弘海
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Grand Ocean Advanced Resources Company Limited
弘海高新資源有限公司

Incorporated in the Cayman Islands with limited liability
Stock code : 65

ANNUAL REPORT
2016

CONTENTS

CORPORATE PROFILE

Board of Directors

Executive Directors

Mr. XU Bin *(Chairman)*
Mr. ZHANG Fusheng *(Chief Executive Officer)*
Mr. NG Ying Kit
Ms. HUO Lijie

Independent Non-Executive Directors

Mr. KWOK Chi Shing
Mr. HUANG Shao Ru
Mr. CHANG Xuejun

Compliance Officer

Mr. NG Ying Kit

Company Secretary

Ms. WAN Shui Wah

Authorised Representatives

Mr. ZHANG Fusheng
Mr. NG Ying Kit

Audit Committee

Mr. KWOK Chi Shing *(Chairman)*
Mr. HUANG Shao Ru
Mr. CHANG Xuejun

Remuneration Committee

Mr. HUANG Shao Ru *(Chairman)*
Mr. XU Bin
Mr. CHANG Xuejun

Nomination Committee

Mr. HUANG Shao Ru *(Chairman)*
Mr. XU Bin
Mr. CHANG Xuejun

Registered Office

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Corporate Website

www.grandocean65.com

Head Office and Principal Place of Business in Hong Kong

Suite 3103
Sino Plaza
255-257 Gloucester Road
Hong Kong

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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

Principal Banker

Hang Seng Bank Limited

Independent Auditor

RSM Hong Kong
Certified Public Accountants

Legal Advisers

As to Hong Kong Law:
Michael Li & Co.

As to Cayman Islands Law:
Conyers Dill & Pearman

Stock Code

65

DEFINITIONS

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings.

"2009 Scheme"	a share option scheme adopted at an extraordinary general meeting of the Company held on 20 August 2009;
"2015 AGM"	an annual general meeting held by the Company on 17 June 2016;
"2016 EGM"	an extraordinary general meeting held by the Company on 14 December 2016;
"Amended and Restated Memorandum and Articles"	the memorandum and the articles of association of the Company adopted in an extraordinary general meeting held on 14 December 2016, and "Article" shall mean an article of the Articles of Association;
"Audit Committee"	the audit committee of the Company;
"Bags Business"	the manufacture and sale of plastic woven bags, paper bags and plastic barrels business;
"Board"	the board of Directors of the Company;
"Coal Mining Business"	production and sale of coal;
"Coal Upgrading Business"	provision of low-rank coal upgrading services;
"Company"	Grand Ocean Advanced Resources Company Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed and traded on the Main Board of the Stock Exchange (Stock Code: 65);
"CG Code"	the Corporate Governance Code set out in Appendix 14 to the Listing Rules;
"Director(s)"	the director(s) of the Company from time to time;
"Group"	the Company and all of its subsidiaries from time to time;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"INED(s)"	an independent non-executive Director(s) of the Company;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time;
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules;

"New Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time;
"Nomination Committee"	the nomination committee of the Company;
"PRC" or "China"	the People's Republic of China;
"Remuneration Committee"	the remuneration committee of the Company;
"RMB"	Renminbi, the lawful currency of the PRC;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time;
"Share(s)"	ordinary share(s) with par value of HK$0.50 each in the share capital of the Company;
"Shareholder(s)"	holder(s) of issued Share(s) from time to time;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited; and
"%"	percent.

CHAIRMAN'S STATEMENT

China's gross domestic product increased by 6.7% year-on-year in 2016, representing a record low in growth rate for 26 years. This reflected a continued slowdown of China's economic momentum. However, coal prices demonstrated a substantial upswing in the second half of the year, as opposed to a sluggish movement during the early part of the year. The rise in coal prices was mainly attributed to a temporary shortage of coal supply in the wake of the Chinese Government-imposed production restriction.

The Group's revenue and earnings performance relied heavily on the Coal Mining Business during the year under review. The Group's first half year results were depressed by uninspiring coal price movement, while the second half year performance was driven up by a surge in coal prices, thereby recouping most of the losses incurred in the Coal Mining Business in the first half year.

The Group's coal output and sales volume during the year under review were similar to those of the previous year. The increase in the average selling price of coal enabled this business segment to turn profitable during the review period.

In view of the Chinese Government's affirmative policy of promoting clean energy, the management endeavored to establish a market for its upgraded coal products of its coal upgrading plant in Xilinhaote City, Inner Mongolia, China (the "**Coal Upgrading Plant**"). The first phase of the plant with an annual designed capacity of 500,000 tonnes of upgraded coal output was in the final equipment tuning and testing stage during the year under review. A rebound in coal prices is expected to reinvigorate the business prospects of the Coal Upgrading Plant.

To realign the Group's resources, the management successfully disposed of its Bags Business located in Changchun, Jilin Province, the PRC in November 2016. The management had suspended the operations, which was mainly engaged in the manufacture and sale of plastic woven bags, paper bags and plastic barrels, since May 2015, due to a lack of customer orders. In view of its unpromising prospects, the management considered the disposal of this non-core asset as a positive move for optimizing the Group's management and human resources. The disposal also enabled the Group to improve its financial position.

Impairment provisions related to the Group's Coal Mining Business and Coal Upgrading Business depressed the Group's bottom-line to the negative territory during the year under review, although such non-cash items did not impact on the Group's cash flow.

The Coal Mining Business will remain as the Group's core revenue and earning drivers, in particular, for the further commencement of commercial production of the Coal Upgrading Plant. Further financial resources would be required to support the plant's operation in full swing. To address the concern on its financial position, the Group will continue to reduce operating expenses through stringent cost control and streamlining of its workforce.

The management realizes the limitation of its coal-related operations due to constraint of scale. The Group is actively exploring business opportunities in higher growth sectors to enhance its profitability.

Last but not least, on behalf of the Board, I would like to express my sincere appreciation to our staff for their faith in and devotion to the Company, and the Shareholders as well as business partners for their continued support. The Group will stay focused on enhancing operation and capital efficiencies and strive for the maximization of shareholders' value for the Group over the long term.

Xu Bin
Chairman

17 March 2017

FINANCIAL HIGHLIGHTS

Financial Highlights

	2016 **HK$'000**	2015 HK$'000 (Represented)	Change
Operating Results			
From continuing operations			
Revenue	**264,392**	240,128	10%
Gross profit	**139,499**	98,175	42%
Other operating expenses	**6,557**	4,401	49%
Finance costs	**2,180**	4,451	-51%
Loss for the year attributable to owners of the Company	**(123,414)**	(87,053)	42%
Loss per share from continuing operations – Basic	**HK(24.51) cents**	HK(18.01) cents	36%
Financial Position			
Total assets	**472,367**	723,885	-35%
Total liabilities	**269,479**	359,801	-25%
Bank and cash balances	**93,238**	48,189	93%
Equity attributable to owners of the Company	**157,629**	311,079	-49%
Financial Ratios			
Current ratio	**0.60**	0.53	13%
Gearing ratio	**30.3%**	32.5%	-7%

Five-Year Financial Summary

The following is a summary of the published consolidated results and of the assets, liabilities and equity of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate:

Results

	Year ended 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Represented)	(Represented)	(Represented)	(Represented)
Revenue					
From continuing operations	**264,392**	240,128	245,817	83,134	176,392
From discontinued operation	**–**	5,710	97,126	203,015	254,114
	264,392	245,838	342,943	286,149	430,506
Profit/ (Loss) from operations	**(93,805)**	(110,464)	4,317	(63,955)	(129,695)
Finance costs	**(2,180)**	(4,451)	(11,385)	(4,680)	(7,377)
Loss before tax	**(95,985)**	(114,915)	(7,068)	(68,635)	(137,072)
Income tax credit/ (expense)	**(32,726)**	(4,878)	(17,866)	(17,647)	28,137
Loss for the year from continuing operations	**(128,711)**	(119,793)	(24,934)	(86,282)	(108,935)
Profit/ (loss) for the year from discontinued operation	**3,136**	(83,796)	(85,040)	18,079	45,226
Loss for the year	**(125,575)**	(203,589)	(109,974)	(68,203)	(63,709)
Attributable to:					
Owners of the Company	**(120,278)**	(170,849)	(113,109)	(35,114)	(25,385)
Non-controlling interests	**(5,297)**	(32,740)	3,135	(33,089)	(38,324)
	(125,575)	(203,589)	(109,974)	(68,203)	(63,709)

Five-Year Financial Summary (Continued)

Assets, Liabilities and Equity

	As at 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**347,776**	577,695	700,810	796,487	713,536
Current assets	**124,591**	146,190	205,929	221,024	276,741
TOTAL ASSETS	**472,367**	723,885	906,739	1,017,511	990,277
Non-current liabilities	**60,159**	85,670	104,167	214,383	90,589
Current liabilities	**209,320**	274,131	254,117	247,560	303,848
TOTAL LIABILITIES	**269,479**	359,801	358,284	461,943	394,437
NET ASSETS	**202,888**	364,084	548,455	555,568	595,840
Attributable to:					
Owners of the Company	**157,629**	311,079	458,868	467,737	476,299
Non-controlling interests	**45,259**	53,005	89,587	87,831	119,541
TOTAL EQUITY	**202,888**	364,084	548,455	555,568	595,840

Notes:

The results of the Group for the years ended 31 December 2015, 2014, 2013 and 2012 and of the assets, liabilities and equity of the Group as at these dates have been extracted from audited financial statements of the Company for the respective years and represented as appropriate.

The results of the Group for the year ended 31 December 2012 to 2015 have been represented as a results of the reclassification of the Bags Business to discontinued operation in 2016.

The results of the Group for the year ended 31 December 2016 and of the assets, liabilities and equity of the Group as at 31 December 2016 are those set out on pages 64 to 67 of the audited financial statements respectively.

Financial review

The Group recorded a revenue (including continuing and discontinued operations) of approximately HK$264,392,000 for the year ended 31 December 2016, representing an increase of approximately HK$18,554,000 or approximately 7.5% as compared to approximately HK$245,838,000 for the year ended 31 December 2015. The loss attributable to the owners of the Company (including continuing and discontinued operations) for the year ended 31 December 2016 of approximately HK$120,278,000 decreased by approximately HK$50,571,000 as compared to the corresponding period in 2015 of approximately HK$170,849,000. The Group reported its annual results in three segments, namely: (i) Coal Mining Business; (ii) Coal Upgrading Business; and (iii) Bags Business. The Bags Business have been disposed in November 2016.

The Coal Mining Business

The Group recognised revenue of approximately HK$264,392,000 from the Coal Mining Business during the year, accounting for 100.0% of the Group's total revenue. The revenue from Coal Mining Business recorded an increase of approximately HK$24,264,000, or approximately 10.1% as compared to the corresponding period in 2015. Affected by the national structural reform on countrywide's coal supply, as well as the compression of production capacity of the coal industry and other policy factors, the average coal selling prices have increased gradually during the second half of 2016, which improved the profitability of the Coal Mining Business. The improved operating profit of the Coal Mining Business (segment loss exclude impairment on the property, plant and equipment, intangible assets and trade and other receivables) was HK$87,271,000 for the year ended 31 December 2016 as compared to an operating profit of HK$13,865,000 for the year ended 31 December 2015 was mainly attributable to the increased average selling price, decrease in depreciation charges and lower logistic costs for the year.

Impairment review has been conducted at each of the end of the reporting date, impairment loss have been made on the property, plant and equipment, intangible assets and trade and other receivables of approximately HK$93,514,000. For further details, please refer to the paragraph headed "Impairment of property, plant and equipment, intangible assets, goodwill and trade and other receivables from continuing operations" under this section headed "Management Discussion and Analysis".

In 2015, the management of Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited ("**Inner Mongolia Jinyuanli**"), an indirect non-wholly owned subsidiary of the Company, has applied to relevant authorities in the PRC to increase its production capacity to 1.80 million tonnes per year (the "**Application**") and the Application is still subject to an examination period as at the date of this annual report. In view of this, the management of the Inner Mongolia Jinyuanli has decided to lower the projected annual coal output of Inner Mongoli Jinyuanli to around 1.40 million tonnes for the whole year of 2016. However, during the third quarter of 2016, the price of coal was stabilized and began to revive, the management of Inner Mongolia Jinyuanli then re-arranged the coal production to the extent that is permissible under the relevant policies. Hence, for the year ended 31 December 2016, approximately 1.94 million tonnes (2015: approximately 2.20 million tonnes) were produced and 2.01 million tonnes (2015: approximately 2.21 million tonnes) of coal were sold, respectively.

In this circumstance, the management of Inner Mongolia Jinyuanli has engaged an independent PRC legal adviser to advise on the legality of its operations and its opinion stated that it is very unlikely that the operations of Inner Mongolia Jinyuanli will be penalized or suspended (the "**JYL Legal Opinion**"). As at the date of this annual report, Inner Mongolia Jinyuanli has not been notified for over-production penalty nor suspension of operations and the management of Company relied on the JYL Legal Opinion to conduct its business operations.

Nevertheless, a contingent liability in the amount of RMB2 million (approximately HK$2,233,000) was disclosed in the Group's consolidated financial statements (2015: RMB2 million (approximately HK$2,352,000), on a prudent basis, which represents the maximum amount of penalty as a result of over-production. The management of Inner Mongolia Jinyuanli will be able to change its production plan and capacity to comply with corresponding rules and regulations in the PRC depending on the progress of the Application.

Financial review (Continued)

The Coal Upgrading Business

Further to the substantial completion of the construction of the first phase with designed annual production capacity of 500,000 tonnes of the Group's coal upgrading plant located at Xilinhaote City, Inner Mongolia, the PRC (the "**Coal Upgrading Plant**"), the Coal Upgrading Plant has commenced instrument calibrations and trial production since the first quarter of 2016. The management of the Coal Upgrading Plant has begun the sales and marketing activities for its upgraded coal product. In early March 2016, the management of the Coal Upgrading Plant entered into several letters of intent (the "**Letters of Intent**") with interested potential buyers to purchase the upgraded coal products. During the period from January to March 2016, the Coal Upgrading Plant performed final calibrations of the equipment and commenced trial production, approximately 30 tonnes of upgraded coals were produced and provided to the potential buyers for testings. After discussion with our potential customers, the feedbacks were positive after the testing. On the supply side, the management of the Coal Upgrading Plant had identified several low rank coal suppliers who were willing to advance the raw materials to the Coal Upgrading Plant with prolonged payment terms, which eased materially the pressure of working capital. On this basis, the Board considered that the commercial production could be commenced in April 2016.

During this period, the management of the Coal Upgrading Plant continued the business negotiations with the potential buyers, in particular the selling price of our upgraded coal product. Unfortunately, the market sentiment of the PRC coal industry was still very bad during that period. The prolonged low price levels of coal in the PRC prior to the fourth quarter of 2016 slowed down the demand for the Group's upgraded coal product and negatively affect the selling price. The counter offers received from these potential buyers would potentially result in a substantial loss to the Coal Upgrading Plant in an amount of approximately RMB20 million (unit loss of approximately RMB40 per tonne of upgraded coal) based on our estimates for the full utilisation of its production scale of 500,000 tonnes a year.

Based on the Board's assessments on the financial position of the Group at that instance, such loss to the Coal Upgrading Plant, if occur, will materially disrupt the Group's cashflow on an overall basis, as such, the Board decided to postpone the commercial production of the Coal Upgrading Plant, until the coal prices in the PRC rebound giving at least a reasonable potential profit margin for the upgraded coal product.

In relation to the progress on the commercial production of the Coal Upgrading Plant, the existing approvals granted to the development of the Coal Upgrading Plant has been expired in June 2016 (the "**Development Approvals**"), the management of the Coal Upgrading Plant has applied for further extension for the Development Approvals, which is still pending for local government's approval. In the view of the recent market conditions, the management of the Coal Upgrading Plant has continued to solicit orders from potential customers for the commencement of commercial production over the past few months, however, no commercial order is received as at the date of this annual report.

Financial review (Continued)

The Coal Upgrading Business (Continued)

In view of the improvement of the market sentiment of the PRC coal market, it's the Board's view and based on the assessment of the management of the Coal Upgrading Plant (and also the assumptions made in the impairment assessment) that the commercial production of the Coal Upgrading Plant could be commenced in the second half of 2017 by the earliest, subject to, among others, the readiness of fundings. The management of the Coal Upgrading Plant is currently putting majority of its efforts to fulfill all the conditions required for the commercial production of the Coal Upgrading Plant in the second half of 2017.

In this regard, this Coal Upgrading Business segment did not record any revenue. This segment reported a loss of approximately HK$67,851,000 (2015: HK$16,887,000). The significant increase in loss was mainly due to the impairment on property, plant and equipment and other receivables of approximately HK$52,506,000. For further details, please refer to the paragraph headed "Impairment of property, plant and equipment, intangible assets, goodwill and trade and other receivables from continuing operations" under this section headed "Management Discussion and Analysis".

The Bags Business – Discontinued operation

As set out in the 2015 Annual Report, there were no further orders from our customers since May 2015, the management of the Group had decided to suspend the operation of the Bags Business segment and actively seeking for potential buyers to realise the assets in the Bags Business segment to strengthen the Group's financial position. During the year, the Company entered into a sale and purchase agreement to dispose the Bags Business (the "**Discontinued Operation**") for a cash consideration of HK$22,800,000 on 27 October 2016 (the "**Disposal**") and the completion of the Disposal took place on 24 November 2016. Upon completion of the Disposal, all the subsidiaries under the Bags Business segment (the "**Disposal Group**") ceased to be subsidiaries of the Company and the financial results and position of the Disposal Group were deconsolidated from the consolidated financial statements of the Group thereafter. The Group recognized gains arising from the Disposal of approximately HK$48,731,000 during the year.

There was no revenue recognised from the Bags Business segment during the year and the loss from the Discontinued Operation for the period from 1 January 2016 to 24 November 2016 of approximately HK$45,595,000 was mainly attributable to the impairment losses on property, plant and equipment made during the first half of 2016. For further details, please refer to the paragraph headed "Impairment of property, plant and equipment, from discontinued operation" under this section headed "Management Discussion and Analysis".

Financial review (Continued)

Selling and distribution expenses

The selling and distribution expenses of the Group for the year ended 31 December 2016 from continuing operations were mainly come from the Coal Mining Business of approximately HK$10,818,000, representing a decrease of approximately HK$19,066,000 or approximately 63.80% as compared to the corresponding period in year 2015 from continuing operations. The significant decrease in selling and distribution expenses was mainly resulted from lower logistic costs of coal delivery.

