — | 471,246 |
| Retirement benefits scheme contributions | 54,000 | 18,000 |
| | 4,125,600 | 4,038,642 |

The emoluments fell within the following bands:

| | 2016 | 2015 |
|---|---|---|
| HK$Nil to HK$1,000,000 | 1 | — |
| HK$1,000,001 to HK$1,500,000 | 1 | 2 |
| HK$1,500,001 to HK$2,000,000 | — | 1 |
| HK$2,000,001 to HK$2,500,000 | 1 | — |

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 13. BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' emoluments

The remuneration of every director is set out below:

| | Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fees | Salaries | Discretionary bonus | *(Note (i))* Estimated money value of other benefits | Employer's contribution to a retirement benefit scheme | Remunerations paid or receivable in respect of accepting office as director | Housing allowance | Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking | Total |
| | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ |
| *Executive directors:* | | | | | | | | | |
| CHAN Nap Kee, Joseph | — | 2,465,608 | — | — | 18,000 | — | — | — | 2,483,608 |
| Dr. CHOW Pok Yu, Augustine (retired on 31 December 2016) | — | 1,400,000 | — | — | 18,000 | — | — | — | 1,418,000 |
| YANG Yongcheng | — | 757,868 | — | — | — | — | — | — | 757,868 |
| *Independent non-executive directors:* | | | | | | | | | |
| LIEW Swee Yean | 126,000 | — | — | — | — | — | — | — | 126,000 |
| SIU Siu Ling, Robert | 126,000 | — | — | — | — | — | — | — | 126,000 |
| Dr. WONG Yun Kuen | 126,000 | — | — | — | — | — | — | — | 126,000 |
| ANDERSON Brian Ralph | 126,000 | — | — | — | — | — | — | — | 126,000 |
| Total for 2016 | 504,000 | 4,623,476 | — | — | 36,000 | — | — | — | 5,163,476 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 13. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

### (a) Directors' emoluments *(Continued)*

| | Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fees | Salaries | Discretionary bonus | *(Note (i))* Estimated money value of other benefits | Employer's contribution to a retirement benefit scheme | Remunerations paid or receivable in respect of accepting office as director | Housing allowance | Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking | Total |
| | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ |
| *Executive directors:* | | | | | | | | | |
| CHAN Nap Kee, Joseph | — | 2,596,000 | — | 1,888,754 | 16,750 | — | — | — | 4,501,504 |
| Dr. CHOW Pok Yu, Augustine | — | 1,400,000 | — | 376,997 | 16,750 | — | — | — | 1,793,747 |
| YANG Yongcheng | — | 864,986 | — | 376,997 | — | — | — | — | 1,241,983 |
| *Independent non-executive directors:* | | | | | | | | | |
| LIEW Swee Yean | 118,000 | — | — | 141,374 | — | — | — | — | 259,374 |
| SIU Siu Ling, Robert | 118,000 | — | — | 141,374 | — | — | — | — | 259,374 |
| Dr. WONG Yun Kuen | 118,000 | — | — | 141,374 | — | — | — | — | 259,374 |
| ANDERSON Brian Ralph | 118,000 | — | — | 141,374 | — | — | — | — | 259,374 |
| Total for 2015 | 472,000 | 4,860,986 | — | 3,208,244 | 33,500 | — | — | — | 8,574,730 |

Neither the chief executive nor any of the directors waived any emoluments during the year (2015: HK$Nil).

*Note:*

(i) Estimated money values of other benefits include share awards.

### (b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2015: HK$Nil).

## 14. DIVIDEND

No dividend has been paid or declared by the Company during the year (2015: HK$Nil).

## 15. LOSS PER SHARE

The calculation of the basic loss per share is based on the following:

| | **2016**<br>**HK$** | 2015<br>HK$ |
|---|---|---|
| Loss for the purpose of calculating basic loss per share | **(13,416,000)** | (91,073,480) |

| | **2016** | 2015 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of calculating basic loss per share | **375,043,036** | 327,893,249 |

No diluted loss per share are presented as the Company did not have any dilutive potential ordinary sharing during the two years ended 31 December 2016.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 16. FIXED ASSETS