Administrative expenses

The administrative expenses of the Group for the year ended 31 December 2016 from continuing operations amounted to approximately HK$67,463,000, representing a decrease of approximately 27.8% from approximately HK$93,389,000 in the corresponding period in 2015 from continuing operations. The decrease in administrative expenses was mainly attributable to the decrease in staff costs as a result of the cost-saving measures implemented and lower depreciation charges due to the impairment of property, plant and equipment made as at 31 December 2015 which led to the lower depreciable amount of property, plant and equipment.

Impairment of property, plant and equipment, intangible assets, goodwill and trade and other receivables from continuing operations

The Group recorded total impairment losses from continuing operations of approximately HK$148,927,000 for the year ended 31 December 2016, such impairment losses were mainly attributable to:

(i) The Coal Mining Business

Given the challenging market conditions in the mining industry, the Group continues to rigorously test its assets for impairment as part of its financial reporting process. The Group recorded total impairment losses of approximately HK$17,573,000 and HK$73,422,000 for intangible asset and property, plant and equipment, respectively as at 31 December 2016 in the Coal Mining Business. Certain impairment losses have been made on the balances of trade receivables of approximately HK$2,519,000 which has been over due more than 1 year.

In assessing the impairment of the Group's assets under the Coal Mining Business, the Company conducted valuation by adopting discounted cash flow method to derive the respective recoverable amounts of our coal mining assets, the assumptions of the valuation were made based on the current business conditions and project development progress. The assumption of coal production capacity has been adjusted due to the issue of relevant coal mining regulations by the State Council of the PRC in relation to the compression of the coal production capacity in the PRC and the current status of the Application. The directors of the Company consider that this could avoid potential violation of the relevant new mining regulations in the PRC imposed in 2016 in relation to the compression of coal production capacity in the PRC.

Financial review (Continued)

Impairment of property, plant and equipment, intangible assets, goodwill and trade and other receivables from continuing operations (Continued)

(i) The Coal Mining Business (Continued)

The key assumptions and parameters in the valuation conducted for assessing the impairments of the Group's assets under the Coal Mining Business as at 31 December 2015, 30 June 2016 and 31 December 2016 are set out as below:

Key assumptions	31 December 2015	30 June 2016	31 December 2016
Projected annual coal production capacity *(note 1)*	1,800,000 tonnes	1,400,000 tonnes	1,200,000 tonnes
Unit coal price per tonne adopted (including value-added tax) *(note 2)*	2016-2018: RMB115 2019-2021: RMB120 2022 onwards: RMB125	2016-2018: RMB110 2019-2021: RMB115 2022 onwards: RMB120	2017-2019: RMB110 2020-2022: RMB115 2023 onwards: RMB120

Note:

(1) Due to the Application is still under the examination period and the recent coal industry policy of the compression of production capacity in the PRC, the projected annual coal production capacity was adjusted in accordance with the existing mining license. Further adjustment will be made in accordance with the outcome of the Application.

(2) The estimated unit coal price per tonne (average selling price) was determined by referencing to (i) the average unit selling price of coal in the year ended 31 December 2016 of approximately RMB115 per tonne; (ii) fluctuation of market price of coal in the PRC; and (iii) the historical average unit selling price of coal over past few years of approximately RMB110 per tonne.

Unlike coal of relatively high calorific value (5,000kJ/kg or above) with a transparent index could be quoted on http://www.cqcoal.com, the price level of the coal produced by Inner Mongolia Jinyuanli with relative low calorific values (around 3,100kJ/kg to 3,500kJ/kg) could only be quoted from local references for the Inner Mongolia Region - http://www.coal-link.com. The management of Inner Mongolia Jinyuanli relies on such reference in determining the selling price of its coal during business negotiations with their buyers (with a +/-10% variance taking into account factors such as the means of transportation and size of purchase order etc), which we considered a relevant reference of coal price in the locality of Huolinguole City, Inner Mongolia, the PRC.

In view of the audit qualifications regarding the Company's assessments in making any impairment loss on the property, plant and equipment and intangible assets for the Coal Mining Business for the years ended 31 December 2015 and 2016, specific audit evidence requested by the auditor included mainly, but not limited to: (i) supporting to the key assumption made in Inner Mongolia Jinyuanli's discounted cashflow forecast prepared by the Company – market price of coal in the Inner Mongolia region; (ii) supporting to the other key assumptions made in the cashflow forecast prepared by the Company; and (iii) the legality of Inner Mongolia Jinyuanli's coal production output exceeding the capacity stated in the corresponding mining license.

Financial review (Continued)

Impairment of property, plant and equipment, intangible assets, goodwill and trade and other receivables from continuing operations (Continued)

(i) The Coal Mining Business (Continued)

After discussion with the auditors, we noted that the auditors did not take into account of the JYL Legal Opinion because the auditors consider that it had not include (i) a formal conclusion from the relevant rules and regulations in the PRC; (ii) the consequence of operating the underground coal mine at the capacity above the allowed level for the last two years; and (iii) the effect on Inner Mongolia Jinyuanli after the implementation of the Notice "Nei Mei Ju Zi (2016) No. 63" which related to the compression of production capacity of coal production enterprise in the PRC. As a result, they were unable to determine whether the recoverable amount of the Coal CGU has been overstated or any further impairment on the carrying amounts of the Coal CGU is required.

In future, the Company will work with Inner Mongolia Jinyuanli to ensure the compliance with all the regulations in the PRC and will instruct management of Inner Mongolia Jinyuanli to liaise with the relevant government authority for the renewal of the coal mining license before the expiry date.

Based on our discussions with the PRC legal adviser during the preparation of the JYL Legal Opinion, the PRC legal adviser confirmed that they had taken into account all the relevant policies of the PRC coal industry in arriving their opinion.

As explained by the PRC legal adviser, there were recent and frequent changes in the policies of the PRC coal industry since 2014. On 3 May 2016, the Coal Industrial Bureau (煤炭工業局) released the "Nei Mei Ju Zi (2016) No. 63" in relation to the compression of production capacity of coal production enterprise. Nevertheless, on 21 November 2016, the Inner Mongolia Autonomous Region Economic and Information Technology Commission (內蒙古自治區經濟和信息化委員會) released the "Nei Jing Xin Ban Zi (2016) No. 409", whereas the annual working days of the coal enterprise was temporarily resumed to 330 days during the period from 21 November 2016 to 30 May 2017.

In view of the situation during this 6-month period, there were two different policies issued by two different government authorities, the PRC legal advisers taking assessment and give us their view and opinion based on the PRC legal adviser's experience. It is happened in practice that government officials in different cities or locations (especially in three to five tier cities in the PRC such as Huolinguole City) implemented the frequently changing industry policies with wide variance.

In preparing the JYL Legal Opinion, the PRC legal adviser reviewed the documents provided by relevant government authorities to Inner Mongolia Jinyuanli. On this basis, the PRC legal adviser considered that there is no legal obstacle in carrying on the current operations of the Coal Mining Business. Both the Company and the Audit Committee considered the JYL Legal Opinion accurately reflected the current operating/legal status of the Coal Mining Business.

Financial review (Continued)

Impairment of property, plant and equipment, intangible assets, goodwill and trade and other receivables from continuing operations (Continued)

(i) The Coal Mining Business (Continued)

The management of Inner Mongolia Jinyuanli relied on PRC legal adviser's opinion to conduct the Coal Mining Business. Up to the date of this annual report, Inner Mongolia Jinyuanli had never been penalized nor suspended its operations due to the reason of over-production. In view of the ease to reduce the coal output (rather than raising a coal mine's output) to comply with the relevant policies, management of Inner Mongolia Jinyuanli considered that this matter will not lead to the result of suspension of operations. With due respect, the management of the Group considered that sufficient appropriate audit evidence had been provided to the auditor in the course of audit.

Regarding to the compression of production capacity policy, the existing maximum production capacity of Inner Mongolia Jinyuanli is approximately 250,000 tonnes per month, therefore 270 days of coal mining operations would achieve a maximum coal output of approximately over 2.2 million tonnes per annum, which is well above the projected annual coal production output in the discounted cashflow forecast to 1.2 million tonnes in accordance with the existing mining license.

In view of PRC legal adviser's opinion on the legality of Inner Mongolia Jinyuali's operations, as well as the measures and actions taken by the management of Inner Mongolia Jinyuanli to prevent suspension of operations. The Board is of the view that, as also evidenced by the performance of Inner Mongolia Jinyuali in the last two years, the forecasts of Inner Mongolia Jinyuanli for the forthcoming financial year could be achievable.

(ii) The Coal Upgrading Business

Key assumptions and parameters in the valuations conducted for assessing the impairments of the Group's assets under the Coal Upgrading Business are set out below:

(1) Availability of adequate funding to finance the future capital expenditures of the Coal Upgrading Plant

Further to the extended time table of the commercial production of Coal Upgrading Business, in assessing the recoverable amount of the Coal Upgrading Business, the Company conducted valuation by adopting discounted cash flow method to derive the respective recoverable amounts of our assets. The management has factored in the future capital expenditures (the "**CAPEX**") for the land use right of the Coal Upgrading Plant and the construction costs of the Coal Upgrading Plant for the phase 2 and phase 3 in the aggregate amount of approximately HK$214 million. The management of Coal Upgrading Business has revisited the schedule of the development of phase 2 and phase 3. Out of the total CAPEX, it was planned that HK$19 million will be incurred in the next 18 months for the development of the Coal Upgrading Plant, depending on the financial position of the Group.

It is the current intention of the management to fund the total CAPEX from (i) the projected net cash inflow to be generated from the Coal Mining Business and Coal Upgrading Business segment; (ii) financial supports in the amount of HK$100 million from the Company's controlling shareholder; and (iii) possible fund raisings of the Group in form of equity and/or debt financing, if necessary.

Financial review (Continued)

Impairment of property, plant and equipment, intangible assets, goodwill and trade and other receivables from continuing operations (Continued)

(ii) The Coal Upgrading Business (Continued)

(2) *Assumption on the selling price of the coal under the assumption of Coal Upgrading Business*

In forecasting the future cash flows to be generated from the Coal Upgrading Business, the management of the Coal Upgrading Plant applied an unit selling price of RMB300 per tonne (including value-added tax) which is same as last year and parameters extracted from the existing sales and production plan (commencing production in second half of 2017) based on the existing assigned annual production capacity of upgraded coal output (i.e. 250,000 tonnes per annum in 2017; 500,000 tonnes per annum in 2018; 1,000,000 tonnes per annum from 2019-2020; and 2,000,000 tonnes per annum from 2021 onwards). The unit selling price is based on the latest discussions with our potential customers. Further adjustment will be made in accordance with the realised unit selling price of the future commercial orders from potential customers.

The pricing of the Coal Upgrading Plant's upgraded coal products will depend on: (i) the characteristics of the upgraded coal products and their applications, applications other than electricity production would possibly improve the profit margins significantly; (ii) the costs of low rank coals as the raw materials, with a productivity ratio of 2 (upgraded coal output): 3 (low rank coal input); and (iii) PRC's coal market sentiment. The management of the Coal Upgrading Plant is of the view that the improvement of the market sentiment of the PRC Coal Market will raise the demand for our upgraded coal products as well as enhancing our bargaining power in negotiating the selling price of the upgraded coal products.

In respect of the above, total impairment losses of approximately HK$2,907,000, HK$49,532,000 and HK$324,000 have been made on the goodwill and the property, plant and equipment and deposits under non-current assets, respectively, to reflect (i) the further extended timetable of the commercial production; (ii) uncertainties of upgraded coal selling price; and (iii) increasing productions costs. Also, impairment losses have been made on the balance of other receivables of approximately HK$2,650,000 which has been over due more than 1 year.

In view of the audit qualifications regarding the Company's assessments in making any impairment loss on goodwill, the property, plant and equipment and deposits under non-current assets for the Coal Upgrading Business for the year ended 31 December 2016, the specific audit evidence requested by the auditor included mainly, but not limited to: (i) supporting of potential orders from customers; (ii) reliable coal quality-check report and (iii) the sources of funding for the CAPEX of the Coal Upgrading Plant, for their assessment of the Coal Upgrading Business.

While the Coal Upgrading Plant was yet to commence its commercial production as at the date of this annual report, the Group did not have any orders for its upgraded coal products and did not provide any supporting of orders to the auditor. During the course of audit for the financial year ended 31 December 2015, the Company had provided to the auditors corresponding coal quality-check report of our upgraded coal products produced in January 2016. The Company did not provide any further coal quality-check report during the course of audit for the financial year ended 31 December 2016 as there was no upgraded coal produced after March 2016.

Financial review (Continued)

Impairment of property, plant and equipment, intangible assets, goodwill and trade and other receivables from continuing operations (Continued)

(ii) The Coal Upgrading Business (Continued)

The management of the Group had attempted to seek financings from several PRC domestic banks but failed due to the current policies of the PRC banks not to provide any project financings to coal related business. Hence, equity based fundraisings would be a viable way to be considered by the Board to raise sufficient capital for the Group's business needs. The share capital reduction of the Company's shares completed by end of March 2017 has removed one of the Company's burdens to conduct equity based fundraisings as stated in the Company's bye-laws. The Board have reviewed carefully the Group's financial position and will consider adequate fundraising opportunities to support the future CAPEX of the Coal Upgrading Plant.

In order to address the concern of insufficient capital of the Group raised by the auditors, the Board (including the Audit Committee) approved the disposal of the Bags Business (in substance the idled manufacturing plant) in 2016 in order to realize and receive approximately HK$22.8 million cash proceeds to improve the Group's liquidity and financial position. Significant efforts had also been put on improving the performance of the Coal Mining Business by implementing effective cost-saving measures and adjustments made on the sales strategy in 2016, contributed positive operating cash flow to the Group.

Furthermore, the share capital reduction exercise for the Company's shares in 2016 had removed the burden for the Company to conduct equity based fundraising under the current situation that PRC banks reluctant to provide debt financings to the Group's coal related businesses.

Financial review (Continued)

Impairment of property, plant and equipment, intangible assets, goodwill and trade and other receivables from continuing operations (Continued)

During the year of 2016, the Board had taken the following actions to resolve the issues raised by the auditor:

(i) implemented cost-saving measures to reduce the administrative expenses of the Group;

(ii) closely monitored the coal production output of Inner Mongolia Jinyuanli to the extent that it will not create any material issues affecting the coal production operation, and instructed the management of Inner Mongolia Jinyuanli to timely communicate with relevant Government authorities to ensure the continuity of its operations;

(iii) closely followed up with relevant Government authorities on the progress of the Application and Development Approval;

(iv) opportunely modified the development, production and marketing plan of the Coal Upgrading Plant in accordance with the changing situation;

(v) attempted to seek financings from PRC banks to fund the CAPEX of the Coal Upgrading Plant, notwithstanding the effort we put, it's the current policies of PRC banks not to provide project financings to coal related businesses in the PRC; and

(vi) disposed the Bags Business, which did not contribute any revenue to the Group since its cease of operation in May 2015, to improve the financial position of the Group.

In coming year, the Board and the senior management of the Group will continue to take appropriate actions and implement effective measures to resolve the issues identified.

The Board and the management of the Group believe that effective measures have been implemented to ensure the continuity and legality of its business operations, further appropriate actions including necessary adjustments in coal production plan of Inner Mongolia Jinyuanli will be taken in accordance with future progress of the Group's business activities.

In the year of 2016, the financial position of the Group as well as the performance of the Coal Mining Business has improved apparently. The Group recorded an improved cash inflow from operating activities of approximately HK$86,855,000 for the year ended 31 December 2016 as compared to cash outflow from operating activities of approximately HK$5,256,000 for the year ended 31 December 2015.

It is also the intention of the Board to conduct viable fundraising to further strengthen the Group's financial position, and ease the likelihood of the recurring audit qualification in subsequent years.

Financial review (Continued)

Impairment of property, plant and equipment from discontinued operation

In assessing the impairment of the Group's assets under the Bag Business segment, the management of the Company assessed the recoverable amount of the assets and impairment loss has been made on the carrying amount of the land and buildings of the production plant of the Bags Business (the "**Bags Production Plant**") of approximately HK$52,197,000 during the first half year of 2016. During the interim period, the Bags Production Plant were unused for over a very long period and the Group has not received any solid offer from potential buyers, full impairment has been made on the carrying amount of the building of the Bags Production Plant. Following to the Disposal of the Bags Business, certain impairment loss of approximately HK$13,495,000 made during interim period of the building of the Bags Production Plant have been reversed by reference to the market value of the Bags Production Plant as at the Disposal date which provided by an independent qualified professional valuer of RMB33,300,000 (approximately HK$37,482,000).

As such, impairment loss has been made for the period ended 24 November 2016 is approximately HK$38,702,000.

Finance costs

The finance costs of the Group from continuing operations mainly represented interest expenses on the loans from director and loans from third parties. For the year ended 31 December 2016, finance costs recorded by the Group decreased to approximately HK$2,180,000, dropped by HK$2,271,000, mainly due to certain repayments made to the non-controlling shareholders, third parties and director during the year.

Loss for the year

Net loss attributable to the owners of the Company (including continuing and discontinued operations) for the year ended 31 December 2016 decreased to approximately HK$120,278,000 as compared to approximately HK$170,849,000 for the year ended 31 December 2015. The decrease was mainly due to the decrease in operating loss in the Coal Upgrading Business and the Bags Business.

Loans from a director

On 2 January 2014, the Company as the borrower, entered into a loan agreement with Mr. Xu Bin ("**Mr. Xu**"), the chairman, an executive director and a controlling shareholder (as defined under the Listing Rules) of the Company, as lender, pursuant to which Mr. Xu agreed to grant to the Company an unsecured loan of HK$4 million at an interest rate of 5% per annum. This loan has been applied as general working capital of the Company. The repayment date of this loan had been extended to 31 December 2018.

Loans from a director (Continued)

On 24 March 2014, Beijing Guochuan New Energy Development Co., Ltd. ("**Beijing Guochuan**"), an indirect wholly-owned subsidiary of the Company, as borrower, entered into a loan agreement with Mr. Xu, as lender, pursuant to which Mr. Xu agreed to grant to Beijing Guochan an unsecured and interest-free loan of RMB20 million (approximately HK$24 million) as general working capital of the Group (the "**Original Loan Amount**"). Part of the Original Loan Amount in the amount of RMB12 million (approximately HK$14 million) has been assumed by Shanghai Wealthy Ocean International Trading Co., Ltd ("**Shanghai Wealthy Ocean**"), an indirect wholly-owned subsidiary of the Company, as part of the consideration of intra group transfer of 37.5% equity interests in Xilinhaote Guochuan held by Beijing Gouchuan to Shanghai Wealthy Ocean, as part of the Group's restructuring and Xilinhaote Guochuan remained as an indirect wholly-owned subsidiary of the Company. The loan of RMB12 million in the book of Shanghai Wealthy Ocean is unsecured, interest-free and repayable on 31 December 2018. The remaining of the Original Loan Amount in the book of Beijing Guochuan amounted to RMB8 million (approximately HK$10 million) was repaid during the year.

On 5 May 2014, the Company, as borrower entered into a loan agreement with Mr. Xu, as lender, pursuant to which Mr. Xu agreed to grant to the Company an unsecured loan of HK$1 million at an interest rate of 5% per annum. This loan has been fully repaid during the year.

On 7 May 2014, the Company, as borrower, entered into a loan agreement with Mr. Xu, as lender, pursuant to which Mr. Xu agreed to grant to the Company an unsecured loan of HK$3 million at an interest rate of 5% per annum. This loan which had been applied as general working capital of the Company, was repayable on 31 March 2016. The repayment date of this loan had been extended to 31 December 2018.

On 8 May 2014, the Company, as borrower, entered into a loan agreement (the "**Loan Agreement**") with Mr. Xu, as lender, pursuant to which Mr. Xu agreed to grant to the Company unsecured loans up to 8 tranches with an aggregate principal amount of up to HK$200 million during the availability period at an interest rate of 5% per annum. The Loan Agreement expired on 7 May 2016 and the Company has not made any drawdown under the Loan Agreement.

Capital structure, liquidity and financial resources

There was no change in share capital during the year and as at 31 December 2016,

(a) the Group's aggregate amount of (i) restricted bank deposits; and (ii) bank and cash balances was approximately HK$100,372,000 (as at 31 December 2015: approximately HK$55,682,000). The management will continue to closely monitor the financial position of the Group to maintain its financial capacity;

(b) the Group's total borrowings comprised (i) loans from non-controlling shareholders; (ii) loans from a director; and (iii) other loans, totaling approximately HK$61,482,000 (as at 31 December 2015: approximately HK$118,445,000). An amount of approximately HK$25,228,000 other loans have been repaid in January 2017;

(c) the Group's total gearing ratio was approximately 30.3% (as at 31 December 2015: approximately 32.5%). The gearing ratio was calculated as the Group's total borrowings divided by total equity; and

(d) the current ratio of the Group was approximately 0.60 (as at 31 December 2015: approximately 0.53).

In view of the recent financial performance and position of the Group, the Company will consider possible and adequate fundraising opportunities in order to strengthen its capital base, to ease the Group's short-term financial stress and to enhance its financial position as and when necessary.

Capital reduction and subdivision

On 3 November 2016, the Company proposed to implement a reduction of the issued share capital by reducing the par value of each issued share of Company from HK$0.50 to HK$0.01 by cancelling the paid up share capital to the extent of HK$0.49 on each issued share so that each issued share shall be treated as one fully paid up share of par value of HK$0.01 each in the share capital of the Company (the "**Capital Reduction**") and each authorized but unissued share of the Company of par value of HK$0.50 each be subdivided into 50 shares of HK$0.01 par value each immediately following the Capital Reduction (the "**Subdivision**"), which were duly passed by the Shareholders at 2016 EGM and subject to the approval by the Grand Court of the Cayman Islands (the "**Court**").

Subsequent to the date of this annual report, on 22 March 2017, the Capital Reductions and Subdivision were effected by a special resolution passed at 2016 EGM and the approval by the Court at 17 March 2017 and the completion of the registration by the Registar of Companies of the Cayman Islands.

Pledge of assets

As at 31 December 2016, the Group had no pledge of assets (2015: HK$Nil).

Foreign currency risk

The Group's sale and purchases are mainly transacted in Renminbi and the books are recorded in Hong Kong dollars. The management of the Group noted that the recent fluctuation in the exchange rate between Renminbi and Hong Kong dollar, and is of the opinion that it does not currently have a material adverse impact of the Group's financial position. The Group currently does not have a foreign currency hedging policy. The management will continue to monitor the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Significant investments

The Group did not purchase, sell or hold any significant investments during the year and as at 31 December 2016.

Acquisition and disposal of material subsidiaries and associates

Save as disclosed in this annual report in relation to the Disposal of the Bags Business dated 27 October 2016, the Group did not acquire or dispose of any material subsidiaries and associates during 2016.

Contingent liabilities

As at 31 December 2016, contingent liabilities in the amount of RMB2 million (approximately HK$2,233,000) which represents the maximum amount of penalty as a result of over-production of the Coal Mining Business.

Capital commitment

As at 31 December 2016, the Group had capital commitment relating to the construction agreements and prepaid land lease payments of the Coal Upgrading Plant contracted for (but not yet incurred) in the amount of approximately HK$48,578,000 (as at 31 December 2015: approximately HK$58,220,000).

Employees

The Group employed 613 full-time employees as at 31 December 2016 in Hong Kong and the PRC (as at 31 December 2015: 630). Remuneration of the staff comprised monthly salaries, provident fund contributions, medical benefits, training programs, housing allowances, discretionary bonus and discretionary options based on their contributions to the Group. Staff costs (including directors' emoluments) for the year ended 31 December 2016 were HK$80,432,000 (2015: HK$107,374,000).

Prospects

The Chinese Government is likely to stay committed to its supply side reform in the coal industry over the next few years, as evidenced by recent announcement on the country's coal capacity elimination target of 800 million tonnes by 2020. In addition, the state government's recent announcement of suspending coal import from North Korea is expected to further tighten coal supply in 2017. These factors are likely to contribute to the stabilization of coal prices in the PRC in the current year. The management will focus on enhancing the fundamental qualities of this business by continuing its stringent cost controls and stepping up measures to enhance production efficiency.

Regarding the Group's Coal Upgrading Plant, the outlook for this plant seems to have been brightened by recent recovery in coal prices. The Chinese Government's determination of promoting clean energy continues to portray a favorable backdrop for the plant's long term growth prospects. The management is actively promoting product of the Coal Upgrading Plant as an environmental friendly alternative for power plants and other industrial users.

The management is cautiously assessing the appropriate timing for the commencement of commercial production of the Coal Upgrading Plant. To ensure that the Group's financial resource is efficiently allocated, the Group intends to secure sufficient amount of firm orders before committing further capital for the Coal Upgrading Plant's full operation.

The existing business portfolio of the Group has limited potential for drastic expansion of operation scale or profitability. The existing operations are also vulnerable to the PRC's coal industry policy changes and a single market fluctuation. It is, therefore, deemed necessary by the management to explore options for widening the Group's business scope and extending its resources into sectors offering more stable and higher return. The management is looking for opportunities in high growth industries in order to widen the Group's revenue base and diversifying its business exposure.

To fuel the Group's planned business diversification, and to provide the Group with sufficient working capital to meet its operation requirement, as well as to trim its financial liability, the management is considering possible fund raising alternatives for the current year.

Although stabilization of coal price is expected to provide a relatively favourable environment for the Group's coal mining activity in the current year, the market remains challenging given the forecasted decline in coal consumption due to softened demand from electricity and steel sectors. The management will remain vigilant to the changing market situation and strive to enhance its operation efficiency through tightened cost compression.

Executive Directors

Mr. Xu Bin, *Chairman*
Aged 51, was appointed as an executive Director of the Company in August 2009 and re-designated as the Chairman of the Company in February 2015. Mr. Xu was appointed as a member of each of the Remuneration Committee and Nomination Committee on 1 March 2016. Mr. Xu pursued his studies at the Faculty of Finance in Jilin University, the PRC and has over 15 years of experience in financial management and extensive experience in corporate operation and management. As the Chairman of the Company, Mr. Xu leads and takes primary responsibility in setting the Company's growth strategy in the PRC and its continued development direction. He heads strategic initiatives and contributes to the Company's strategic decision making process. Mr. Xu has held directorships in various subsidiary companies of the Group.

Prior to joining the Group, Mr. Xu was the general manager of Hainan Dongyuan Industrial Company Limited.

Mr. Zhang Fusheng, *Chief Executive Officer*
Aged 44, was appointed as an executive Director and the chief executive officer of the Company in June 2013. He holds a Master's degree of Nanyang Executive MBA from the Nangyang Technological University in Singapore and has extensive working experience in management and leadership role. Mr. Zhang is responsible for overseeing the operations of the Group and holds directorships in various subsidiary companies of the Group.

During September 2010 to March 2012, Mr. Zhang was an executive director of Global Bio-chem Technology Group Company Limited (Stock Code: 809), a company whose shares are listed on the Stock Exchange.

Mr. Ng Ying Kit
Aged 39, joined the Company as the vice president of the business development and corporate finance division in June 2014, and was appointed as an executive Director and the compliance officer of the Company in February 2015. He is mainly responsible for business development and corporate finance function of the Group and holds directorships in various subsidiary companies of the Group. Mr. Ng has more than 10 years of experience in corporate finance and investment banking and has considerable experience in mergers and acquisitions, debt and equity financing and corporate strategic planning. Prior to joining the Company, he held senior management position in a Hong Kong listed company overseeing corporate finance function. Mr. Ng graduated from the University of Hong Kong with a Bachelor's degree in Electrical and Electronic Engineering.

Ms. Huo Lijie
Aged 52, joined the Company as the financial director of the Group's indirect wholly owned subsidiary, Xilinhaote City Guochuan Energy Technology Development Co. Ltd in August 2012, and was appointed as an executive Director of the Company on 11 January 2016 and holds directorships in various subsidiary companies of the Group. She obtained a Bachelor's degree of Economics (Finance) from Nankai University in Tianjin, the PRC in 1988. Ms. Huo had worked as an accountant at Agricultural Bank of China (Changchun City branch) in the PRC from July 1988 to August 1989. Ms. Huo later served as an accountant, the settlement officer and the business manager at the foreign exchange department of Agricultural Bank of China (Jilin Province branch) in the PRC from September 1990 to November 2003.

Ms. Huo served as the finance supervisor of Global Bio-chem Technology Group Company Limited (Stock code: 809), a company listed on the Stock Exchange, in the Guangdong office, the PRC from December 2003 to August 2008. Ms. Huo then served as the finance manager of Harbin Dacheng Bio Technology Co., Ltd. in the PRC from September 2008 to July 2012.

Independent Non-executive Directors

Mr. Kwok Chi Shing
Aged 55, has been appointed as an independent non-executive Director of the Company since January 2006. He is the chairman of the Audit Committee. Mr. Kwok graduated from the University of Aberdeen, England in 1986 and obtained a Master of Arts in Accountancy with Economics with Honours, and is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Kwok has extensive experience in corporate and financial management work especially for international cross border transactions, real estate development and property management industries and he was the president of the Hong Kong Association of Financial Advisors. In addition, he has extensive experience in public sector work both in Hong Kong and the PRC.

Mr. Kwok is currently the managing director of LKKC C.P.A. Limited in Hong Kong.

Mr. Huang Shao Ru
Aged 44, was appointed as an independent non-executive Director of the Company in April 2013. He is a member of the Audit Committee and was re-designated as the chairman of the Nomination Committee and the Remuneration Committee on 1 March 2016. Mr. Huang graduated from the school of Distance Education of Beijing Jiaotong University, majoring in business and administration and has over 22 years of managerial and international trade experience.

Mr. Huang has been serving as a director and the general manager in Xinhu Industry Co., Ltd in Shenzhen, the PRC since January 2003.

Mr. Chang Xuejun
Aged 46, was appointed as independent non-executive Director of the Company and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee on 17 March 2016. Mr. Chang is a qualified lawyer in the PRC. He graduated from Northwest University of Political Science and Law in Xi'an City, the PRC in 1993. Mr. Chang has more than 20 years' legal experience. He had been working as a secretary and assistant judge at the Intermediate People's Court in Lanzhou City, Gansu Province, the PRC from August 1993 to May 1999. He has joined LI & PARTNERS Attorneys at Law in Shenzhen, the PRC as a lawyer since May 1999. Mr. Chang is currently the partner of LI & PARTNERS Attorneys at Law in Shenzhen, the PRC.

Senior Management

Ms. Wan Shui Wah
Aged 37, the group financial controller and company secretary of the Company. She joined the Company and was appointed to the position in February 2015. Ms. Wan received a Bachelor's degree in Accounting from the Hong Kong Polytechnic University and is an associate member of the Hong Kong Institute of Certified Public Accountants. She has extensive experience in the auditing, accounting and finance fields.

Mr. Sun Jing Hui
Aged 54, the general manager of Xilinhaote City Guochuan Energy Technology Development Company Limited, the Group's indirect wholly owned subsidiary. Mr. Sun graduated from East China Institute of Technology (formerly known as East China Geological Institute) in the PRC in 1984. Prior to joining the Group in May 2012, Mr. Sun served as the Manager in Northeast China Bureau of geology and chemical based company and has more than 20 years of experience in production, operation and management.

Mr. Zhang Xiaolai
Aged 53, the general manager of Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited, the Group's indirect non-wholly owned subsidiary. Mr. Zhang joined the Group in June 2011 and promoted as the deputy general manager and general manager in December 2013 and June 2016 respectively. Mr. Zhang graduated from Heilongjiang University in the PRC in 1995 with major in business administration. Prior to joining the Group in June 2011, Mr. Zhang served as general manager in technology and mining companies and has more than 20 years of experiences in production, operation and management.

Mr. Wang Yun Lung
Aged 53, the financial director of Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited, the Group's indirect non-wholly owned subsidiary. Mr. Wang graduated from the Jilin Radio and TV University in the PRC in 1989 with major in financial accounting. Prior to joining the Group in August 2007, Mr. Wang served as financial controller in construction and technology development companies and has more than 25 years of experience in financial management.

CORPORATE GOVERNANCE REPORT

Corporate Governance

The Company's corporate governance practices are based on the principles and code provisions as set out in the CG Code.

The Company has complied with the applicable code provisions as set out in the CG Code throughout 2016 except for the following deviations:

Under the code provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. The chairman (the "**Chairman**") of the Board of the Company, Mr. Xu Bin, attended the 2015 AGM by telephone conference call, but he was well informed by the Company in advance of the date and time of the 2015 AGM and was available to answer questions raised at the 2015 AGM by telephone. Mr. Zhang Fusheng, the chief executive officer of the Company, attended the AGM and was elected as the chairman of the 2015 AGM.

Under the code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Kwok Chi Shing, an INED and the chairman of the Audit Committee, was not able to attend the 2015 AGM due to his other business engagement. Mr. Huang Shao Ru and Mr. Chang Xuejun, INEDs and members of the Audit Committee, were present at the 2015 AGM to ensure an effective communication with the Shareholders thereat.

Following the resignations of Mr. Tse Kam Fow as an executive Director and Mr. Kwok Siu Man as an INED being effective on 1 March 2016, (i) the number of INEDs fell below the minimum number required under Rule 3.10(1) of the Listing Rules, which prescribes that a listed issuer must have at least three INEDs; (ii) the number of the members of the Audit Committee fell below the minimum number required under Rule 3.21 of the Listing Rules, which prescribes that a listed issuer's audit committee must comprise a minimum of three members; (iii) the requirement under Rule 3.25 of the Listing Rules that the Remuneration Committee shall comprise a majority of INEDs was not fulfilled; and (iv) the requirement under the code provision A.5.1 of the CG Code that the Nomination Committee shall comprise a majority of INEDs was not fulfilled. Following the appointment of Mr. Chang Xuejun as an INED and a member of each of the Audit Committee, Remuneration Committee and Nomination Committee on 17 March 2016, the relevant requirements under the Rules 3.10(1), 3.21 and 3.25 of the Listing Rules and the code provision A.5.1 of the CG Code were then fulfilled.

Under the code provision A.4.3 of the CG Code, an independent non-executive director serves more than nine (9) years, his further appointment should be subject to a separate resolution to be approved by shareholders. Mr. Kwok Chi Shing, who was appointed as an INED on 27 January 2006, has been serving the Company for more than nine years. The Board considered that Mr. Kwok Chi Shing continues to be independent as he has satisfied all the criteria for independence set out in Rule 3.13 of the Listing Rules. During his tenure as an INED, he has made positive contributions to the Company's strategies and policies with independent judgement from his areas of expertise. The Board considered that his continued tenure with the Company will continue to bring wide range of valuable insights and expertises to the Board. To comply with the code provision A.4.3 of the CG Code, the further appointment of Mr. Kwok Chi Shing has been proposed and approved by the Shareholders at the 2015 AGM, and any further appointment is subject to a separate resolution to be approved by the Shareholders.

The Company reviewed its corporate governance practices regularly to ensure compliance with the CG Code.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as the required standard governing securities transactions by the Directors. The Company made specific enquiries of all the Directors and each of the Directors have confirmed that they had complied with the required standards set out in the Model Code during 2016.

Board of Directors and Board Meetings

The Board is responsible for corporate strategy, annual and interim results, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim financial statements for the Board's approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Board Members

As at 31 December 2016, the Board comprised seven Directors, including four executive Directors and three INEDs.

Executive Directors
Mr. Xu Bin *(Chairman)*
Mr. Zhang Fusheng *(Chief Executive Officer)*
Mr. Ng Ying Kit
Ms. Huo Lijie *(appointed on 11 January 2016)*

Independent Non-Executive Directors
Mr. Kwok Chi Shing
Mr. Huang Shao Ru
Mr. Chang Xuejun *(appointed on 17 March 2016)*

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

Details of the qualifications and experience of the Chairman and other Directors are set out in the section headed "Profiles of Directors and Senior Management" of this annual report. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his or her duties effectively and efficiently.

The roles of the Chairman and the chief executive officer of the Company are separate and performed by Mr. Xu Bin and Mr. Zhang Fusheng respectively. The Chairman, Mr. Xu Bin, provides leadership for the Board and ensures the Board works effectively and performs its responsibilities. He is responsible for formulating the overall strategies and policies of the Company, while the chief executive officer of the Company, Mr. Zhang Fusheng, is responsible for managing the day-to-day business operations of the Company, developing and implementing objectives, policies and strategies approved by the Board. He is also supported by the full Board members and management.