| | Leasehold land HK$ | Buildings HK$ | Leasehold improvements HK$ | Plant and machinery HK$ | Office equipment HK$ | Furniture and fixtures HK$ | Motor vehicles HK$ | Total HK$ |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At 1 January 2015 | — | 6,217,368 | 1,143,430 | 16,232,519 | 558,765 | 36,624 | 1,718,957 | 25,907,663 |
| Additions | 182,967 | — | 559,767 | 100,026 | 18,212 | 27,052 | 197,639 | 1,085,663 |
| Written off | — | — | (577,160) | (13,182,127) | — | — | (959,567) | (14,718,854) |
| Exchange differences | (6,211) | (414,538) | (34,021) | (2,080,207) | (10,466) | (1,679) | (18,029) | (2,565,151) |
| At 31 December 2015 and 1 January 2016 | 176,756 | 5,802,830 | 1,092,016 | 1,070,211 | 566,511 | 61,997 | 939,000 | 9,709,321 |
| Additions | — | — | — | 24,956 | 18,675 | — | 117,157 | 160,788 |
| Disposal | — | — | — | — | — | — | (93,726) | (93,726) |
| Written off | — | — | (504,872) | — | — | — | — | (504,872) |
| Exchange differences | (11,354) | (372,771) | (27,460) | (69,920) | (16,376) | (2,720) | (61,373) | (561,974) |
| At 31 December 2016 | 165,402 | 5,430,059 | 559,684 | 1,025,247 | 568,810 | 59,277 | 901,058 | 8,709,537 |
| **Accumulated depreciation and impairment losses** | | | | | | | | |
| At 1 January 2015 | — | 2,430,035 | 527,920 | 4,448,053 | 333,637 | 23,900 | 1,111,799 | 8,875,344 |
| Charges for the year | 3,049 | 1,201,346 | 151,566 | 1,582,430 | 117,348 | 5,907 | 88,192 | 3,149,838 |
| Written off | — | — | (468,943) | (5,209,152) | — | — | (948,716) | (6,626,811) |
| Exchange differences | (103) | (149,685) | (4,653) | (577,600) | (5,034) | (391) | (148,987) | (886,453) |
| At 31 December 2015 and 1 January 2016 | 2,946 | 3,481,696 | 205,890 | 243,731 | 445,951 | 29,416 | 102,288 | 4,511,918 |
| Charges for the year | 3,471 | 2,278,836 | 146,695 | 143,586 | 58,951 | 13,029 | 94,065 | 2,738,633 |
| Disposal | — | — | — | — | — | — | (11,130) | (11,130) |
| Written off | — | — | (100,747) | — | — | — | — | (100,747) |
| Exchange differences | (353) | (330,473) | (20,533) | (26,018) | (10,630) | (1,236) | (15,360) | (404,603) |
| At 31 December 2016 | 6,064 | 5,430,059 | 231,305 | 361,299 | 494,272 | 41,209 | 169,863 | 6,734,071 |
| **Carrying amount** | | | | | | | | |
| At 31 December 2016 | 159,338 | — | 328,379 | 663,948 | 74,538 | 18,068 | 731,195 | 1,975,466 |
| At 31 December 2015 | 173,810 | 2,321,134 | 886,126 | 826,480 | 120,560 | 32,581 | 836,712 | 5,197,403 |

## 17. GOODWILL

| | HK$ |
|---|---|
| **Cost** | |
| At 1 January 2015, 31 December 2015 and 1 January 2016 | 115,955,924 |
| Written off | (115,955,924) |
| At 31 December 2016 | — |
| **Accumulated impairment losses** | |
| At 1 January 2015, 31 December 2015 and 1 January 2016 | 115,955,924 |
| Written off | (115,955,924) |
| At 31 December 2016 | — |
| **Carrying amount** | |
| At 31 December 2016 | — |
| At 31 December 2015 | — |

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 18. INTANGIBLE ASSETS

| | Mining rights |
|---|---|
| | HK$ |
| **Cost** | |
| At 1 January 2015 | 177,969,355 |
| Disposal of subsidiaries | (54,663,352) |
| Exchange differences | (36,106,850) |
| At 31 December 2015, 1 January 2016 and 31 December 2016 | 87,199,153 |
| **Accumulated amortisation and impairment losses** | |
| At 1 January 2015 | 160,959,080 |
| Amortisation for the year | 5,772,871 |
| Impairment loss | 8,966,352 |
| Disposal of subsidiaries | (54,663,352) |
| Exchange differences | (33,835,798) |
| At 31 December 2015, 1 January 2016 and 31 December 2016 | 87,199,153 |
| **Carrying amount** | |
| At 31 December 2016 | — |
| At 31 December 2015 | — |

At 31 December 2016, the Group's mining rights are the rights obtained by the Group for production and exploitation of two (2015: two) coal mines located in Tajikistan. The major content of the coal mine is anthracite and bituminous coal. The terms of the mining rights of these coal mines are from August 1997 to September 2018. The mining rights are stated at cost less accumulated amortisation and impairment losses over the term of the mining rights.

## 19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | **2016** **HK$** | 2015 HK$ |
|---|---|---|
| Unlisted equity securities, at cost | | |
| — in the PRC | **1,116,656** | — |
| — in Hong Kong | **1,200,000** | — |
| | **2,316,656** | — |

Unlisted equity securities were classified as available-for-sale financial assets and were stated at cost as they do not have a quoted market price in active market and whose fair value cannot be reliably measured was at the end of each reporting period.

The unlisted equity securities in the PRC and Hong Kong were denominated in RMB and HK$ respectively.

## 20. LONG-TERM DEPOSITS

| | **2016** **HK$** | 2015 HK$ |
|---|---|---|
| Deposits paid for | | |
| — acquisition of a subsidiary *(note)* | **4,466,624** | — |

*Note:*

During the year, the Group acquired 10% equity capital of 新疆吐魯番星亮礦業有限公司 (Xinjiang Turpan Xingliang Mining Limited) ("Xinjiang Turpan Xingliang") at a consideration of RMB1,000,000 and classified as available-for-sale financial assets. On 10 October 2016, the Group entered an agreement with an independent third party for acquisition of the remaining 90% equity capital of Xinjiang Turpan Xingliang at the total consideration of RMB9,000,000. Upon completion, Xinjiang Turpan Xingliang will be a wholly owned subsidiary of the Group.

The transaction was completed on 8 February 2017.

The carrying amounts of long-term deposits are denominated in RMB.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **2016**<br>**HK$** | 2015<br>HK$ |
|---|---|---|
| Equity securities, at fair value | | |
| Listed in Hong Kong | **102,722,920** | 9,703,480 |
| Analysed as: | | |
| Current assets | **102,722,920** | 9,703,480 |

The carrying amounts of the above financial assets are classified as follows:

| | **2016**<br>**HK$** | 2015<br>HK$ |
|---|---|---|
| Held for trading | **102,722,920** | 9,703,480 |

The investments included above represent investments in listed equity securities that offer the Group the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate.

The fair values of listed securities are based on current bid prices.