Board Members (Continued)

During 2016, the Company had INEDs who have appropriate and sufficient experience and qualifications to carry out their duties so as to protect the interests of the Shareholders. The Company has received an annual confirmation from each of the INEDs as at 31 December 2016 on their respective independence pursuant to Rule 3.13 of the Listing Rules and the Company considered each of them to be independent. Mr. Kwok Siu Man resigned as an INED with effect from 1 March 2016. Mr. Chang Xuejun was appointed as an INED on 17 March 2016 and he entered into an appointment letter with the Company and his service shall continue for a term of three years commencing from 17 March 2016 unless terminated by not less than three months' notice given by either party. Mr. Kwok Chi Shing, Mr. Huang Shao Ru and Mr. Chang Xuejun are currently the INEDs.

During 2016, the Board held regular board meetings, the 2015 AGM and the 2016 EGM.

Details of the attendance record of the Board members are as follows:

Directors	Number of regular board meeting attended/held	Regular board meeting attendance percentage	Number of AGM attended/held	AGM attendance percentage	Number of EGM attended/held	EGM attendance percentage
Mr. Xu Bin (1)	3/4	75%	1/1	100%	1/1	100%
Mr. Zhang Fusheng	4/4	100%	1/1	100%	0/1	0%
Mr. Ng Ying Kit	4/4	100%	1/1	100%	1/1	100%
Ms. Huo Lijie (2)	4/4	100%	1/1	100%	1/1	100%
Mr. Kwok Chi Shing	4/4	100%	0/1	0%	0/1	0%
Mr. Huang Shao Ru	4/4	100%	1/1	100%	0/1	0%
Mr. Chang Xuejun (3)	3/4	75%	1/1	100%	1/1	100%
Mr. Tse Kam Fow (4)	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Kwok Siu Man (4)	N/A	N/A	N/A	N/A	N/A	N/A

Apart from four regular Board meetings each year, the Board met on other occasions when a board-level decision on a particular matter was required. The Directors received details of the agenda items for decision and, if applicable, minutes of committee meetings in advance of each Board meeting.

Notes:

(1) Mr. Xu Bin attended the 2015 AGM and the 2016 EGM by telephone conference call.

(2) Ms. Huo Lijie was appointed as an executive Director on 11 January 2016.

(3) Mr. Chang Xuejun was appointed as an INED on 17 March 2016.

(4) Each of Mr. Tse Kam Fow and Mr. Kwok Siu Man resigned as an executive Director and an INED respectively with effect from 1 March 2016.

(5) The 2015 AGM and the 2016 EGM were held on 17 June 2016 and 14 December 2016 respectively.

Corporate Governance Functions

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

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Remuneration Committee

The Company has established the Remuneration Committee in September 2005. The terms of reference of the Remuneration Committee are consistent with the code provisions set out in the relevant section of the CG Code.

As at 31 December 2016, the Remuneration Committee comprised two INEDs, namely Mr. Huang Shao Ru (re-designated as the chairman of the Remuneration Committee on 1 March 2016) and Mr. Chang Xuejun (appointed as a member of the Remuneration Committee on 17 March 2016), and one executive Director, Mr. Xu Bin (appointed as a member of the Remuneration Committee on 1 March 2016). Each of Mr. Kwok Siu Man and Mr. Tse Kam Fow resigned as the chairman and a member of the Remuneration Committee respectively with effect from 1 March 2016.

The role and function of the Remuneration Committee include making recommendations to the Board on the Company's remuneration policy for all Directors and senior management, the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and the making of recommendations of the remuneration of non-executive Directors to the Board. In doing so, the Remuneration Committee would consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions and desirability of performance-based remuneration.

During 2016, four meetings were held by the Remuneration Committee to review the Company's remuneration policy, determine the remuneration packages for executive Directors, make recommendations of the remuneration of non-executive Directors to the Board and approve the terms of the service agreements for executive Directors. The attendance record of each member of the Remuneration Committee is as follows:

	Number of the Remuneration Committee meeting attended/held	**Attendance percentage**
Mr. Huang Shao Ru (1)	4/4	100%
Mr. Xu Bin (2)	2/4	50%
Mr. Chang Xuejun (3)	1/4	25%
Mr. Kwok Siu Man (4)	2/4	50%
Mr. Tse Kam Fow (4)	2/4	50%

Remuneration Committee (Continued)

Notes:

(1) Mr. Huang Shao Ru was re-designated as the chairman of the Remuneration Committee on 1 March 2016.

(2) Mr. Xu Bin was appointed as a member of the Remuneration Committee on 1 March 2016.

(3) Mr. Chang Xuejun was appointed as a member of the Remuneration Committee on 17 March 2016.

(4) Each of Mr. Kwok Siu Man and Mr. Tse Kam Fow resigned as the chairman and a member of the Remuneration Committee respectively with effect from 1 March 2016.

The Remuneration Committee has considered and reviewed appointment letters of the executive Directors and the INEDs. It considered that the existing terms of appointment letters of the executive Directors and INEDs are fair and reasonable.

Nomination Committee

The Company established the Nomination Committee in September 2005.

As at 31 December 2016, the Nomination Committee comprised two INEDs, namely Mr. Huang Shao Ru (re-designated as the chairman of the Nomination Committee on 1 March 2016) and Mr. Chang Xuejun (appointed as a member of the Nomination Committee on 17 March 2016), and one executive Director, Mr. Xu Bin (appointed as a member of the Nomination Committee on 1 March 2016). Mr. Kwok Siu Man and Mr. Tse Kam Fow resigned as the chairman and a member of the Nomination Committee respectively with effect from 1 March 2016.

The role and function of the Nomination Committee include, among others, reviewing the structure, size and composition of the Board at least annually, assessing the independence of INEDs and the selection and recommendation of Directors for appointment and removal. In doing so, the Nomination Committee would consider the past performance, the individual's qualification and, for INEDs, independence, as well as the general market conditions in selecting and recommending candidates for directorship.

During 2016, four meetings were held by the Nomination Committee to review the structure, size and composition of the Board and make recommendations to the Board on appointment of Directors. The attendance record of each member of the Nomination Committee is as follows:

	Number of the Nomination Committee meeting attended/held	**Attendance percentage**
Mr. Huang Shao Ru (1)	4/4	100%
Mr. Xu Bin (2)	2/4	50%
Mr. Chang Xuejun (3)	1/4	25%
Mr. Kwok Siu Man (4)	2/4	50%
Mr. Tse Kam Fow (4)	2/4	50%

Nomination Committee (Continued)

Notes:

(1) Mr. Huang Shao Ru was re-designated as the chairman of the Nomination Committee on 1 March 2016.

(2) Mr. Xu Bin was appointed as a member of the Nomination Committee on 1 March 2016.

(3) Mr. Chang Xuejun was appointed as a member of the Nomination Committee on 17 March 2016.

(4) Each of Mr. Kwok Siu Man and Mr. Tse Kam Fow resigned as the chairman and a member of the Nomination Committee respectively with effect from 1 March 2016.

Audit Committee

The Company established the Audit Committee with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review the financial information of the Group, to oversee the financial reporting system, risk management and internal control systems to ensure the integrity of the financial statements of the Group and the effectiveness of internal control and risk management systems of the Group.

As at 31 December 2016, the Audit Committee comprised three INEDs, namely Mr. Kwok Chi Shing, Mr. Huang Shao Ru and Mr. Chang Xuejun (appointed as a member of the Audit Committee on 17 March 2016). Among them Mr. Kwok Chi Shing possesses appropriate professional accounting and related financial management expertise in compliance with the requirements set out in Rules 3.10(2) of the Listing Rules. The chairman of the Audit Committee is Mr. Kwok Chi Shing. Mr. Kwok Siu Man resigned as a member of the Audit Committee with effect from 1 March 2016.

The Audit Committee held three meetings during 2016 to review interim and annual financial results and reports, significant issues on the financial reporting and compliance procedures, internal control and risk management systems, the effectiveness of the Group's internal audit function and scope of work and appointment of external auditors. Details of the attendance of the Audit Committee meetings are as follows:

	Number of the Audit Committee meeting attended/held	**Attendance percentage**
Mr. Kwok Chi Shing	3/3	100%
Mr. Huang Shao Ru	3/3	100%
Mr. Chang Xuejun [(1)]	3/3	100%
Mr. Kwok Siu Man [(2)]	0/3	0%

Notes:

(1) Mr. Chang Xuejun was appointed as a member of the Audit Committee on 17 March 2016.

(2) Mr. Kwok Siu Man resigned as a member of the Audit Committee with effect from 1 March 2016.

During 2016, the Group's unaudited interim results for the six months ended 30 June 2016 and annual audited results for 2016 had been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure had been made.

Directors' Training

Pursuant to A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. From time to time, the Directors are provided with written materials to develop and refresh their professional skills. The Directors had fulfilled the relevant requirements under A.6.5 of the CG Code during 2016.

Company Secretary's Training

Pursuant to Rule 3.29 of the Listing Rules, the company secretary of the Company (the "**Company Secretary**") must take no less than 15 hours of relevant professional training in each financial year. The Company Secretary, Ms. Wan Shui Wah, provided her training records to the Company, indicating that she has taken no less than 15 hours of relevant professional training by means of attending seminars and reading relevant guideline materials during 2016.

Independent Auditor's Remuneration

The Audit Committee is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. The fees received and receivable by the independent auditor of the Company in respect of audit services and non-audit services for 2016 amounted to approximately HK$1,000,000 (2015: HK$1,000,000) and HK$23,000 (including review of continuing connected transactions of the Group for 2016) (2015: HK$123,000, including review of the disclosure of 2015 interim report according to the agreed-upon procedures and continuing connected transactions of the Group for 2015) respectively.

Board Diversity Policy

The Board has adopted a policy of the Board diversity (the "**Board Diversity Policy**") and discussed all measurable objectives set for implementing the same. A summary of the Board Diversity Policy is set out below:

The Company recognises and embraces the benefits of a diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience.

Remuneration of Directors and Senior Management

Particulars of the Directors' remuneration for 2016 are set out in Note 14 to the consolidated financial statements.

Remuneration of Directors and Senior Management (Continued)

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of the senior management (other than the Directors) whose particulars are contained in the section headed "Profiles of Directors and Senior Management" in this annual report for 2016 by band is set out below:

Remuneration band	Number of individuals
Nil – HK$1,000,000	1
HK$1,000,001 – HK$2,000,000	3
	4

Directors' and Independent Auditor's Responsibilities for Financial Statements

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Group for 2016.

As disclosed in Note 2 to the consolidated financial statements, the Directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future and accordingly the Directors were not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

In addition, RSM Hong Kong has stated in the independent auditor's report its reporting responsibilities on the Company's consolidated financial statements for the year ended 31 December 2016.

Risk Management and Internal Controls

The Board has overall responsibility for maintaining sound and effective risk management and internal control systems in order to manage rather than eliminate the risk of failure to achieve business objectives, and to provide reasonable and not absolute assurance against material misstatement or loss.

The Company does not maintain an internal audit function. The Company engaged a professional company to perform a risk management and internal control review occasionally in order to strengthen the risk management and to perform ongoing internal control system of the Group. The Company is of the opinion that taking into account the size and complexity of the Group's operations and business and the nature of the risks and challenges the Group faces and there is no immediate need to build up an internal audit function within the Group. The Company will review the need on an annual basis.

Constitutional Documents

In order to modernise and update as well as to bring the existing memorandum and articles of association of the Company in line with the amendments to the Listing Rules, New Companies Ordinance and the CG Code, pursuant to a special resolution passed at the 2016 EGM, the Amended and Restated Memorandum and Articles in place of the existing memorandum and articles of association of the Company was approved to be adopted by the Shareholders at the 2016 EGM. The Amended and Restated Memorandum and Articles was published on the websites of the Stock Exchange and the Company.

Shareholders' Rights

Convening of EGM and putting forward proposals

Under the Amended and Restated Memorandum and Articles, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth (1/10) of the paid up capital of the Company carrying the right of voting at general meetings of the Company, can require an extraordinary general meeting to be called for the transaction of any business specified in such requisition. The procedures for the Shareholders to convene and put forward proposals at an extraordinary general meeting are stated as follows:

(1) The requisitionist(s) should sign a written request stating the objects of the meeting to be convened, and deposit the same at the principal place of business of the Company in Hong Kong, presently situated at Suite 3103, Sino Plaza, 255-257 Gloucester Road, Hong Kong for the attention of the Board or the Company Secretary.

(2) Where, within 21 days from the date of deposit of the requisition, the Board fails to proceed to convene an extraordinary general meeting, the requisitionist(s) himself (themselves) may convene the general meeting in the same manner, as that in which meetings may be convened by the Board, and all reasonable expenses incurred by the requisitionist(s) as a result of such failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Investors' Relations

The Company has disclosed all necessary information to the Shareholders in compliance with the Listing Rules. Meetings are held with media and investors periodically. The Company also replies to enquiries from the Shareholders timely. The Directors host an annual general meeting each year to meet with the Shareholders and answer their enquiries.

For putting forward any enquiries to the Board, the Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Introduction

As a responsible coal mining business participant, the Group is committed to building an environmentally-friendly corporation, while maintaining high quality standards in production and sale of coal, as well as the provision of coal upgrading services. The Group's coal related operations are based in a strategic location, Inner Mongolia, which possesses one of the richest low-rank coal reserves in the PRC. Given the ongoing trends of industrialization and urbanization, the PRC is the largest producer and consumer of coal in the world; hence, it is important that we help raise awareness about the increasing industrial pollution, climate change and social injustice. The Group considers social and environmental responsibilities as one of the core values in our business operations, we strive for greater sustainability and transparency, as well as to create products that foster a sustainable environment for future generation.

This report summarizes several subjects of the Group's business practices for the environmental, social and governance ("**ESG**") and its relevant implemented policies and strategies in relation to the Group's operational practices and environmental protection.

Reporting Framework

The ESG Report was prepared based on "Environmental, Social and Governance Reporting Guide" under Appendix 27 to the Listing Rules.

Reporting Scope

The ESG report content is focused largely on the mining site of Coal Mining Business in Inner Mongolia, the PRC, unless stated otherwise. The PRC operations represent the majority of the Group's social, environmental and economic impacts. The reporting period of this report is from 1 January 2016 to 31 December 2016.

Materiality Assessment

We have maintained close communication with our stakeholders since our listing. Through multiple discussions and direct communications, we understand the issues that matter most to our stakeholders.

The recognition of sustainable development and environmental reform are the most fundamental elements to the operation of the Group; as well as the health and safety of all our employees have become leading priorities in our Group's operation.

The Group is dedicated to fair and equal treatment in all areas of human resources, including recruitment and promotion, compensation and dismissal, working hours, benefits and welfare.

Environmental Responsibility

The Group is committed to fulfill sustainable development and promote preservation of resources with its environmental responsibility. We strictly comply with all appropriate laws and regulations of the Ministry of Environmental Protection of the PRC.

The environment pollutions problems caused by the coal mining industry are garnering increasing attention from the media and society at large. The coal production operation requires rigorous planning and managing by the combined efforts of geological and mining specialists. These specialists involve in the decision making process and plan a course of actions that make reaching the goal in a much greener and environmental-friendly manner; which includes exploration and development, mining, processing, loading and transportation, and rehabilitation.

Environmental Responsibility (Continued)

We understand that all coal mining processes generate wastes for the environment and, if not treated responsibly, much pollution would be generated for our future generation. Thus, the Group is fully devoted to the implementation of all kind of measures and policies to better control the adverse impact of the business on the ecological environment.

Environmental Policy

The Group strictly follows respective laws and regulations of the central and local governments, and carried out environmental impact assessment reports, and water conservation plan.

The Group also implements management systems and programs relevant to our environmental risk to prevent, reduce or mitigate impacts at all stages of our operation, with an aim to reserve a better environment for our future generation.

Our long-term goal is to endorse a green environmental protection enterprise culture in the business development, and to be fully equipped for the establishment of all relevant policies at any time in accordance with the requirements of environmental protection departments.

Responsible Coal Production

We adopt cleaner and responsible coal production as a preventive approach to environmental management; we encompass eco-efficiency and pollution prevention concepts with risk reduction to humans and the environment. Thus, in order to minimize environmental harm at every stage of our mining operation, we are in conformity with all the relevant PRC standards and regulation, and fully devoted to regularly monitor and measure our activities to ensure they are acceptable according to national standards. During the reporting period, the Group was not aware of any coal production related policies and regulation; our production volume is approximately 1.94 million tonnes and sales was around 2.01 millions tonnes marketed locally in 2016.

Environmental Management

The Group wants to ensure that our products are safe for consumers and we also protect environment and local communities where the coal production takes place. We understand and acknowledge that if we want to keep the coal production process as environmentally friendly as possible, they must be managed properly. Thus, the Group regularly monitors and measures our activities to ensure they are acceptable to national standards. Monitoring undertaken at the mining operation includes noise, water, dust, and rehabilitation success. The results of the monitoring data collected are used to identify and address possible measures to diminish the adverse impacts of our operations on the environment.

The implementation of environmental management could result in the additional benefits of increased resources recovery efficiency, more clean coal and a new revenue stream, while improving the operating industrial efficiency, profitability, company reputation and competitiveness.

Besides, we work to ensure compliance with the Mineral Resources Law of the PRC on mining production and environmental protection. Our management department is responsible for ensuring timely execution and submission of environmental plans and reports to related authorities, and acquisition of the requisite license and permissions.

Emission

The Group took all practicable and possible measures to comply with the relevant laws and regulations relating to environmental protection. The Group signed an agreement with the local waste disposal and collection institution. We have clearly stipulated the disposal and management of the engineering waste and equipped with a separator to detect the waste discharged from the production process. After treatment in the separator, the waste will enter the sewage treatment tank and be treated by a qualified processing unit when it reaches a certain amount. In addition, our coal boiler is modified and constructed to meet the emission standard for discharge. The carbon dioxide emitted during the coal mining process is discharged using gas drainage. By raising gas drainage standards, it increases our gas capture, improve gas quality, ensure safer mining conditions and facilitate greater utilization, and most importantly, destruction of coal mine methane.

Air Quality

Due to the inherent quality of our coal, strong wind rapidly transports coal ashes and creates dust pollution at the production site. The burning of coal also leaves vast amounts of fly ash, as it is very small and light, it is usually stored in impoundment ponds. The waste forms spoil tip that has potential hazards to the communities, which means the waste sites could become hazardous if an event such as a storm or a structural failure caused a leakage. Thus, dust and air quality are significant issues for our neighboring communities, and minimizing the effects of these impacts from our operation will remain a key focus for us.

For the reporting period, the Company continued to take appropriate measures to reduce the amount of dust generated in the vicinity of the mine site and the coal haul road in accordance with the dust management plan of the project environmental and social management plan. These measures include:

- storage facilities hold the noncombustible ingredients of coal and the ash trapped by equipment that is designed to reduce air pollution;

- the construction methodology of our mine haulage roads are enhanced in particular using carefully selected materials to reduce propensity for dust generation;

Emission (Continued)

Air Quality (Continued)

- regular spraying of the haulage roads at the mine with treated waste water;
- usage of dust suppressing substances;
- apply temporary covers to control dust emission of coal trucks;
- building and maintenance of dedicated facilities for dust reduction, such as a special wire fence which surrounds our coal stockpile to reduce wind speed and dust dispersion in the area; and
- better management of vehicle speeds to ensure it meets the emission and noise control standards issued by the local government.

Noise Control

There are a lot of sources of noise that are typically associated with our mining operation. They include dump trucks, large earth-moving equipment such as excavators and coal transportation trucks. Blasting activities, which cause ground vibration as well as overpressure, and may on occasion be felt or heard by our closest neighboring communities. The Group understands and acknowledges that noise and vibrations can impact the communities and take constructive measure to mitigate the potential impacts. A noise management plan is carried out according to which we identify and evaluate sources of noise and vibration on a regular basis. The following are the policies of the Group on noise control:

- cooperation with suppliers to install noise control treatment on mining equipment which aims to control and reduce noise emission;
- regular maintenance of machinery to ensure it operates with minimal noise; and
- blasting only when weather conditions are deemed favorable.

Use of Resources

The Group has clearly defined the resources used in the business to ensure the efficient use of resources and to take measures to conserve energy consumption, including establishment of resources management plans, using energy efficient appliances and equipment for the promotion of environmental protection and resources recycling in our mining operation.

Use of Resources (Continued)

Energy Management

To minimize the impact of our business operation on the environment, our energy management team implements delegation of responsibilities to the operation control system for power supply and implement measures to achieve additional energy savings and reduce gas emissions. Regular inspections by senior management are also carried out to ensure smooth operating procedures.

Our energy management team responsibilities including but not limited to:

- investigating corporate policies with respect to energy savings;
- data acquisitions, examine the efficiencies of energy supply, and the cost/benefits of upgraded equipment;
- setting energy target and objective for promotion of corrective and prevent actions;
- regularly educate relevant departments of the Group on energy conservation; and
- management review on potential approaches.

Besides, the Group is equipped with advanced coal preparation system including clean coal winnowing machine for screening of coal as to increase calorific value of the selected coal and enable us to achieve efficiency use of energy resources.

Water Management

A compressive water management solutions guides the actions of our management, employees and contractors with regard to the use and re-use of water. The Group uses a combination of both groundwater and recycled water at the mine sites. To reuse the wastewater, part of the treated wastewater is used for spraying the dust in our underground tunnel while the other part of the wasted water is disturbed to the ground reservoir which then discharged by a sprinkler to eliminate dust and for green vegetation.

During the reporting period, the Group implemented the following policies on the effective use of natural resources:

- incorporated geotextile filters in the drainage system that retains and prevent fine grains of soil from passing into and clogging the drain;
- installed sewage treatment plants for wastewater to be discharged after it meets the discharge standards according to the "Integrated Wastewater Discharge Standard" stipulated by the Ministry of Environmental Protection of the PRC; and
- a rational use of drainage time. Sewage pumping station handles peak flow conditions by combining the drainage time and electricity peak period together which allows us to achieve the goal of efficient use of resources.

Environment and Natural Resources

We are also aware of our environmental impact of our operation. Therefore, the company strictly complies with the Mineral Resources Law of the PRC. We will replant and recover the land that we have caused damage. Successful rate of our tree planting program has reached at 85% or more, which is over the minimum requirement of the act. Biodiversity is another focus when we are trying to minimize our carbon footprint associated with mining activities. Thus, we are committed to comply with the Wild Animal Protection Act and Plant Protection Act of the PRC.

Social Responsibility

We believe building strong and lasting relationship with our employees and suppliers is essential to our on-going commitment as a socially responsible miner. Besides, maintaining an honest and authentic dialogue is indispensable to be a responsible organization and partner to our stakeholders.

Labor Standards

All of staff employed by the Group is located in the PRC. The Group established and implemented a staff handbook which contains the policies relating to relevant labor laws, regulations and industry practices, covering areas such as compensation and dismissal, promotion, working hours, rest periods and other benefits and welfare. With the aim of ensuring fair and equal protection for all employees, the prohibition of child labor, forced labor and anti-corruption practices are also set in accordance with all relevant laws and regulations that applied in the PRC. The Group has strictly complied with the all rules throughout the year ended 31 December 2016.

Employment

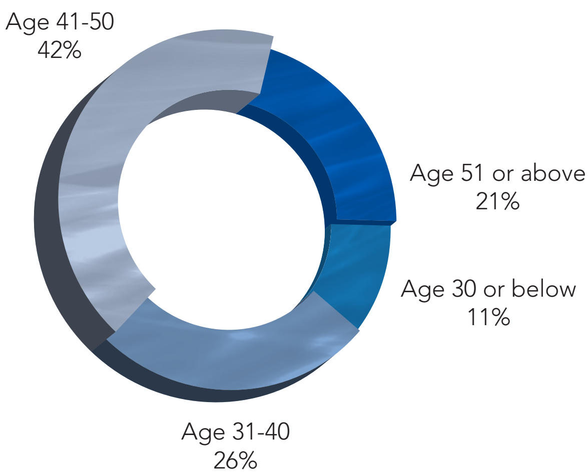
As a responsible employer, employees of the Group are remunerated at a competitive level and are rewarded according to their performance and experience. We strictly comply with the Labor Law of the PRC and other relevant legislation relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare. Most of them are clearly stated in the staff handbook and employment contracts.

The promotion and remuneration of the Group's employees are subject to regular review. The remuneration packages comprise of monetary remuneration, medical benefits and a safe work environment. A total number of 31 employees are entitled to the remuneration package that includes industrial injury insurance, medical insurance and serious illness insurance, as they are responsible for ignition of firedamp in the underground mine, and it is considered to be in the highest risk of job position in the mining operation.

Employment (Continued)

The following chart represents the distribution of the workforce population for four different age groups. In 2016, the total number of employees at the middle age group is the largest age group of workforce, ranging from age 41 – 50 made up of 42% of the total workforce; while the older age group population, age 51 or above accounted for half of the population in the middle age group, 21%. Besides, the two younger working-age groups are ages 31 to 40 and age 30 or below were 26% and 11% respectively.

Workforce by Age Group in 2016



During the reporting period, the Group was not aware of any significant violation of human resources-related laws and regulations.

Health and Safety

The Group prides itself on providing a safe, effective and pleasant work environment as we believe that employees are the valuable assets of an enterprise. The Group has developed work safety guidelines, established employee safety procedures and precaution, and clarified the responsibility for the division of labor in the site. With our adequate arrangements, training and guidelines, we ensure the working environment is safe.

In addition, we have continued to organize work-life balancing activities for employees and carried out other activities to promote healthy living practices. We understand that work stress could induce negative impacts on our employees' health, thus we regularly organize leisure activities for our staff for the sake of releasing working pressure. At our employees' accommodation site, we provide recreational equipments such as football courts, table tennis tables, fitness room to help them restore the lost energy, remedy physical fatigue, as well as increase productivity. Health and safety communications are also provided to employees to present the relevant information and raise awareness of occupational health and safety issues.

Health and Safety (Continued)

Workplace Safety Management

Regardless of job duties, our health and safety management team hold weekly meeting to ensure our staff being provided with updated materials on safety our staffs are provided with operation equipments with the highest safety standard for daily use so as to avoid accidents or injuries. In respect of occupational hazards protection for our miners working in the Inner Mongolia coal mine, we formulated personal protective requirements in which all of them are required to wear a dust masks, anti-noise earplugs, and carry a self-contained self-rescue mask device before entering the underground mine.

During the reporting period, our coal mine had a total number of 9 nonfatal injury and illness incidence, and recorded no deaths. The Group was not aware of any case of violations of laws and regulation in relation to the health and safety of the workplace. Save as disclosed above, the Group has complied with relevant laws and regulations in relation to provide employees with a safe working environment and protect them from occupational hazards.

Development and Training

The Group regards its staff as the most important asset and resource of the Group as they help to sustain its core values and culture. The Group is committed to providing comprehensive on-the-job training programs, which collectively serve as a platform for its staff to encourage our staff to develop potential and self-improvement.

The Group provides a clear career path and a transparent promotion system for its employees; we anticipate implementing employee training and development programs to enhance their skill set and to further realize their potential.

The underground coal mine safety management certification training program is developed to provide the skills and knowledge required by coal mine workers to respond safely and appropriately to a fire or other emergency incident such as a fire that occurs at their work area underground.

In addition, the Group offers new miner training program for new employees to better understand their roles as miners, the program is designed by the human resources department and is delivered by safety supervision department. They are responsible for the preparation of educational materials, training objectives, and teaching strategies.

Over the training program, the trainees divide their time between the classroom and an underground training section. Their training objectives and tasks include the following:

- Map reading and directional signs in use;
- Information on evacuation in an emergency;
- The use of self-rescue devices;
- Information on health and safety aspects of assigned task; and
- Methods of transporting materials into and out of the mine.

At the end of the program, a closed book examination will be held in order to strengthen trainees' knowledge, and to ensure that each trainee has a fair understanding on how the classroom instruction is combined with hands-on understand training. An opportunity for a re-sit exam will be only given once; if the trainee still fails the second round, the trainee will be considered as an unsuccessful applicant and will be disqualified.

Supply Chain Management

The Group established supplier management system to ensure operations is fully complied with the PRC laws and regulations in relation to social and environment aspects in the most sustainable manner. Our supplier management system is responsible for the design, planning, implementation, control and monitoring of the logistic activities with the goal of building a sustainable management culture. The Group has continued to minimize the usage of water and energy while maintaining a high quality production of coals, which in turn lead to less pollution, defects and over production. To ensure the air pollution is minimized in the transportation process, our transportation team use dust suppressing substances and apply temporary cover for dust reduction both during inbound and outbound orders.

Fair and Open Competition

The Group promotes fair and open competition that aims to develop long-term relationships with our customers based on mutual trust. We ensure that all parties involved in the procurement process participate fairly, honestly and in good faith. We recognize that adherence to the principles of competition is essential to the maintenance of the integrity of the coal procurement process.

Public Interest and Accountability

The procurement from customers is conducted in a manner consistent with the highest ethical standards. A coal procurement procedure has been established to enhance the transparency and predictability of the procurement process, allowing the Group to ensure high coal quality at all times and to gain the confidences of customers and the public.

Quality control

As part of quality management, quality of our coals at the point of sale is imperative. The Group has been participated in Tongliao Coal Industry Association, we apply strict monitoring to determine actual performance compares with planned activities, we perform structured testing and inspection of coal quality for possible damages in the manufacturing process for pricing different coal quality specification

Anti-corruption

The Group is committed to achieving and maintaining the highest standards of openness, probity and accountability. Employees at all levels are expected to conduct themselves with integrity, impartiality and honesty and to comply with the relevant legal norms and ethical standards. It is every employee's responsibility and it is all interest of the company to ensure that any inappropriate behavior or organizational malpractice that compromises the interest of the Shareholders, investors, customers and the wider public does not occur.

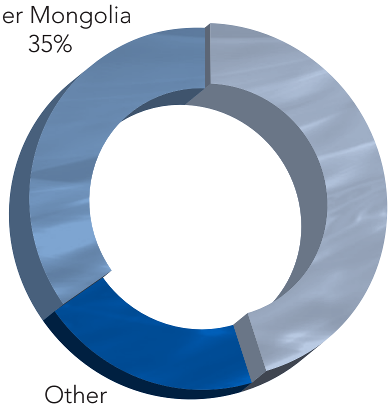
Community Investment

Despite the challenging market and economic conditions, the Group is committed to contribute to Inner Mongolia's socio-economic development, community well-being and sustainability.

As a responsible corporate citizen, we actively search for opportunities to improve our relationship with the local citizens. We continued our efforts to retain our employees, train and hire local people whenever possible during the reporting period. We create job opportunities for the local community and provide different level of job positions from miner to management level. Employees from Inner Mongolia and the northeast provinces accounted for approximately 35% and 45% of the workforce respectively while employees from other provinces in the PRC accounted for 20% of the workforce.

Community Investment (Continued)

Employee Distribution by Region in 2016



Furthermore, we have started replanting and rebuilding the land that we have caused damage. Through watering the soil with treated wastewater sprinkler and direct seeding, successful rate of our revegetation program has reached at 85% or more, which is over the minimum requirement of the act. We are also strictly obeying Wild Animal Protection Act and Plant Protection Act, as biodiversity is another focus that we are working to manage the potential environmental impacts associated with mining activities.

Sustainability

The Group understands the importance of achieving economic, environmental and social sustainability for the long term success of our business. Our sustainability guidelines lay out our principle and action for managing and performing ethically and sustainably, throughout our operational flow. The Group will continue to deliver safe and quality products served by our enthusiastic team members, without endangering the environment. We will also continue to provide hearty service to our customers and contribute back to the community.

The Directors are pleased to present their report and the audited consolidated financial statements of the Group for the financial year ended 31 December 2016.

Principal Activities

The Company is an investment holding company. The principal activities of the subsidiaries of the Company and other related information are set out in Note 1 to the consolidated financial statements.

Details of the segment information are set out in Note 9 to the consolidated financial statements.

Business Review

A fair review of the business of the Group as well as discussion and analysis of the Group's performance during 2016 and the material factors underlying its financial performance are set out in the section headed "Management Discussion and Analysis" on pages 9 to 22 of this annual report.

To the Company's knowledge, the Company has complied with all the relevant laws and regulations that have a significant impact on the Company. The Company will seek professional legal advice from legal advisers, where necessary, to ensure transactions and business to be performed by the Company are in compliance with the applicable laws and regulations. For the further information regarding the Company's environmental policies and performance are set out in the "Environmental, Social and Governance Report" of this annual report.

Results and Dividend

The results of the Group for 2016 are set out in the consolidated statement of profit or loss and consolidated statement of profit and loss and other comprehensive income on pages 64 to 65.

The Directors do not recommend the payment of a final dividend for 2016 (2015: Nil).

Share Capital

Details of the movements in the share capital of the Company are set out in Note 32 to the consolidated financial statements.

Reserves

Details of the movements in the reserves of the Group and the Company during 2016 are set out in consolidated statement of changes in equity and Note 35 to the consolidated financial statements respectively.

Distributable Reserves

Following the cancellation of the entire amount standing to the credit of the share premium account of the Company to set off against the accumulated losses of the Company (the "**Cancellation of Share Premium Account**") took effect on 15 December 2016, the next business day immediately following the date of passing the relevant special resolution approving the Cancellation of Share Premium Account at the 2016 EGM, there is no reserve available for distribution calculated in accordance with the provisions of the Cayman Islands Companies Law. The Company recorded accumulated losses of HK$109,031,000 as at 31 December 2016.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group are set out in Note 18 to the consolidated financial statements.

Directors

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

Executive Directors

Mr. Xu Bin	
Mr. Zhang Fusheng	
Mr. Ng Ying Kit	
Ms. Huo Lijie	(appointed on 11 January 2016)
Mr. Tse Kam Fow	(resigned with effect from 1 March 2016)

INEDs

Mr. Kwok Chi Shing	
Mr. Huang Shao Ru	
Mr. Chang Xuejun	(appointed on 17 March 2016)
Mr. Kwok Siu Man	(resigned with effect from 1 March 2016)

In accordance with articles 84(1) and 84(2) of the Amended and Restated Memorandum and Articles, Mr. Xu Bin, Mr. Zhang Fusheng, Mr. Ng Ying Kit and Mr. Huang Shao Ru will retire from office by rotation at the forthcoming AGM and, being eligible, will offer themselves for re-election.

All the Directors (including INEDs) are subject to retirement by rotation in accordance with the Amended and Restated Memorandum and Articles.

Directors' Service Contracts

Executive Directors

All executive Directors entered into service agreements with the Company. Mr. Zhang Fusheng, Mr. Ng Ying Kit, Mr. Xu Bin and Ms. Huo Lijie entered into a service agreement with the Company on 28 June 2013, 5 February 2015, 1 July 2015 and 11 January 2016, respectively. The service contracts of the four executive Directors shall continue thereafter unless and until terminated by other party giving not less than three months' notice in writing to the other party.

INEDs

Mr. Kwok Chi Shing and Mr. Huang Shao Ru entered into respective appointment letters with the Company for a term of three years commencing on 28 August 2015. Mr. Chang Xuejun was appointed as an INED on 17 March 2016 and entered into an appointment letter with the Company for a term of three years commencing on 17 March 2016.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Confirmation of Independence of INEDs

The Company has received from each of the INEDs, who acted in such capacities during 2016, an annual confirmation of independence. The Company considered that each of its INEDs as at the date of this annual report to be independent pursuant to the criteria set out in the Listing Rules.

Biographical Details of Directors and Senior Management

The profiles of the Directors and senior management are set out on pages 23 to 25 of this annual report.

Five-Year Financial Summary

A summary of the results of the Group for the last five financial years and of its assets and liabilities as at the end of the last five financial years is set out on pages 7 to 8 of this annual report.

Directors' Material Interests in Transactions, Arrangements or Contracts

Save as disclosed in the paragraph headed "Connected transactions and continuing connected transactions" below, no other transactions, arrangements or contracts of significance to which the Company or its subsidiaries was a party subsisted at the end of 2016 or at any time during 2016 in which any Director, whether directly or indirectly, had a material interest.

Directors' Interest in Competing Business

None of the Directors or any of their respective close associates had any material interest in business which competed or may compete with the business of the Group.

Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or Any Associated Corporations

As at 31 December 2016, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the 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 (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

	Capacity and nature of interest in Shares			Capacity and nature of interest in underlying Shares pursuant to share options				Approximate percentage of total issued share capital of the Company
Name	Personal Interests	Corporate Interests	Total Interests	Personal Interests	Family Interests	Total Interests	Aggregate Interests	
Mr. Xu Bin ("**Mr. Xu**")	24,365,629	131,788,686 (Note 1)	156,154,315	4,500,000	–	4,500,000	160,654,315	31.91%
Mr. Ng Ying Kit	–	–	–	2,250,000	–	2,250,000	2,250,000	0.45%
Ms. Huolijie	–	–	–	2,250,000	–	2,250,000	2,250,000	0.45%
Mr. Kwok Chi Shing	–	–	–	225,000	–	225,000	225,000	0.04%
Mr. Huang Shao Ru	–	–	–	225,000	–	225,000	225,000	0.04%

Notes:

(1). These Shares are beneficially owned by Hong Kong Hang Kei Company Limited ("**HK Hang Kei**"), a company incorporated in the British Virgin Islands (the "**BVI**") with limited liability and is wholly owned by Mr. Xu, the Chairman and executive Director of the Company. By virtue of the SFO, Mr. Xu is deemed to be interested in the 131,788,686 Shares owned by HK Hang Kei.