## 22. INVENTORIES

| | **2016**<br>**HK$** | 2015<br>HK$ |
|---|---|---|
| Raw materials, consumable goods and spare parts | **3,373,041** | 3,182,224 |
| Work in progress | **264,523** | 221,145 |
| | **3,637,564** | 3,403,369 |

## 23. TRADE AND BILLS RECEIVABLES

| | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|
| Trade receivables | **37,768,833** | 46,513,575 |
| Allowance for doubtful debts | **(8,726,561)** | (9,424,954) |
| | **29,042,272** | 37,088,621 |
| Bills receivables | **3,196,099** | 1,193,314 |
| | **32,238,371** | 38,281,935 |

The credit terms of trade receivables are in accordance with specific payment schedules agreed with various customers.

An ageing analysis of trade and bills receivables, based on the invoice date, and net of allowance, is as follows:

| | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|
| 0–30 days | **2,930,556** | 13,964,013 |
| 31–60 days | **724,552** | 637,230 |
| 61–90 days | **1,111,148** | 236,276 |
| Over 90 days | **27,472,115** | 23,444,416 |
| | **32,238,371** | 38,281,935 |

As at 31 December 2016, an allowance was made for estimated irrecoverable trade receivables of approximately HK$8,726,561 (2015: HK$9,424,954).

Reconciliation of allowance of trade receivables:

| | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|
| At 1 January | **9,424,954** | — |
| Allowance for the year | — | 9,608,830 |
| Reversal of allowance for doubtful debts | **(380,043)** | — |
| Exchange differences | **(318,350)** | (183,876) |
| At 31 December | **8,726,561** | 9,424,954 |

## Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

### 23. TRADE AND BILLS RECEIVABLES *(Continued)*

As of 31 December 2016, trade receivables of HK$28,876,030 (2015: HK$28,052,995) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. An ageing analysis of these trade receivables is as follows:

| | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|
| Up to 3 months | 3,066,114 | 1,858,766 |
| Over 3 months | 25,809,916 | 26,194,229 |
| | 28,876,030 | 28,052,995 |

The carrying amounts of the Group's trade and bills receivables are denominated in the following currencies:

| | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|
| HK$ | 12,608,388 | 16,763,388 |
| RMB | 19,629,983 | 21,518,547 |
| | 32,238,371 | 38,281,935 |

### 24. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|
| Deposits placed with a securities broker | 1,534,511 | 55,362,753 |
| Trade deposits placed with suppliers | 91,999,686 | 67,751,278 |
| Utilities and other deposits | 728,557 | 687,773 |
| Prepayments | 2,729,843 | 1,498,672 |
| Transportation fee receivables | 8,433,969 | 9,012,957 |
| Other receivables | 17,426,479 | 17,267,879 |
| | 122,853,045 | 151,581,312 |
| Analysed as: | | |
| Non-current assets | 577,200 | — |
| Current assets | 122,275,845 | 151,581,312 |
| | 122,853,045 | 151,581,312 |

## Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

### 25. BANK AND CASH BALANCES

As at 31 December 2016, the bank and cash balances of the Group denominated in RMB amounted to HK$7,146,340 (2015: HK$1,912,765).

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

### 26. TRADE PAYABLES

An ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

| | **2016 HK$** | 2015 HK$ |
|---|---|---|
| 0–30 days | **255,386** | 662,170 |
| 31–60 days | **138,362** | 16,431 |
| 91–180 days | **1,201,062** | 4,654 |
| Over 365 days | **1,452,346** | 3,580,683 |
| | **3,047,156** | 4,263,938 |

The Group's trade payables are denominated in RMB.

### 27. OTHER PAYABLES AND ACCRUALS

| | **2016 HK$** | 2015 HK$ |
|---|---|---|
| Accruals | **6,137,733** | 4,029,297 |
| Other payables | **5,238,160** | 4,733,570 |
| | **11,375,893** | 8,762,867 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 28. DEFERRED TAX

The following are the deferred tax liabilities and assets recognised by the Group.

| | **Fair value adjustment of mining rights** HK$ | **Fair value adjustment of fixed assets** HK$ | **Financial assets at fair value through profit or loss** HK$ | **Total** HK$ |
|---|---|---|---|---|
| At 1 January 2015 | (30,193,529) | 604,922 | — | (29,588,607) |
| Credit/(debit) to profit or loss for the year *(note 10)* | 26,162,452 | (524,160) | (235,668) | 25,402,624 |
| Exchange differences | 4,031,077 | (80,762) | — | 3,950,315 |
| At 31 December 2015 and 1 January 2016 | — | — | (235,668) | (235,668) |
| Debit to profit or loss for the year *(note 10)* | — | — | (4,689,824) | (4,689,824) |
| At 31 December 2016 | — | — | (4,925,492) | (4,925,492) |

At the end of the reporting period the Group has unused tax losses of HK$52,491,753 (2015: HK$36,484,631) available for offset against future profits. No deferred tax asset has been recognised in respect of the HK$52,491,753 (2015: HK$36,484,631) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$1,848,221, HK$782,202 and HK$1,571,473, HK$791,631 and HK$1,159,805 that will expire in 2017, 2018, 2019, 2020 and 2021 (2015: HK$2,122,508, HK$938,033, HK$463,085 and HK$845,974 that will expire in 2017, 2018, 2019 and 2020) respectively. Remaining tax losses may be carried forward indefinitely.

## Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 29. SHARE CAPITAL

| | Number of shares | Amount |
|---|---|---|
| | | HK$ |
| Authorised: | | |
| Ordinary shares of HK$0.01 each | | |
| At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016 | 10,000,000,000 | 100,000,000 |
| Issued and fully paid: | | |
| Ordinary shares of HK$0.01 each | | |
| At 1 January 2015 | 2,617,005,700 | 26,170,057 |
| Issue of shares on placement *(note)* | 1,151,400,000 | 11,514,000 |
| At 31 December 2015, 1 January 2016 and 31 December 2016 | 3,768,405,700 | 37,684,057 |

*Notes:* On 27 April 2015, the Company and CNI Securities Group Limited entered into a placing agreement in respect of the placement of 523,400,000 new ordinary shares of HK$0.01 each to independent investors at a price of HK$0.089 per share. The placement was completed on 7 May 2015 and the premium on the issue of shares, amounting to approximately HK$41,348,600, net of share issue expenses of HK$2,329,130, was credited to the Company's share premium account.