(2). Details of share options held by the Directors are set out under the heading "Share Option Scheme".

Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or Any Associated Corporations (Continued)

Save as disclosed above, as at 31 December 2016, none of the Directors and chief executives of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Share Option Scheme

The purpose of the 2009 Scheme is to enable the Company to grant options to any employee (whether full-time or part-time, including any executive Director but excluding any non-executive Director) of the Company or any of its subsidiaries or an entity in which the Group holds any equity interest (the "**Invested Entity**"); any non-executive Director (including independent non-executive Director) of the Company, any of its subsidiaries or any Invested Entity; any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued or proposed to be issued by any member of the Group or any Invested Entity; and any other person (including any consultant, adviser, distributor, contractor, supplier, agent, customer, business partner, joint venture business partner, promoter or service provider of any member of the Group) whom the Board considers, in its sole discretion, has contributed or will contribute to the Group (the "**Eligible Participants**") as incentives or rewards for their contribution to the Group and/or to recruit and retain high caliber employees and attract human resources that are valuable to the Group and any Invested Entity.

The 2009 Scheme was adopted for a period of 10 years commencing on 20 August 2009 and will remain in force until 19 August 2019, after which period no further options will be offered or granted but the provisions of the 2009 Scheme shall remain in full force and effect in all other respects with regard to the share options granted during the life of the 2009 Scheme. The subscription price for the Shares in respect of any share option granted shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant share option but in any case, the subscription price for Shares shall be at least not lower than the highest of: (a) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five (5) trading days immediately preceding the date of grant; and (c) the nominal value of a Share.

On 30 April 2015 (the "**First Date of Grant**"), the Company granted certain share options comprising 14,400,000 underlying Shares, which represented approximately 3.14% of the total issued share capital of the Company as at that date, to certain Directors, employees and other Eligible Participants. Such share options were vested immediately and exercisable for a ten-year period from 30 April 2015 to 29 April 2025 (both days inclusive). The exercise price of the share options granted was HK$0.710 per Share, which was higher than (i) closing price per Share of HK$0.700 on the First Date of Grant; (ii) the average closing price of HK$0.708 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the First Date of Grant; and (iii) the nominal value of HK$0.50 per Share.

Share Option Scheme (Continued)

On 28 July 2015 (the "**Second Date of Grant**"), the Company granted certain share options comprising 11,250,000 underlying Shares, which represented approximately 2.23% of the total issued share capital of the Company as at that date, to certain Directors and employees. Such share options were vested immediately and exercisable for a ten-year period from 28 July 2015 to 27 July 2025 (both days inclusive). The exercise price of the share options granted HK$0.530 per Share, which was the highest of (i) the closing price per Share of HK$0.465 on the Second Date of Grant; (ii) the average closing price of HK$0.530 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the Second Date of Grant; and (iii) the nominal value of HK$0.50 per Share.

Particulars of the share options under the 2009 Scheme outstanding during 2016 were as follows:

(a) Movement of share options granted to the Directors was as follows:

			Number of underlying Shares comprised in share options					
Name of Directors	Date of Grant	Exercisable Period	Balance as at 1 January 2016	Granted During 2016	Exercised During 2016	Cancelled/ Lapsed During 2016	Balance as at 31 December 2016	Exercise Price Per Share (HK$)
Executive Directors								
Mr. Xu Bin	28 July 2015	28 July 2015 to 27 July 2025	4,500,000	–	–	–	4,500,000	0.530
Mr. Ng Ying Kit	30 April 2015	30 April 2015 to 29 April 2025	2,250,000	–	–	–	2,250,000	0.710
Ms. Huo Lijie	28 July 2015	28 July 2015 to 27 July 2025	2,250,000	–	–	–	2,250,000	0.530
Mr. Tse Kam Fow (Note 1)	28 July 2015	28 July 2015 to 27 July 2025	4,500,000	–	–	(4,500,000)	–	0.530
			13,500,000	–	–	(4,500,000)	9,000,000	
Independent Non-Executive Directors								
Mr. Kwok Chi Shing	30 April 2015	30 April 2015 to 29 April 2025	225,000	–	–	–	225,000	0.710
Mr. Huang Shao Ru	30 April 2015	30 April 2015 to 29 April 2025	225,000	–	–	–	225,000	0.710
Mr. Kwok Siu Man (Note 2)	30 April 2015	30 April 2015 to 29 April 2025	225,000	–	–	(225,000)	–	0.710
			675,000	–	–	(225,000)	450,000	
Total			14,175,000	–	–	(4,725,000)	9,450,000	

Notes:

(1). Mr. Tse Kam Fow resigned as an executive Director with effect from 1 March 2016 and 4,500,000 share options granted to him lapsed on 1 March 2016.

(2). Mr. Kwok Siu Man resigned as an INED with effect from 1 March 2016 and 225,000 share options granted to him lapsed on 1 March 2016.

Share Option Scheme (Continued)

(b) Movement of share options granted to the employees and other Eligible Participants under the 2009 Scheme was as follows:

		Number of underlying Shares comprised in share options					
Date of Grant	Exercisable Period	Balance as at 1 January 2016	Granted During 2016	Exercised During 2016	Cancelled/ Lapsed During 2016	Balance as at 31 December 2016	Exercise Price Per Share (HK$)
30 April 2015	30 April 2015 to 29 April 2025	11,475,000	–	–	(7,650,000)	3,825,000	0.710
		11,475,000	–	–	(7,650,000)	3,825,000	

The maximum number of Shares to be issued upon exercise of all share options to be granted under the 2009 Scheme was refreshed to 50,347,716 shares (the "**Scheme Mandate**") on 15 June 2015, being 10% of the total issued share capital of the Company as at the date of passing of an ordinary resolution by the Shareholders to approve the refreshment of the Scheme Mandate. As at 31 December 2016, the number of Shares to be issued upon the exercise of the outstanding options under the 2009 Scheme was 13,275,000 Shares, representing 2.64% of the total issued share capital of the Company as at 31 December 2016.

The fair value of the share options comprising 14,400,000 underlying Shares granted on the First Date of Grant of approximately HK$5,438,000 was valued by using the Binominal pricing model. Values are estimated based on the risk-free rate 1.52% per annum by reference to the yield rate of the Hong Kong government bills and bonds with similar duration, a ten-year period historical volatility 78.26%, assuming a dividend yield of 1.12% and an expected option life of 10 years.

The fair value of the share options comprising 11,250,000 underlying Shares granted on the Second Date of Grant of approximately HK$3,071,000 was valued by using the Binominal pricing model. Values are estimated based on the risk-free rate 1.72% per annum by reference to the yield rate of the Hong Kong government bills and bonds with similar duration, a ten-year period historical volatility 81.34%, assuming a dividend yield of 0.76% and an expected option life of 10 years.

The Binomial pricing model required input of subjective assumptions such as the expected stock price volatility. Change in the subjective input may materially affect the fair value estimates.

Directors' and Chief Executive's Rights to Acquire Shares or Debt Securities

Neither the Company nor any its subsidiaries was a party to any arrangements to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of Shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors and chief executives of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

Substantial Shareholders

As at 31 December 2016, so far as is known to the Directors or chief executive of the Company based on the register maintained by the Company pursuant to Section 336 of the SFO, the following persons (other than the Directors or the chief executive of the Company) had, or were 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 the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Name	Capacity/ Nature of interest	Number of Shares or underlying Shares	Approximate percentage of the total issued share capital of the Company as at 31 December 2016
HK Hang Kei	Beneficial owner	131,788,686 (Note 1)	26.18%
Shao Ze Yun ("**Ms. Shao**")	Interest of spouse	160,654,315 (Note 2)	31.91%

Notes:

(1). HK Hang Kei is a company incorporated in the BVI with limited liability, which was wholly owned by Mr. Xu Bin, the chairman and an executive Director of the Company.

(2). Ms. Shao is the wife of Mr. Xu Bin. She is deemed or taken to be interested in the Shares in which Mr. Xu Bin is interested.

Save as disclosed above, as at 31 December 2016, the Directors and the chief executive of the Company were not aware of any other person (other than Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

Connected Transactions and Continuing Connected Transactions

During 2016, the Group had the following connected transactions, details of which have been disclosed in compliance with the requirements in accordance with the Listing Rules:

(a) On 1 December 2015, the Company entered into a non-legally binding memorandum of understanding (the "**MOU**") with Mr. Xu Bin, the chairman and an executive Director of the Company ("**Mr. Xu**") as the vendor in relation to the potential acquisition (the "**Potential Acquisition**") by the Company of five registered patents in the PRC regarding low-rank coal upgrading methodologies and manufacturing of steam digesters (the "**Proprietary Technology**") and a license agreement (the "**License Agreement**") with Mr. Xu and Gouden Kolen Company Limited ("**Gouden Kolen**"), a company incorporated in the British Virgin Islands with limited liability wholly owned by Mr. Xu, in relation to the licensing of the Proprietary Technology.

Pursuant to the MOU, Mr. Xu and the Company shall negotiate in good faith towards each other for entering into a formal sale and purchase agreement (the "**Formal Sale and Purchase Agreement**") not later than 31 December 2016 (the "**Expiry Date**") or such later date as Mr. Xu and the Company may agree. As the Company and Mr. Xu did not enter into any Formal Sale and Purchase Agreement in respect of the Potential Acquisition on or before the Expiry Date and no further extension of the Expiry Date has been agreed between the parties in writing in this regard, the MOU therefore lapsed in accordance with its terms on 31 December 2016.

Pursuant to the License Agreement, Mr. Xu, as the licensor of the Proprietary Technology, shall grant the Group a non-exclusive right to use the Proprietary Technology in the PRC to produce up to 500,000 tonnes of upgraded coal for each calendar year during the term of the License Agreement and the Company shall pay a nominal license fee of HK$1.00 to Mr. Xu. The MOU does not constitute any legally-binding commitment in respect of the Potential Acquisition. Unless terminated earlier, the License Agreement shall be valid until 31 December 2016, or such later date as may be agreed by the licensor of the Proprietary Technology and the Company. On 30 December 2016, Mr. Xu, Gouden Kolen and the Company have mutually agreed in writing to extend the Expiry Date of the License Agreement to 31 December 2017, or such later date as may be agreed by Mr. Xu and the Company.

In the event that the Potential Acquisition materialises, it may constitute a notifiable transaction of the Company pursuant to Chapter 14 of the Listing Rules and will constitute a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules. As the relevant applicable percentage ratios set out in Rule 14.07 of the Listing Rules (the "**Percentage Ratios**") in respect of the transactions contemplated under the License Agreement are less than 5% and the annual consideration is less than HK$3,000,000, the License Agreement and the transactions contemplated thereunder constitute a de minimis continuing connected transaction for the Company, which are exempted from the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Please refer to the announcements of the Company dated 1 December 2015 and 30 December 2016 for details.

Connected Transactions and Continuing Connected Transactions (Continued)

(b) On 23 January 2013, 內蒙古源源能源集團有限責任公司 (Inner Mongolia Yuan Yuan Energy Resources Company Limited*) ("**Yuan Yuan**"), which owned 43.8% of the registered capital of 內蒙古源源能源集團金源里井工礦業有限責任公司 (Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited*) ("**Inner Mongolia Jinyuanli**"), an indirect non-wholly owned subsidiary of the Company, and Inner Mongolia Jinyuanli entered into an agreement for (1) the leasing of a station platform from Yuan Yuan for the transportation of coal, and (2) the supply of coal loading and unloading services to the Group, at the designated station platform located at Huolinguole City, Inner Mongolia, the PRC with a term ended on 31 December 2015.

On 24 May 2016, Yuan Yuan and Inner Mongolia Jinyuanli entered into a new agreement in order to continue the leasing of a station platform and the provision of coal loading and unloading services by YYE to Inner Mongolia Jinyuanli with a term ended on 31 December 2018 (the "**Logistics Agreement**"). As the Board has approved the transactions contemplated under the Logistics Agreement and INEDs have confirmed they are of the opinion that the terms of the transactions contemplated under the Logistics Agreement are fair and reasonable, the transaction contemplated under the Logistics Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Pursuant to Rule 14A.01 of the Listing Rules, the Logistics Agreement and the transactions contemplated thereunder are subject to the reporting and announcement requirements but are exempted from the circular, independent financial advice and independent Shareholders' approval requirements. Please refer to the announcement of the Company dated 24 May 2016 for details.

The 2016 annual cap for the (1) leasing of a station platform, and (2) provision of coal loading and unloading services at the designated station platform under the Logistics Agreement for the Year was RMB7,800,000 (approximately HK$9,360,000) and the actual amount paid by Inner Mongolia Jinyuanli during 2016 was RMB1,775,000 (approximately HK$2,071,000).

(c) On 18 May 2012, Mr. Xu and 北京國傳新能源開發有限公司 (Beijing Guochuan New Energy Development Co., Ltd*) ("**Beijing Guochuan**"), entered into a licensing agreement (the "**Previous License Agreement**"), pursuant to which Mr. Xu agreed to grant Beijing Guochuan and its affiliates the right to use the technologies (including (1) the method of upgrading the quality of lignite (PRC patent application number: 201010604379.9); (2) method of upgrading the quality of lignite with the use of fixed-bed setting under a single set equipment (PRC patent application number: 201110030702.0); (3) method that increases dehydration efficiency in a digester and implementing assembly units (PRC patent application number: 201110050055.X); (4) digester for solid material (PRC patent application number: 201110004082.3); (5) multi-effect evaporation dehydration method on solid materials (PRC patent application number: 201110022014.X); and (6) solid material evaporation dehydration digester (PRC patent application number: 201110042722.X)) and sub-licence the technologies, for a period of three years from the date of the Previous Licensing Agreement at a consideration of RMB800,000 (approximately HK$1,000,000) per annum. As the relevant applicable percentage ratios in respect of the transactions contemplated under the Previous Licensing Agreement are less than 5% and the annual consideration is less than HK$3,000,000, the transactions contemplated under the Previous Licensing Agreement constitute a de minimis continuing connected transaction of the Company which are exempted from the reporting, announcement and independent Shareholders' approval requirements pursuant to under chapter 14A of the Listing Rules. The Previous Licensing Agreement has expired on 17 May 2015 and the amount incurred by Beijing Guochuan to Mr. Xu for the year ended 31 December 2015 pursuant to the Previous Licensing Agreement was RMB333,000 (approximately HK$410,000). Please refer to the announcement of the Company dated 18 May 2012 for details.

* *for identification purposes only*

Connected Transactions and Continuing Connected Transactions (Continued)

The related party transactions set out in Note 40 to the consolidated financial statements constitute connected transactions of the Company under Chapter 14A of the Listing Rules but are exempted from the requirements for reporting, announcement and independent Shareholders' approval.

The Company's independent auditor was engaged to report on the Group's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits of Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The independent auditor has issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions. A copy of the independent auditor's letter has been provided by the Company to the Stock Exchange.

Pursuant to Rule 14A.55 of the Listing Rules, all the INEDs, being Messers, Kwok Chi Shing, Huang Shao Ru and Chang Xuejun, have reviewed the continuing connected transactions stipulated in paragraph (b) above and confirmed that they were entered into/carried out:

(i) in the ordinary and usual course of business of the Group;
(ii) on normal commercial terms; and
(iii) in accordance with the Logistics Agreement governing them on terms that were fair and reasonable and in the interests of the Shareholders as a whole.

In the opinion of the Board, the continuing connected transactions stipulated in paragraph (b) above were entered into in the manners stated above.

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 2016.

Equity-linked Agreements

Saved for the share option scheme described above, the Group has not entered into any equity-linked agreements during 2016.

Convertible Securities, Options, Warrants or Other Similar Rights

Apart from the share options described above, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2016. There had been no exercise of any convertible securities, options, warrants or other similar rights during 2016.

Cancellation of Share Premium Account, Capital Reduction and Subdivision

Pursuant to a special resolution passed at the 2016 EGM, the Cancellation of Share Premium Account took effect on 15 December 2016, the next business day immediately following the date of the 2016 EGM.

Subsequent to the date of this annual report, pursuant to another special resolution passed at the 2016 EGM, the confirmation and approval from the Grand Court of the Cayman Islands on 17 March 2017 (Cayman Islands date) and the completions of the registration by the Registrar of the Companies of the Cayman Island, the share capital of the Company was structured in the following manner: (i) the par value of each issued ordinary share of the Company was reduced from HK$0.50 to HK$0.01 each by cancelling the paid up share capital to the extent of HK$0.49 on each issued ordinary share and each issued share ordinary share was treated as one fully paid up share of par value of HK$0.01 each in the share capital of the Company; and (ii) each authorised but unissued ordinary share of the Company of par value of HK$0.50 each was subdivided into 50 ordinary shares of HK$0.01 par value each.

Major Customers and Suppliers

Information in respect of the Group's sales attributable to the major customers and suppliers respectively during 2016 are as follows:

	Percentage of the Group's total
	Sales 2016
The largest customer	15%
Five largest customers in aggregate	45%

In addition, the Group's aggregate purchase attributable to its five largest suppliers was less than 30% of the Group's total purchases.

None of the Directors, their close associates or any Shareholders (which to the knowledge of the Directors, own more than 5% of the Company's issued share capital) had any material interest in the major customers and suppliers disclosed above.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Amended and Restated Memorandum and Articles or the laws of the Cayman Islands where the Company was incorporated.

Purchase, Sale or Redemption of the Company's Listed Securities

During 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Permitted Indemnity Provision

Pursuant to the Amended and Restated Memorandum and Articles, every Director or other officers of the Company shall be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto, and no Director or other officers shall be liable for any loss, damages or misfortune which may happen to be incurred by the Company in the execution of the duties of his/her office or in relation thereto provided that the indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the said persons. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during 2016.

Update on Directors Information under Rule 13.51B(1) of the Listing Rules

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors since the date of the Company's 2016 interim report are set out below:

The remunerations package of Mr. Ng Ying Kit was approved to be increased from HK$100,000 to HK$120,000 per month with effect from 1 January 2017.

Employees and Retirement Schemes

The Group participates in several defined contribution retirement schemes which cover the Group's eligible employees in the PRC, and a Mandatory Provident Fund Scheme for the employees in Hong Kong. Particulars of these retirement schemes are set out in note 13 to the consolidated financial statements.

Relationships with Employees, Customers and Suppliers

The Company is committed to maintaining, and has maintained good relationships with, its employees, customers and suppliers with a view to fostering better mutual understanding and/or a sense of belonging towards the Company. This is conducive to implementing the Group's strategies and business objectives, as well as the Group's business development and sustainability in the long term.

Environmental Policies and Performance

As a responsible corporation, the Company is committed to protecting the environment in the areas where we operate. To ensure our business development and sustainability, the Company endeavors to comply with the laws and regulations regarding environmental protection and to adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. Details of the Group's environmental policies & performance are set out in the section headed "Environmental, Social and Governance Report" on pages 35 to 44 of this annual report.

Sufficiency of Public Float

Based on the information available to the Company and within the knowledge of the Directors, as at the date of this annual report, the Company has maintained the public float required by the Listing Rules.

Independent Auditor

The consolidated financial statements for the year ended 31 December 2016 have been audited by RSM Hong Kong who will retire and being eligible, will offer themselves for re-appointment at the forthcoming annual general meeting.

By order of the Board

Xu Bin
Chairman

Hong Kong, 17 March 2017

TO THE SHAREHOLDERS OF
GRAND OCEAN ADVANCED RESOURCES COMPANY LIMITED
(Incorporated in the Cayman Islands with limited liability)

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of Grand Ocean Advanced Resources Company Limited and its subsidiaries (the "**Group**") set out on pages 64 to 126, 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, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

(a) Impairment of goodwill, property, plant and equipment and deposits under non-current assets for the coal upgrading cash generating unit

Since April 2013, the Group has been in progress to construct a new coal upgrading plant at Xilinhaote City, Inner Mongolia, the People's Republic of China (the "**PRC**") with a maximum annual capacity of two million tonnes of upgraded coal output. The first phase of coal upgrading facilities with annual output of 500,000 tonnes had been substantially completed by the end of December 2015. As at 31 December 2016, the carrying amounts of the Group's property, plant and equipment included plant and machinery and construction in progress of approximately HK$6,632,000 and HK$123,217,000 respectively, and deposits under non-current assets of approximately HK$854,000 belonged to the coal upgrading cash-generating unit (the "**Coal Upgrading CGU**").

As described in note 18(c) to the consolidated financial statements, at 31 December 2016, the management estimated the recoverable amount of the Coal Upgrading CGU, by using fair value less costs of disposal approach, for impairment assessment on the above mentioned non-current assets. The management prepared cash flow forecast based on the assumptions that (i) the Group will be able to obtain the legal land use rights certificate in December 2017 by payment of the land use right premium of approximately HK$17.7 million; (ii) the Group will complete the remaining phases of the coal upgrading plant to increase its annual capacity from 500,000 tonnes to 2,000,000 tonnes of upgraded coal output by the end of 2020 with additional funding requirement of approximately HK$214 million, which will be financed by the cash flows generated from the coal cash-generating unit (the "**Coal CGU**") and Coal Upgrading CGU or from the Group's fund raising activities; and (iii) the Coal Upgrading CGU will implement the business plan to commence coal upgrading production from July 2017 at its maximum capacity and will be able to generate income by selling all of its upgraded coal at a competitive selling price including value-add tax of RMB300 per tonne.

Basis for Disclaimer of Opinion (Continued)

(a) Impairment of goodwill, property, plant and equipment and deposits under non-current assets for the coal upgrading cash generating unit (Continued)

We were unable to obtain sufficient appropriate audit evidence to assess the availability of adequate funds to finance the payment of land premium and the construction costs of coal upgrading plant. Based on the cash flow forecasts of Coal CGU and Coal Upgrading CGU prepared by the management, the estimated cash flows to be generated from the operations will not be sufficient to finance the construction of the whole coal upgrading plant with annual capacity of 2,000,000 tonnes of upgraded coal in the forecasted period. A substantial shareholder of the Company has agreed to provide unsecured financial assistance of HK$100 million to the Group up to 31 December 2018, however we were unable to obtain sufficient appropriate evidence that the substantial shareholder has sufficient liquid funds available as no financial information was provided to us in this regard.

We were unable to assess whether the current production line is capable of processing low-rank coal to upgraded coal at stable quality by July 2017 because we did not notice any production process up to date of this report and no reliable coal quality-check report was provided as evidence.

As a result, we were unable to determine whether the recoverable amount of the Coal Upgrading CGU has been materially overstated or any further impairment on the carrying amounts of the Coal Upgrading CGU assets is required. There were no other alternative audit procedures that we could perform to satisfy ourselves as to the recoverable amounts of the plant and machinery, construction in progress and deposits under non-current assets approximately of HK$6,632,000, HK$123,217,000 and HK$854,000 respectively and whether the impairment losses on goodwill of HK$2,907,000 and on property, plant and equipment of HK$49,532,000 attributable to the Coal Upgrading CGU were properly stated. Any adjustments to these figures might have a significant consequential effect on the results for the year and net assets as at 31 December 2016.

(b) Impairment of property, plant and equipment and intangible asset for the coal cash-generating unit

The Group operates an underground coal mine 958 for the production and sale of coal through a subsidiary, Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited ("**Inner Mongolia Jinyuanli**"), for which the assets employed are allocated to the Coal CGU. At 31 December 2016, the carrying amounts of the Group's property, plant and equipment and intangible asset approximately of HK$165,392,000 and HK$36,918,000 respectively belonged to the Coal CGU.

As described in notes 18(d) and 21 to the consolidated financial statements, the carrying amount of the Coal CGU was assessed for impairment by the management as at 31 December 2016 on the basis of its value in use. The management prepared cash flow forecasts based on the assumptions that (i) Inner Mongolia Jinyuanli could continue to operate the underground coal mine at the pre-approved production limit of 1,200,000 tonnes per annum in accordance with the exclusive mining right agreement signed with the owner of coal mine 958 ("**Coal Mine Owner**") and the mining license issued by Ministry of Land and Resources of the PRC to the Coal Mine Owner; (ii) the Coal Mine Owner could successfully apply for the renewal of coal mining license upon expiry date on 8 November 2017 or the Coal Mine Owner could supply sufficient quantity of coal with similar quality to the Group if the coal mining license could not be renewed; and (iii) Inner Mongolia Jinyuanli could continue to operate the underground coal mine with no penalty nor order the termination of mining operations though it had operated the underground coal mine at the capacity above the allowed level for the last two years.

Basis for Disclaimer of Opinion (Continued)

(b) Impairment of property, plant and equipment and intangible asset for the coal cash-generating unit (Continued)

Based on the recent policies of the compression of production capacity for the coal industry in the PRC and the notice "Nei Mei Ju Zi (2016) No. 63" issued by Coal Industrial Bureau of Inner Mongolia, the production output of each coal mining entity should be reduced by around 16% by means of reducing the annual working days of the industry from 330 days to 276 days with effective from 1 May 2016. However, owing to the shortage of coal supply for the winter and spring seasons and with an aim to stabilise the coal market price, Inner Mongolia Autonomous Region Economic and Information Technology Commission published another notice that the annual working days of the industry can be temporarily resumed to 330 days from 21 Nov 2016 to 30 May 2017.

The forecast stated above was prepared on the assumption that the production will be remained at 1,200,000 tonnes per annum till the end of its business license. Therefore, we were unable to obtain sufficient appropriate audit evidence to support the reasonableness of the revenue stated in the forecast. As a result, we were unable to determine whether the recoverable amount of the Coal CGU has been overstated or any further impairment on the carrying amounts of the Coal CGU assets is required. There were no other alternative audit procedures that we could perform to satisfy ourselves as to the recoverable amounts of the property, plant and equipment and intangible asset approximately of HK$165,392,000 and HK$36,918,000 respectively and whether the impairment losses on property, plant and equipment of HK$73,422,000 and intangible assets of HK$17,573,000 attributable to the coal CGU were properly stated. Any adjustments to these figures might have a significant consequential effect on the results for the year and net assets as at 31 December 2016.

(c) Recoverability of deferred tax assets

As at 31 December 2016, the Group recorded deferred tax assets of approximately HK$13,013,000 (note 31) which is mainly related to the coal mining operation. Because of the matters as detailed in paragraph (b) above regarding the assumptions adopted in the profit forecast for the Coal CGU, we were unable to determine whether it was probable that there would be sufficient taxable profits available against which the deferred tax assets can be utilised and therefore whether the carrying amount of the deferred tax assets has been fairly stated at the end of the reporting period.

(d) Impairment of the amounts due from subsidiaries

As the aforesaid assets at (a) to (c) above were held by various subsidiaries, any impairment loss on these assets found to be necessary would also affect the carrying amount of the Company's amounts due from those subsidiaries which amounted to approximately HK$135,799,000 as at 31 December 2016 and the Company's accumulated losses as at 31 December 2016 as presented in the statement of financial position of the Company in note 34 to the consolidated financial statements.

Basis for Disclaimer of Opinion (Continued)

(e) Material uncertainties relating to the going concern

We draw attention to note 2 to the consolidated financial statements, which discloses that the Group incurred a net loss of HK$128,711,000 from the continuing operations for the year ended 31 December 2016, and as of that date, the Group's current liabilities exceeded its current assets by approximately HK$84,729,000. In addition, additional funds of approximately HK$19 million are also required to commence the commercial production of the Coal Upgrading CGU with annual capacity of 500,000 tonnes in the coming year. As stated in note 2, these events or conditions indicate that a material uncertainty exits that may cast significant doubt on the Group's ability to continue as a going concern.

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon (i) whether sufficient operating cash flows will be generated from the Coal CGU at a level sufficient to finance the working capital requirements of the Group; and (ii) the availability of additional sources of financing, including those to finance the development of the low-rank coal upgrading business. The consolidated financial statements do not include any adjustments that would result from the failure to obtain the financial support and to implement the business plans mentioned above.

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the adequacy of operating cash flows to be generated from the Coal CGU in the next twelve months because of the limitations on the scope of our work on the key assumptions adopted by management in determining the forecast revenue as discussed above. Furthermore, we were also unable to assess whether the Coal CGU can avoid the suspension of operation by government authorities in foreseeable future as the Group operated the underground coal mine at the level above the annual allowed production capacity for the last two years, as according to those published policies, the PRC government aims to further tighten overall inspection on coal mines with focus on safety and will set stricter conditions for coal mines not to exceed approved capacity output. A substantial shareholder of the Company has agreed to provide unsecured financial assistance of HK$100 million to the Group up to 31 December 2018, however we are unable to obtain evidence that the substantial shareholder has sufficient liquid funds available as no financial information was provided to us in this regard.

There were no other satisfactory audit procedures that we could adopt to determine whether there will be sufficient financial resources available to the Group, and to assess the Group's ability to generate adequate operating cash flows and to obtain financing necessary to implement its business plan.

Accordingly, we are unable to determine whether the directors' use of the going concern assumption in preparing the consolidated financial statements is appropriate in the circumstances. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors 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 responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion on these consolidated financial statements.

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.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Yam Tak Fai, Ronald.

Certified Public Accountants
Hong Kong

17 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000 (Represented)
Continuing operations			
Revenue	7	**264,392**	240,128
Cost of sales		**(124,893)**	(141,953)
Gross profit		**139,499**	98,175
Other income	8	**461**	3,425
Selling and distribution expenses		**(10,818)**	(29,884)
Administrative expenses		**(67,463)**	(93,389)
Impairment loss on property, plant and equipment	18(c)&(d)	**(122,954)**	(66,750)
Impairment loss on goodwill	20	**(2,907)**	–
Impairment loss on intangible asset	21	**(17,573)**	(15,739)
Impairment loss on trade and other receivables		**(5,493)**	(1,901)
Other operating expenses		**(6,557)**	(4,401)
Loss from operations		**(93,805)**	(110,464)
Finance costs	10	**(2,180)**	(4,451)
Loss before tax		**(95,985)**	(114,915)
Income tax expense	11	**(32,726)**	(4,878)
Loss for the year from continuing operations		**(128,711)**	(119,793)
Discontinued operation			
Profit/(Loss) for the year from discontinued operation	15	**3,136**	(83,796)
Loss for the year	12	**(125,575)**	(203,589)
Attributable to:			
Owners of the Company			
Loss from continuing operations		**(123,414)**	(87,053)
Profit/(Loss) from discontinued operation		**3,136**	(83,796)
Loss attributable to owners of the Company		**(120,278)**	(170,849)
Non-controlling interests		**(5,297)**	(32,740)
		(125,575)	(203,589)
Loss per share			
From continuing and discontinued operations			
– basic	17(a)	**HK(23.89) cents**	HK(35.34) cents
– diluted	17(a)	**N/A**	N/A
From continuing operations			
– basic	17(b)	**HK(24.51) cents**	HK(18.01) cents
– diluted	17(b)	**N/A**	N/A

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

		2016	2015
		HK$'000	HK$'000
Loss for the year		**(125,575)**	(203,589)
Other comprehensive income after tax:			
Item that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**(8,880)**	(24,775)
Exchange differences reclassified to profit or loss on disposal of foreign operations	36(a)	**(26,741)**	–
Other comprehensive income for the year, net of tax		**(35,621)**	(24,775)
Total comprehensive income for the year		**(161,196)**	(228,364)
Attributable to:			
Owners of the Company		**(153,450)**	(191,782)
Non-controlling interests		**(7,746)**	(36,582)
		(161,196)	(228,364)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	18	**296,991**	493,093
Prepaid land lease payments	19	**–**	2,481
Goodwill	20	**–**	2,907
Intangible asset	21	**36,918**	60,146
Deferred tax assets	31	**13,013**	17,842
Deposits		**854**	1,226
Total non-current assets		**347,776**	577,695
Current assets			
Prepaid land lease payments	19	**–**	67
Inventories	22	**7,391**	17,723
Trade and bill receivables	23	**7,655**	56,939
Deposits, prepayments and other receivables		**9,173**	15,779
Restricted bank deposits	24	**7,134**	7,493
Bank and cash balances	25	**93,238**	48,189
Total current assets		**124,591**	146,190
Current liabilities			
Due to a director	26	**–**	9,338
Due to non-controlling shareholders	27	**6,874**	24,866
Other loans	28	**25,228**	–
Trade payables	29	**–**	3,346
Accrued charges and other payables		**177,218**	236,549
Current tax liabilities		**–**	32
Total current liabilities		**209,320**	274,131
Net current liabilities		**(84,729)**	(127,941)
Total assets less current liabilities		**263,047**	449,754

As at 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Non-current liabilities			
Due to a director	26	**20,230**	29,888
Due to non-controlling shareholders	27	**–**	3,508
Other loans	28	**9,150**	50,845
Deferred revenue	30	**2,233**	–
Deferred tax liabilities	31	**28,546**	1,429
Total non-current liabilities		**60,159**	85,670
NET ASSETS		**202,888**	364,084
Capital and reserves			
Share capital	32	**251,739**	251,739
Other reserves	35	**(94,110)**	59,340
Equity attributable to owners of the Company		**157,629**	311,079
Non-controlling interests		**45,259**	53,005
TOTAL EQUITY		**202,888**	364,084

Approved by the Board of Directors on 17 March 2017 and are signed on its behalf by:

Xu Bin
Director

Zhang Fusheng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Future development fund HK$'000	Safety Fund HK$'000	Foreign currency translation reserve HK$'000	Share-based payment reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
		Attributable to owners of the Company										
At 1 January 2015		229,239	280,477	(1,628)	14,120	23,230	59,432	–	(146,002)	458,868	89,587	548,455
Total comprehensive income for the year		–	–	–	–	–	(20,933)	–	(170,849)	(191,782)	(36,582)	(228,364)
Recognition of share-based payments	33	–	–	–	–	–	–	8,509	–	8,509	–	8,509
Issue of shares	32(a)	22,500	12,984	–	–	–	–	–	–	35,484	–	35,484
Net appropriations		–	–	–	6,042	20,149	–	–	(26,191)	–	–	–
Changes in equity for the year		22,500	12,984	–	6,042	20,149	(20,933)	8,509	(197,040)	(147,789)	(36,582)	(184,371)
At 31 December 2015		251,739	293,461	(1,628)	20,162	43,379	38,499	8,509	(343,042)	311,079	53,005	364,084
At 1 January 2016		**251,739**	**293,461**	**(1,628)**	**20,162**	**43,379**	**38,499**	**8,509**	**(343,042)**	**311,079**	**53,005**	**364,084**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**(33,172)**	**-**	**(120,278)**	**(153,450)**	**(7,746)**	**(161,196)**
Share options forfeited	33	**-**	**-**	**-**	**-**	**-**	**-**	**(4,204)**	**4,204**	**-**	**-**	**-**
Cancellation of share premium	32(b)	**-**	**(293,461)**	**-**	**-**	**-**	**-**	**-**	**293,461**	**-**	**-**	**-**
Net appropriations		**-**	**-**	**-**	**3,059**	**13,632**	**-**	**-**	**(16,691)**	**-**	**-**	**-**
Changes in equity for the year		**-**	**(293,461)**	**-**	**3,059**	**13,632**	**(33,172)**	**(4,204)**	**160,696**	**(153,450)**	**(7,746)**	**(161,196)**
At 31 December 2016		**251,739**	**-**	**(1,628)**	**23,221**	**57,011**	**5,327**	**4,305**	**(182,346)**	**157,629**	**45,259**	**202,888**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000 (Represented)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax		
Continuing operations	**(95,985)**	(114,915)
Discontinued operation (note 15)	**(45,595)**	(94,427)
	(141,580)	(209,342)
Adjustments for:		
Finance costs	**2,180**	4,532
Interest income	**(429)**	(61)
Depreciation and amortisation	**31,467**	59,895
Allowance for inventories	**6,568**	5,705
Equity-settled share-based payments	**–**	8,509
Fair value losses on initial recognition of financial liabilities	**194**	–
Gain on disposals of property, plant and equipment	**(5)**	(1,030)
Impairment loss on goodwill	**2,907**	–
Impairment loss on intangible asset	**17,573**	15,739
Impairment loss on property, plant and equipment	**161,656**	87,687
Impairment loss on trade and other receivables	**5,493**	50,297
Operating profit before working capital changes	**86,024**	21,931
Decrease in inventories	**4,807**	7,751
Decrease/(Increase) in trade and bill receivables	**51,876**	(43,485)
Decrease/(Increase) in deposits, prepayments and other receivables	**4,187**	(11,322)
(Decrease)/Increase in amount due to a director	**(130)**	716
(Decrease)/Increase in amounts due to non-controlling shareholders	**(12,624)**	4,528
Decrease in trade payables	**(2,017)**	(3,155)
(Decrease)/Increase in accrued charges and other payables	**(47,224)**	17,408
Increase in deferred revenue	**2,233**	–
Cash generated from/(used in) operations	**87,132**	(5,628)
Income taxes refunded	**–**	947
Withholding tax paid	**(277)**	(209)
Interest paid	**–**	(285)
Bank charges paid	**–**	(81)
Net cash generated from/(used in) operating activities	**86,855**	(5,256)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**429**	61
Purchase of property, plant and equipment	**(23,166)**	(81,432)
Proceeds from disposals of property, plant and equipment	**34**	139
Disposal of subsidiaries (note 36(a))	**22,732**	–
Decrease in restricted bank deposits	**359**	445
Net cash generated from/(used in) investing activities	**388**	(80,787)

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000 (Represented)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of loans from non-controlling shareholders	**(8,750)**	–
Repayment of loan from a director	**(19,596)**	–
Repayment of other loans	**(24,297)**	(11,482)
Loans from a director	**–**	6,516
Other loans raised	**9,687**	–
Proceeds from issue of shares	**–**	35,484
Net cash (used in)/generated from financing activities	**(42,956)**	30,518
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**44,287**	(55,525)
Effect of foreign exchange rate changes	**762**	(1,644)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**48,189**	105,358
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**93,238**	48,189
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	**93,238**	48,189

1. General Information

Grand Ocean Advanced Resources Company Limited (the "**Company**") was incorporated in the Cayman Islands on 7 April 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. 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 business office is Suite 3103, Sino Plaza, 255-257 Gloucester Road, Hong Kong. The Company's shares are listed on the Main Board 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 the manufacture and sale of plastic woven bags, paper bags and plastic barrels business (the "**Bags Business**"), production and sale of coal (the "**Coal Mining Business**") and provision of low-rank coal upgrading services (the "**Coal Upgrading Business**"). The Bags Business has been disposed in November 2016.