On 2 June 2015, the Company and Orient Securities (Hong Kong) Limited entered into a placing agreement in respect of the placement of 628,000,000 new ordinary shares of HK$0.01 each to independent investors at a price of HK$0.14 per share. The placement was completed on 17 June 2015 and the premium on the issue of shares, amounting to approximately HK$81,640,000, net of share issue expenses of HK$4,396,000, was credited to the Company's share premium account.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital on the basis of the shareholders equity ratio. This ratio is calculated as total share equity divided by total asset. Total share equity comprises share capital, retained profits and other reserves.

The only externally imposed capital requirement for the Group is in order to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares.

The Group receives a report from the share registrars monthly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 December 2016, 90.43% (2015: 90.69%) of the shares were in public hands.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 30. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

### (a) Statement of financial position of the Company

| | Note | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | | **86** | 62 |
| **Current assets** | | | |
| Financial assets at fair value through profit or loss | | **81,598,320** | — |
| Prepayments and other receivables | | **17,714,356** | 70,319,895 |
| Amounts due from subsidiaries | | **123,132,203** | 161,669,090 |
| Bank and cash balances | | **13,371,053** | 78,734,488 |
| | | **235,815,932** | 310,723,473 |
| **Current liabilities** | | | |
| Accruals | | **3,689,391** | 2,801,409 |
| Amounts due to subsidiaries | | **3,668,862** | 3,668,862 |
| | | **7,358,253** | 6,470,271 |
| **Net current assets** | | **228,457,679** | 304,253,202 |
| **NET ASSETS** | | **228,457,765** | 304,253,264 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **37,684,057** | 37,684,057 |
| Reserves | 30(b) | **190,773,708** | 266,569,207 |
| **TOTAL EQUITY** | | **228,457,765** | 304,253,264 |

Approved by the Board of Directors on 24 March 2017 and are signed on its behalf by:

**CHAN Nap Kee, Joseph**

**YANG Yongcheng**

## 30. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

### (b) Reserve movement of the Company

| | Share premium *(note 31(b)(i))* HK$ | Shares held under share award scheme *(note 32)* HK$ | Accumulated losses HK$ | Total HK$ |
|---|---|---|---|---|
| At 1 January 2015 | 1,176,818,023 | (614,895) | (923,187,365) | 253,015,763 |
| Loss for the year | — | — | (103,324,921) | (103,324,921) |
| Issue of shares on placement *(note 29)* | 116,263,470 | — | — | 116,263,470 |
| Purchase of shares held under the share award scheme | — | (3,912,835) | — | (3,912,835) |
| Award of shares held under share award scheme | — | 4,527,730 | — | 4,527,730 |
| At 31 December 2015 and 1 January 2016 | 1,293,081,493 | — | (1,026,512,286) | 266,569,207 |
| Loss for the year | — | — | (74,605,432) | (74,605,432) |
| Purchase of shares held under the share award scheme | — | (1,190,067) | — | (1,190,067) |
| At 31 December 2016 | 1,293,081,493 | (1,190,067) | (1,101,117,718) | 190,773,708 |

## 31. RESERVES

### (a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

### (b) Nature and purpose of reserves

*(i) Share premium*

Under the Companies Law of the Cayman Islands, the funds in the share premium of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

*(ii) Foreign currency translation reserve*

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 4(c) to the consolidated financial statements.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 32. SHARE-BASED PAYMENTS

### Share award scheme

On 10 May 2013, the Company adopted a share award scheme (the "Share Award Scheme") under which shares of the Company (the "Awarded Shares") may be awarded to selected employees (including without limitation any directors) of any members of the Group (the "Selected Employees") pursuant to the terms of the scheme rules and trust deed of the Share Award Scheme. The purpose of the Share Award Scheme are (i) to recognise the contributions by certain employees of any members of the Group and to provide them with incentives in order to retain them for the continual operation and development of the Group; and (ii) to attract suitable personnel for further development of the Group. The Share Award Scheme became effective on the adoption date and, unless otherwise terminated or amended, will remain in force till 9 May 2017.

The remuneration committee of the Company for the time being, or any other sub-committee of the board of directors of the Company delegated with the power and authority to administer the Share Award Scheme ("the Committee") may from time to time cause to be paid cash or made available to the trustee of the Share Award Scheme (the "Trustee") by way of settlement or otherwise contributed by the Group to the Trust as determined by the Committee from time to time for purchase of the shares of the Company and other purposes set out in the Share Award Scheme and the trust deed entered into between the Company and the Trustee (the "Trust Deed"). The Committee from time to time instruct the Trustee in writing to purchase the shares of the Company on the Stock Exchange. Once purchased, the shares of the Company are to be held by the Trustee for the benefit of the employees under the Trust on and subject to the terms and conditions of the Share Award Scheme and the Trust Deed.

The grant of Award Shares (the "Award") to any Selected Employee is at no consideration. Where the Award is proposed to be made to any Selected Employee who is a director of the Company (including an independent non-executive director of the Company), such grant must first be approved by all members of the remuneration committee of the Company, or in the case where the grant is proposed to be made to any member of the remuneration committee of the Company, by all of the other members of the remuneration committee of the Company.

Upon the Award grant to any Selected Employee, a notice will be sent to such Selected Employee (the "Grant Notice") with a copy thereof to the Trustee, setting out the number of the Awarded Shares so granted and the conditions (if any) upon which such Awarded Shares were granted. The number of Awarded Shares specified in the Grant Notice shall, subject to acceptance by the relevant Selected Employee constitute the definitive number of Awarded Shares being granted to him. Upon receipt the Grant Notice, the Selected Employee shall confirm acceptance of the Awarded Shares being granted to him by signing and returning the acceptance form attached to the Grant Notice, together with the certified copies of the identity verification documents of the Selected Employees, within 10 business days after the date of the Grant Notice (the "Acceptance Period").

## Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 32. SHARE-BASED PAYMENTS *(Continued)*

### Share award scheme *(Continued)*

The Awarded Shares shall only be vested on the Selected Employee at the end of the vesting period (if any) and on the proposed date on which the Awarded Shares are transferred by the Trustee to the Selected Employee (the "Vesting Date"). Subject to the terms and conditions of the Share Award Scheme, including the fulfillment of all vesting conditions to the vesting of the Awarded Shares on such Selected Employee as specified in the Grant Notice (if any) and the receipt of the acceptance form attached to the Grant Notice and the certified copies of the identity verification documents of the Selected Employee before the expiry of the Acceptance Period and not later than 15 business days before the proposed Vesting Date, the Company shall procure the Trustee to cause the Awarded Shares to be transferred to and such rights on the Awarded Shares be vested in such Selected Employee on the Vesting Date. The Selected Employee shall not have any interest or rights (including the right receive dividends) in the Awarded Shares prior the Vesting Date.

No further award of Awarded Shares will make which will result in the aggregate nominal value of the shares awarded under the Share Award Scheme exceeding 10% of the issued share capital of the Company at the time of such award. The maximum aggregate nominal value of Awarded Shares which may be awarded to a Selected Employee under the Share Award Scheme shall not exceed 2% of the issued share capital of the Company as at the time of such award.

No Awarded Shares was awarded during the year ended 31 December 2016 (2015: 48,040,000).

Movements of shares held under the Share Award Scheme during the year are as follows:

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **Number of shares** | **Amount HK$** | Number of shares | Amount HK$ |
| At 1 January | — | — | 5,680,000 | 614,895 |
| Purchase during the year | **20,110,000** | **1,190,067** | 42,360,000 | 3,912,835 |
| Award during the year | — | — | (48,040,000) | (4,527,730) |
| At 31 December | **20,110,000** | **1,190,067** | — | — |

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 32. SHARE-BASED PAYMENTS *(Continued)*

### Share award scheme adopted on 14 June 2016

On 14 June 2016, the Company adopted a share award scheme (the "New Share Award Scheme") under which shares of the Company (the "New Awarded Shares") may be awarded to selected employees (including without limitation any directors) of any members of the Group (the "New Selected Employees") pursuant to the terms of the scheme rules and trust deed of the New Share Award Scheme. The purpose of the New Share Award Scheme are (i) to recognise the contributions by certain employees of any members of the Group and to provide them with incentives in order to retain them for the continual operation and development of the Group; and (ii) to attract suitable personnel for further development of the Group. The New Share Award Scheme became effective on the adoption date and, unless otherwise terminated or amended, shall be valid and effective for a term of 5 years commencing from the date of the New Share Award Scheme.

The New Share Award Scheme shall be subject to the administration of the board of directors of the Company and the trustee of the New Share Award Scheme (the "New Trustee") in accordance with the rules of the New Share Award Scheme and the trust deed entered into between the Company and the New Trustee (the "New Trust Deed"). The decision of the board of directors of the Company with respect to any matter arising under the New Share Award Scheme (including the interpretation of any provision) shall be final and binding. The board of the directors of the Company may from time to time cause to be paid cash or made available to the trust constituted by the New Trust Deed (the "New Trust") by way of settlement or otherwise contributed by the Company or any subsidiary of the Company as directed by the board of directors of the Company which constitute part of the funds and properties held under the New Trust and managed by the New Trustee for the benefit of the employees of the Group (other than the employee who is resident in a place where the award of the New Awarded Shares and/or the vesting and transfer of the New Awarded Shares pursuant to the terms of the New Share Award Scheme is not permitted under the laws or regulations of such place or where in view of the board of directors of the Company or the New Trustee (as the case may be), compliance with applicable laws or regulations in such place makes it necessary or expedient to exclude such employees of the Group (the "Excluded Employee")) (the "Trust Fund"), for the purchase or subscription (as the case may be) of the shares of the Company and other purposes set out in the rules relating the New Share Award Scheme and the New Trust Deed.

The board of directors of the Company may, from time to time, at its absolute discretion select any employee of the Group (other than any Excluded Employee) for participation in the New Share Award Scheme as a New Selected Employee, and grant such number of Awarded Shares to any New Selected Employee at no consideration and in such number and on and subject to such terms and conditions as it may in its absolute discretion determine.

Where the Awarded Shares is proposed to be made to any New Selected Employee who is a director of the Company (including an independent non-executive director of the Company), such grant must first be approved by all members of the remuneration committee of the Company, or in the case where the grant is proposed to be made to any member of the remuneration committee of the Company, or in case where the grant is proposed to be made to any member of the remuneration committee, by all other members of the remuneration committee of the Company.

## 32. SHARE-BASED PAYMENTS *(Continued)*

### Share award scheme adopted on 14 June 2016 *(Continued)*

Upon the New Awarded Shares grant to any New Selected Employee, a notice will be sent to such New Selected Employee (the "New Grant Notice") with a copy thereof to the New Trustee, setting out the number of the New Awarded Shares so granted and the conditions (if any) upon which such New Awarded Shares were granted. The number of New Awarded Shares specified in the New Grant Notice shall, subject to acceptance by the relevant New Selected Employee constitute the definitive number of New Awarded Shares being granted to him. Upon receipt the New Grant Notice, the New Selected Employee shall confirm acceptance of the New Awarded Shares being granted to him by signing and returning the acceptance form attached to the New Grant Notice, together with the certified copies of the identity verification documents of the New Selected Employees, within 10 business days after the date of the New Grant Notice (the "New Acceptance Period").

The New Awarded Shares shall only be vested on the New Selected Employee at the end of the vesting period (if any) and on the proposed date on which the New Awarded Shares are transferred by the Trustee to the New Selected Employee (the "New Vesting Date"). Subject to the terms and conditions of the New Share Award Scheme, including the fulfillment of all vesting conditions to the vesting of the New Awarded Shares on such New Selected Employee as specified in the New Grant Notice (if any) and the receipt of the acceptance form attached to the New Grant Notice and the certified copies of the identity verification documents of the New Selected Employee before the expiry of the New Acceptance Period and not later than 15 business days before the proposed New Vesting Date, the Company shall procure the New Trustee to cause the New Awarded Shares to be transferred to and such rights on the New Awarded Shares be vested in such New Selected Employee on the New Vesting Date. The New Selected Employee shall not have any interest or rights (including the right receive dividends) in the New Awarded Shares prior the New Vesting Date.

No further award of New Awarded Shares will make which will result in the aggregate nominal value of the shares awarded under the New Share Award Scheme exceeding 10% of the issued share capital of the Company from time to time. The maximum aggregate nominal value of New Awarded Shares which may be awarded to a New Selected Employee under the New Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

No New Awarded Share was awarded during the year ended 31 December 2016.

## Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 33. SUBSIDIARIES

Particulars of subsidiaries as at 31 December 2016 are as follows:

| Name | Place of incorporation/ registration and operation | Issued and paid up capital/ chartered fund | Attributable equity interest | Principal activities |
|---|---|---|---|---|
| **Directly held** | | | | |
| Kaisun Energy Corporation | British West Indies | US$1 Ordinary | 100% | Investment holding |
| Kaisun Energy Management Limited | British Virgin Islands | US$1 Ordinary | 100% | Trading of securities |
| Main Logic International Limited | British Virgin Islands | US$1 Ordinary | 100% | Investment holding |
| Better Business International Limited | British Virgin Islands | US$1 Ordinary | 100% | Investment holding |
| Alpha Vision Energy Limited | British Virgin Islands | US$1 Ordinary | 100% | Investment holding |
| Bigrich Development Limited | British Virgin Islands | US$1 Ordinary | 100% | Investment holding |
| Kaisun Energy Managers Limited (Formerly known as Longfield Development Limited) | British Virgin Islands | US$1 Ordinary | 100% | Investment holding |
| First Concept Development Limited | British Virgin Islands | US$1 Ordinary | 100% | Investment holding |
| Anway Enterprises Limited | British Virgin Islands | US$1 Ordinary | 100% | Investment holding |
| Goodstar Development Limited | British Virgin Islands | US$1 Ordinary | 100% | Investment holding |
| **Indirectly held** | | | | |
| West Glory Development Limited | British Virgin Islands | US$10,000 Ordinary | 100% | Investment holding |
| Saddleback Mining Limited | United Kingdom | GBP100 Ordinary | 100% | Investment holding |
| Kaisun Mining Corporation LLC | Tajikistan | TJS70,000 | 100% | Investment holding and exploitation of coal and coal processing |
| Kaisun Energy Trading Limited | Hong Kong | HK$10,000 Ordinary | 100% | Provision of supply chain management |
| Wealth Platinum Limited | British Virgin Islands | US$1 Ordinary | 100% | Investment holding |

## Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

### 33. SUBSIDIARIES *(Continued)*

| Name | Place of incorporation/ registration and operation | Issued and paid up capital/ chartered fund | Attributable equity interest | Principal activities |
|---|---|---|---|---|
| **Indirectly held** *(continued)* | | | | |
| Star Continental Limited | British Virgin Islands | US$100 Ordinary | 100% | Investment holding |
| Sangghalt LLC | Tajikistan | TJS109,800 | 95.63% | Production and exploitation of coal and coal processing |
| Kamarob LLC | Tajikistan | TJS4,500,000 (TJS2,000,000 paid-up) | 52% | Production and exploitation of coal and coal processing |
| 新疆凱運國際貿易有限公司 | PRC | Paid up capital RMB10,000,000 | 100% | Provision of supply chain management services |
| 深圳凱順鴻欣貿易有限公司 | PRC | Paid up capital RMB500,000 | 100% | Provision of supply chain management services |
| 滕州凱源實業有限公司 | PRC | Registered capital HK$20,000,000 Paid up capital HK$14,000,000 | 70% | Manufacturing of coal mining related equipment |
| 山東凱萊能源物流有限公司 | PRC | Registered capital HK$50,000,000 Paid up capital HK$25,000,000 | 70% | Provision of supply chain management services |
| Kaisun Energy Logistic Limited | Hong Kong | HK$10,000 Ordinary | 100% | Investment holding |
| Kaisun Energy Equipment Limited | Hong Kong | HK$10,000 Ordinary | 100% | Investment holding |
| Kaisun Silk Road Limited | Hong Kong | HK$1 Ordinary | 100% | Not yet commence business |
| Kaisun Energy Managers (Cayman Islands) Limited | Cayman Islands | US$1 Ordinary | 100% | Not yet commence business |

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 33. SUBSIDIARIES *(Continued)*

The following table shows information of subsidiaries that have non-controlling interests ("NCI") material to the Group. The summarised financial information represents amounts before inter-company eliminations.

| Name | Kamarob LLC | | 滕州凱源實業有限公司 | | 山東凱萊能源物流有限公司 | |
|---|---|---|---|---|---|---|
| **Principal place of business/country of incorporation** | Tajikistan/Tajikistan | | PRC/PRC | | PRC/PRC | |
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| **% of ownership interests/voting rights held by NCI** | **48%** | 48% | **30%** | 30% | **30%** | 30% |
| | **HK$** | HK$ | **HK$** | HK$ | **HK$** | HK$ |
| **At 31 December:** | | | | | | |
| Non-current assets | **—** | — | **1,231,954** | 1,923,857 | **413,763** | 569,316 |
| Current assets | **—** | — | **17,312,291** | 10,298,928 | **21,235,417** | 15,998,126 |
| Non-current liabilities | **—** | — | **—** | — | **—** | — |
| Current liabilities | **(13,534,967)** | (15,242,641) | **(9,230,433)** | (3,151,767) | **345,430** | (248,954) |
| Net (liabilities)/assets | **(13,534,967)** | (15,242,641) | **9,313,812** | 9,071,018 | **21,303,750** | 16,318,488 |
| Accumulated NCI | **(6,496,784)** | (7,316,467) | **411,087** | (223,545) | **(1,108,875)** | (354,453) |
| **Year ended 31 December:** | | | | | | |
| Revenue | **—** | — | **12,871,918** | 5,657,554 | **7,245,324** | 11,548,472 |
| Profit/(loss) | **—** | — | **866,109** | (3,004,874) | **(1,308,474)** | (699,849) |
| Total comprehensive income | **—** | — | **2,115,439** | (5,416,961) | **(2,577,524)** | (1,181,511) |
| Profit/(loss) allocated to NCI | **—** | — | **259,833** | (901,462) | **(392,542)** | (209,955) |
| Dividends paid to NCI | **—** | — | **—** | — | **—** | — |
| Net cash generated from/(used in) from operating activities | **—** | — | **61,977** | (5,523,545) | **1,523,932** | (13,690,592) |
| Net cash used in investing activities | **—** | — | **(39,837)** | — | **(5,851,952)** | — |
| Net cash generated from financing activities | **—** | — | **—** | 5,600,000 | **7,576,003** | 17,500,000 |
| Net increase in cash and cash equivalents | **—** | — | **22,140** | 76,455 | **3,247,983** | 3,809,408 |

As at 31 December 2016, the bank and cash balances of the Group' subsidiaries in the PRC denominated in RMB amounted to HK$7,145,912 (2015: HK$1,912,765). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

## 34. NOTED TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

On 16 December 2015, the Group disposed its subsidiaries, First Progressive Asia Limited, Rovat LLC, Kingdom Expo Limited and Kingdom Equipments LLC.

Net liabilities at the date of disposal were as follows:

| | HK$ |
|---|---|
| Deposits, prepayment and other receivables | 819 |
| Other payables and accruals | (5,031,858) |
| Net liabilities disposed of | (5,031,039) |
| Release of foreign currency translation reserve | (15,237,639) |
| Gain on disposal of subsidiaries | 20,269,458 |
| Total consideration | 780 |
| Consideration satisfied by | |
| Cash | 780 |
| Net cash inflow arising on disposal: | |
| Cash consideration received | 780 |
| Cash and cash equivalents disposed of | — |
| | 780 |

## 35. CONTINGENT LIABILITIES

At 31 December 2016, the Group did not have any significant contingent liabilities (2015: Nil).

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 36. COMMITMENTS

**(a)** Capital commitments contracted for at the end of the reporting period but not yet incurred are as follows:

| | 2016 HK$ | 2015 HK$ |
|---|---|---|
| Capital contribution to a subsidiary | 5,583,280 | — |

**(b) Lease commitments**

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | 2016 HK$ | 2015 HK$ |
|---|---|---|
| Within one year | 435,751 | 832,315 |
| In the second to fifth years inclusive | 478,391 | — |
| | 914,142 | 832,315 |

Operating lease payments represent rentals payable by the Group for certain of its offices and factory premises. Leases are negotiated for an average term of one to four years and rentals are fixed over the lease terms and do not include contingent rentals.

## 37. SEGMENT INFORMATION

The Group has four reportable segments which are provision of supply chain management services for mineral business, production and exploitation of coal in Tajikistan, mining and metallurgical machineries production in Shandong and trading of securities for the year.

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the operating segments are the same as those described in note 4 to the consolidated financial statements. Segment profits or losses do not include dividend income. Segment assets do not include amounts due from related parties. Segment non-current assets do not include financial instruments.

## Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 37. SEGMENT INFORMATION *(Continued)*

### Information about operating segment profit or loss, assets and liabilities:

| | Provision of supply chain management services for mineral business HK$ | Production and exploitation of coal in Tajikistan HK$ | Mining and metallurgical machineries production in Shandong HK$ | Trading of securities HK$ | Total HK$ |
|---|---|---|---|---|---|
| **Year ended 31 December 2016** | | | | | |
| Revenue from external customers | **21,012,012** | **1,333,870** | **12,871,918** | **—** | **35,217,800** |
| Segment (loss)/profit | **(9,122,228)** | **(5,802,856)** | **419,533** | **29,401,608** | **14,896,057** |
| Interest income | **8,624** | **10** | **866** | **—** | **9,500** |
| Depreciation | **2,505,793** | **—** | **232,840** | **—** | **2,738,633** |
| Income tax expense | **33,089** | **13,922** | **—** | **4,958,432** | **5,005,443** |
| Other material non-cash items: | | | | | |
| Additions to segment non-current assets | **2,929** | **—** | **157,859** | **—** | **160,788** |
| **As at 31 December 2016** | | | | | |
| Segment assets | **152,019,065** | **418,070** | **18,553,939** | **102,722,920** | **273,713,994** |
| Segment liabilities | **7,185,837** | **367,644** | **3,580,153** | **5,194,100** | **16,327,734** |

| | Provision of supply chain management services for mineral business HK$ | Production and exploitation of coal in Tajikistan HK$ | Mining and metallurgical machineries production in Shandong HK$ | Trading of securities HK$ | Total HK$ |
|---|---|---|---|---|---|
| **Year ended 31 December 2015** | | | | | |
| Revenue from external customers | 11,162,182 | 1,853,732 | 5,657,555 | — | 18,673,469 |
| Segment (loss)/profit | (68,956,249) | (9,998,198) | (4,761,653) | 8,793,257 | (74,922,843) |
| Interest income | 207,337 | — | 1,049 | — | 208,386 |
| Depreciation and amortisation | 1,423,759 | 7,236,896 | 262,054 | — | 8,922,709 |
| Income tax expense | — | — | 1,874 | 1,699,963 | 1,701,837 |
| Other material non-cash items: | | | | | |
| Impairment of assets | — | 8,966,352 | — | — | 8,966,352 |
| Additions to segment non-current assets | 857,304 | — | 24,473 | — | 881,777 |
| **As at 31 December 2015** | | | | | |
| Segment assets | 127,367,354 | 1,182 | 12,461,448 | 9,703,480 | 149,533,464 |
| Segment liabilities | 4,480,952 | 4,751,663 | 1,600,459 | 1,699,963 | 12,533,037 |

## Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 37. SEGMENT INFORMATION *(Continued)*

### Reconciliations of segment revenue and profit or loss:

| | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|
| **Revenue** | | |
| Total revenue of reportable segments | **35,217,800** | 18,673,469 |
| Consolidated revenue | **35,217,800** | 18,673,469 |
| **Profit or loss** | | |
| Total profit or loss of reportable segments | **14,896,057** | (74,922,843) |
| Deferred tax | **—** | 25,638,292 |
| Staff costs | **(12,779,023)** | (17,216,636) |
| Unallocated corporate income | **2,210,110** | 727,353 |
| Unallocated corporate expense | **(17,856,167)** | (17,765,891) |
| Consolidated loss for the year | **(13,529,023)** | (83,539,725) |

### Reconciliations of segment assets and liabilities:

| | 2016<br>HK$ | 2015<br>HK$ |
|---|---|---|
| **Assets** | | |
| Total assets of reportable segments | **273,713,994** | 149,533,464 |
| Unallocated corporate assets | | |
| — Deposits placed with a securities broker | **1,534,511** | 55,362,753 |
| — Bank and cash balances | **15,429,394** | 91,115,534 |
| — Others | **15,866,074** | 15,771,774 |
| Consolidated total assets | **306,543,973** | 311,783,525 |
| **Liabilities** | | |
| Total liabilities of reportable segments | **16,327,734** | 12,533,037 |
| Unallocated corporate liabilities | **10,521,072** | 3,248,761 |
| Consolidated total liabilities | **26,848,806** | 15,781,798 |

## Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

### 37. SEGMENT INFORMATION *(Continued)*

**Geographical information:**

The Group's revenue by location of operations and information about its non-current assets by location of assets are detailed below:

*Revenue*

| | 2016 HK$ | 2015 HK$ |
|---|---|---|
| Taiwan | 13,766,688 | — |
| Tajikistan | 1,333,870 | 1,853,732 |
| The PRC except Hong Kong | 20,117,242 | 16,819,737 |
| Consolidated total | 35,217,800 | 18,673,469 |

*Non-current assets*

| | 2016 HK$ | 2015 HK$ |
|---|---|---|
| Hong Kong | 1,912,465 | 204,585 |
| The PRC except Hong Kong | 7,423,481 | 4,992,818 |
| Consolidated total | 9,335,946 | 5,197,403 |

*Revenue from major customers:*

| | 2016 HK$ | 2015 HK$ |
|---|---|---|
| Provision of supply chain management services for mineral business | | |
| Customer a | 3,824,186 | — |
| Customer b | 3,960,936 | 8,845,197 |
| Customer c | 5,501,725 | — |

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2016*

## 38. EVENTS AFTER THE REPORTING PERIOD

(a) On 1 December 2016, the Company announced that the offer by the Company by way of rights of the 1,884,202,850 new ordinary shares of the Company of HK$0.01 each proposed to be allotted and issued by way of rights to the qualifying shareholders of the Company at a subscription price of HK$0.048 per share ("Rights Share") on the basis of one Rights Share for every two ordinary shares held by the shareholders on 16 December 2016 ("Rights Issue"). On the same date, the Company and the underwriters entered into the underwriting agreement to implement the Rights Issue. The Rights Issue has been completed on 16 January 2017 and the gross proceed from the Rights Issue amounted to approximately HK$90.44 million.

(b) On 10 October 2016, the Group entered into an agreement to acquire 90% of the issued share capital of Xinjiang Turpan Xingliang for cash consideration of RMB9,000,000. The transaction had been completed on 8 February 2017. Xinjiang Turpan Xingliang had not yet commence business. As the accounts at acquisition date is not yet been prepared, it is impracticable at this moment to disclose further information about the acquisition.

(c) On 1 December 2016, the share consolidation was proposed whereby every ten (10) existing issued and unissued shares of HK$0.01 each in the share capital of the Company would be consolidated into one (1) consolidated share of HK$0.10 each ("Share Consolidation"). The resolution approving the Share Consolidation was passed on the extraordinary general meeting held on 15 February 2017 and the Share Consolidation became effective on 16 February 2017.