2. Basis of Preparation

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). HKFRSs comprise Hong Kong Financial Reporting Standards ("**HKFRS**"); Hong Kong Accounting Standards ("**HKAS**"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

The Group incurred a loss from continuing operations of approximately HK$128,711,000 (2015: HK$119,793,000) for the year ended 31 December 2016 and as at 31 December 2016 the Group had net current liabilities of approximately HK$84,729,000 (2015: HK$127,941,000). According to the business plan of Coal Upgrading Business segment, additional funds of approximately HK$214 million will be required to complete the remaining phases of the coal upgrading plant in Xilinhaote City, Inner Mongolia, the PRC, of which the capital expenditure of approximately HK$19 million will be incurred in the next 18 months to obtain the land use right certificates and purchase additional property, plant and equipment for commencement of the coal upgrading production with annual capacity of 500,000 tonnes of upgraded coal output. The bank and cash balances of the Group as at 31 December 2016 were approximately HK$93,238,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

2. Basis of Preparation (Continued)

In preparing the consolidated financial statements, the directors have carefully considered the current and anticipated future liquidity of the Group and the ability of the Group to attain profitable and positive cash flows from operations in immediate and long terms. The directors have prepared cash flow forecasts for the period up to June 2018 after taking into account of the measures below. In order to strengthen the Group's capital base and liquidity in foreseeable future, the directors of the Company have taken the following measures:

– The directors have implemented the production and sales strategies to enhance the revenue and profitability of Coal Mining Business segment and Coal Upgrading Business segment so as to generate sufficient operating cash flows to finance its working capital requirements.

– The substantial shareholder has further provided an undertaking for an unsecured financial facility with maximum amount of HK$100 million to the Company for the period from 7 March 2017 to 31 December 2018, in the event of a shortage in working capital of the Company or its subsidiaries and at request of the Company. Up to the date of this report, no such facility has yet been used by the Group.

Based on the Group's cash flow forecasts and the ongoing financial support from the substantial shareholder of the Company, the directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future and accordingly the consolidated financial statements have been prepared on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

3. Adoption of New and Revised Hong Kong Financial Reporting Standards

(a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2016. Of these, the following new or revised HKFRSs are relevant to the Company.

Amendments to HKAS 1 Presentation of Financial Statements: Disclosure Initiative

The amendments to HKAS 1 clarify, rather than significantly change, existing HKAS 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.

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

3. Adoption of New and Revised Hong Kong Financial Reporting Standards (Continued)

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

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

	Effective for accounting periods beginning on or after
Amendments to HKAS 7 Statement of Cash Flows: Disclosure initiative	1 January 2017
Amendments to HKAS 12 Income Taxes: Recognition of deferred tax assets for unrealised losses	1 January 2017
Amendments to HKFRS 4 Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018
HKFRS 9 Financial Instruments	1 January 2018
HKFRS 15 Revenue from Contracts with Customers	1 January 2018
Amendments to HKFRS 2 Share-based Payment: Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 16 Leases	1 January 2019
Amendments to HKFRS 10 Consolidated Financial Statements	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 Hong Kong Financial Reporting Standards (Continued)

(b) New and revised HKFRSs in issue but not yet effective (Continued)

HKFRS 9 Financial Instruments

The standard replaces HKAS 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 HKAS 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.

HKFRS 9 introduces a new expected-loss impairment model to replace the incurred-loss impairment model in HKAS 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 HKAS 39 are carried forward largely unchanged.

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

The new expected credit loss impairment model in HKFRS 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 quantity the impact until a more detailed assessment is completed.

3. Adoption of New and Revised Hong Kong Financial Reporting Standards (Continued)

(b) New and revised HKFRSs in issue but not yet effective (Continued)

HKFRS 15 Revenue from Contracts with Customers

HKFRS 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 currently assessing the impacts of adopting HKFRS 15 on the consolidated financial statements.

HKFRS 15 introduces new requirements on accounting for contract modifications (variations) and variable consideration (such as claims and incentive payments) which may impact the timing of revenue recognition over the contract period.

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

3. Adoption of New and Revised Hong Kong Financial Reporting Standards (Continued)

(b) New and revised HKFRSs in issue but not yet effective (Continued)

HKFRS 16 Leases

HKFRS 16 replaces HKAS 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). HKFRS 16 carries forward the accounting requirements for lessors in HKAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

The Group's office property 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 HKFRS 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 39, the Group's future minimum lease payments under non-cancellable operating leases for its office properties amounted to HK$5,607,000 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 HKFRS 16 and the effects of discounting.

4. Significant Accounting Policies

These consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs 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.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

4. Significant Accounting Policies (Continued)

(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 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.

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.

Intragroup 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.

4. Significant Accounting Policies (Continued)

(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.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the sum of the consideration transferred in a business combination to calculate the goodwill.

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, which is the Company's functional and presentation currency.

4. Significant Accounting Policies (Continued)

(c) Foreign currency translation (Continued)

(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 value 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.

(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.

4. Significant Accounting Policies (Continued)

(d) Property, plant and equipment

Property, plant and equipment, including buildings, held for use in the production or supply of goods or services, or for administrative purpose, 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.

Mining structures (including the main and auxiliary mine shafts underground tunnels) are depreciated at a units-of-production method over the estimated volume of underground coal that is entitled to the Group.

Depreciation of property, plant and equipment other than mining structures, 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:

Buildings	4% – 5%
Leasehold improvements	Over lease term
Plant and machinery	10% – 33%
Furniture, fixtures and equipment	19% – 33%
Motor vehicles	13% – 25%

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

Construction in progress represents buildings under construction and plant and equipment pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(e) 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.

Prepaid land lease payments are stated at cost and subsequently amortised on the straight-line basis over the remaining term of the lease.

4. Significant Accounting Policies (Continued)

(f) Intangible asset

Mining right is measured initially at purchase cost and is amortised at a units-of-production method over the estimated volume of underground coal that is entitled to the Group.

(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.

(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 an 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 as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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.

4. Significant Accounting Policies (Continued)

(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 bank 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) Non-current assets held for sale and discontinued operation

A discontinued operation is a component of the Group (i.e. the operations and cash flows of which can be clearly distinguished from the rest of the Group) that either has been disposed of, or is classified as held for sale, and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the component meets the criteria to be classified as held for sale in accordance with HKFRS 5, if earlier. It also occurs when the component is abandoned.

When an operation is classified as discontinued, a single amount is presented in the statement of profit or loss, which comprises:

– The post-tax profit or loss of the discontinued operation; and

– The post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

(m) 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 HKFRSs. 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 in (n) to (p) below.

4. Significant Accounting Policies (Continued)

(n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(o) 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.

(p) Equity instruments

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

(q) 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 coal and manufactured goods and trading of 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.

(r) 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.

4. Significant Accounting Policies (Continued)

(r) Employee benefits (Continued)

(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.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits, and when the Group recognises restructuring cost and involves the payment of termination benefits.

(s) Share-based payments

The Group issues equity-settled share-based payments to eligible participants in accordance with its share option scheme.

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.

(t) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

4. Significant Accounting Policies (Continued)

(u) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to the purchase of assets are recorded as deferred income and recognised in profit or loss on a straight-line basis over the useful lives of the related assets.

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

(v) 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)

(w) 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 CGU 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.

(x) Impairment of financial assets

At the end of each reporting period, the Group assesses whether its financial assets 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 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.

4. Significant Accounting Policies (Continued)

(y) 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.

(z) 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 appropriate 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. Critical Judgements and Key Estimates

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations which are dealt with below).

(a) Going concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the ability of the Group to attain profitable and positive cash flows from operations in the immediate and longer terms, and the ongoing availability of finance to the Group, including loan from a substantial shareholder, Mr. Xu Bin, who is also the chairman and director of the Company. If the finance is not available, the Group would be unable to meet its financial obligations as and when they fall due. Details are explained in note 2 to the consolidated financial statements.

(b) Legal titles of certain buildings

As stated in note 18(a) to the consolidated financial statements, the legal titles of certain buildings were not yet obtained as at 31 December 2016. Despite the fact that the Group has not obtained the relevant legal titles, the directors determine to recognise those buildings as property, plant and equipment on the grounds that they expect the legal titles being obtained in future should have no major difficulties and the Group is in substance controlling those buildings.

5. Critical Judgements and Key Estimates (Continued)

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.

(a) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment 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.

The carrying amount of property, plant and equipment as at 31 December 2016 was approximately HK$296,991,000 (2015: HK$493,093,000). An impairment loss on property, plant and equipment of approximately HK$161,656,000 (2015: HK$87,687,000) was recognised for the year ended 31 December 2016 and details are disclosed in notes 15 and 18.

(b) Impairment loss on property, plant and equipment

Determining whether the property, plant and equipment are impaired requires an estimation of the recoverable amount of the CGU to which the property, plant and equipment belong, by value in use and fair value less costs of disposal approaches. The Group estimates the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the future cash flows are less than expected, or there are changes in facts and circumstances which result in revisions of the estimated future cash flows, further impairment on the property, plant and equipment may arise.

Coal CGU

As at 31 December 2016, the carrying amount of the Group's property, plant and equipment allocated to the Coal CGU is approximately HK$165,392,000 (2015: HK$252,570,000). An impairment loss of approximately HK$73,422,000 (2015: HK$66,750,000) was recognised for the year ended 31 December 2016. Details of the key assumptions used are disclosed in note 18(d).

Coal Upgrading CGU

As at 31 December 2016, the carrying amount of the Group's property, plant and equipment includes plant and machinery of approximately HK$6,632,000 (2015: HK$11,215,000) and construction in progress of approximately HK$123,217,000 (2015: HK$172,452,000) which belong to the Coal Upgrading CGU. An impairment loss of approximately HK$49,532,000 (2015: HK$Nil) was recognised for the year ended 31 December 2016. Details of the key assumptions used are disclosed in note 18(c).

5. Critical Judgements and Key Estimates (Continued)

Key sources of estimation uncertainty (Continued)

(c) Deferred tax assets

The estimates of deferred tax assets require estimates over future taxable profit and corresponding applicable income tax rates of respective years. The change in future income tax rates and timing would affect income tax expense or credit, as well as deferred tax balance. The realisation of deferred tax assets also depends on the realisation of sufficient future taxable profits of the Group. Deviation of future profitability from the estimate could result in material adjustments to the carrying amount of deferred tax assets.

The carrying amount of deferred tax assets as at 31 December 2016 was approximately HK$13,013,000 (2015: HK$17,842,000).

(d) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. During the year, the PRC interest withholding tax of approximately HK$277,000 (2015: HK$209,000) and deferred tax liabilities of approximately HK$32,449,000 (2015: reversal of deferred tax assets of HK$4,669,000) was charged to profit or loss based on the estimated assessable income from continuing operations.

(e) Impairment loss on goodwill

Determining whether goodwill is impaired requires an estimation of recoverable amount of the CGU to which the goodwill has been allocated, by the value in use and fair value less costs of disposal approaches. The Group estimates the future cash flows expected to arise from the Coal Upgrading CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. An impairment loss on goodwill of approximately HK$2,907,000 (2015: HK$Nil) was made for the year ended 31 December 2016 and details are disclosed in note 20.

Details of the key assumptions that management made when determining the fair value less costs of disposal of the Coal upgrading CGU as at the end of the period are disclosed in note 18(c) to the consolidated financial statements.

(f) Impairment loss on intangible asset

Determining whether intangible asset is impaired requires an estimation of the value in use of the CGU to which the intangible asset has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the Coal CGU and a suitable discount rate in order to calculate the present value. Details of the key assumptions that management made when determining the value in use of the Coal CGU as at the end of the period are disclosed in note 21 to the consolidated financial statements. The carrying amount of intangible asset at the end of reporting period was approximately HK$36,918,000 (2015: HK$60,146,000). An impairment loss on intangible asset of approximately HK$17,573,000 (2015: HK$15,739,000) was recognised for the year ended 31 December 2016.

5. Critical Judgements and Key Estimates (Continued)

Key sources of estimation uncertainty (Continued)

(g) Impairment loss on trade receivables

The Group makes impairment loss on trade receivables based on assessment of the recoverability of the trade 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 impairment loss on trade receivables 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 receivables and allowance for trade receivables 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 on trade receivables amounted to approximately HK$2,411,000 (2015: HK$116,502,000) (note 23).

(h) 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. Allowance for slow-moving inventories of approximately HK$7,823,000 from continuing operations was made for the year ended 31 December 2016 (2015: HK$Nil).

6. Financial Risk Management

The Group's activities expose it to a variety of financial risks: foreign currency 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 the functional currencies of the Group entities. 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.

(b) Credit risk

The Group's credit risk is primarily attributable to its trade and bills receivables and other receivables.

The Group has no significant concentration of credit risk.

The Group has policies in place to trade with customers with an appropriate credit history.

The credit risk on bank and cash balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

6. Financial Risk Management (Continued)

(c) 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.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's liabilities, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

The maturity analysis for the amounts due to a director and non-controlling shareholders and other loans is prepared based on the scheduled repayment dates.

2016
Maturity Analysis – Undiscounted cash outflows

	On demand HK$'000	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total undiscounted cash outflows HK$'000
Due to a director	–	–	22,118	–	22,118
Due to non-controlling shareholders	–	6,874	–	–	6,874
Other loans	–	26,328	10,209	–	36,537
Accrued charges and other payables	–	106,951	–	–	106,951
	–	140,153	32,327	–	172,480

2015
Maturity Analysis – Undiscounted cash outflows

	On demand HK$'000	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total undiscounted cash outflows HK$'000
Due to a director	9,338	–	33,075	–	42,413
Due to non-controlling shareholders	14,074	10,792	3,923	–	28,789
Other loans	–	–	56,340	–	56,340
Trade payables	–	3,346	–	–	3,346
Accrued charges and other payables	–	158,364	–	–	158,364
	23,412	172,502	93,338	–	289,252

6. Financial Risk Management (Continued)

(d) Interest rate risk

As disclosed in notes 26 and 28 to the consolidated financial statements, certain loans from a director and the other loans of the Group bear interests at fixed interest rates and therefore are subject to fair value interest rate risk.

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

Except as stated above, the Group has no other significant interest-bearing assets and liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

(e) Categories of financial instruments at 31 December

	2016 **HK$'000**	2015 HK$'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**108,027**	118,058
Financial liabilities:		
Financial liabilities at amortised cost	**168,433**	280,155

(f) 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. Revenue

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

	2016 **HK$'000**	2015 HK$'000
Sales of bags and barrels	**–**	5,710
Sales of coal	**264,392**	240,128
	264,392	245,838
Representing:		
Continuing operations	**264,392**	240,128
Discontinued operation (note 15)	**–**	5,710
	264,392	245,838

8. Other Income

	2016 HK$'000	2015 HK$'000
Gain on disposals of property, plant and equipment	**5**	1,030
Government grant (note (a))	**–**	1,328
Interest income	**429**	61
Net foreign exchange gains	**1**	1,005
Reversal of allowance for inventories (note (b))	**1,255**	–
Other taxes waived by PRC government	**220**	–
Sundry income	**26**	5
	1,936	3,429
Representing:		
Continuing operations	**461**	3,425
Discontinued operation (note 15)	**1,475**	4
	1,936	3,429

Notes:

(a) Government grant was received as an incentive for development of coal upgrading technology. There were no unfulfilled conditions or contingencies attached to the grant.

(b) The reversal of allowance for inventories during the year ended 31 December 2016 is resulted from the subsequent sale of the relevant inventories.

9. Segment Information

The Group has three operating segments as follows:

Bags – Manufacture and sale of plastic woven bags, paper bags and plastic barrels (Discontinued operation);

Coal – Production and sales of coal; and

Coal upgrading – Provision of low-rank coal upgrading services.

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 corporate income and expense and central administration costs. Segment assets do not include goodwill, corporate assets and deferred tax assets. Segment liabilities do not include corporate liabilities and deferred tax liabilities.

9. Segment Information (Continued)

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

	Bags (Discontinued operation) HK$'000	Coal HK$'000	Coal upgrading HK$'000	Total HK$'000
Year ended 31 December 2016				
Revenue from external customers	–	264,392	–	264,392
Segment loss	(42,352)	(6,243)	(67,851)	(116,446)
Interest revenue	–	426	–	426
Interest expense	–	–	(338)	(338)
Income tax expense	–	(3,805)	–	(3,805)
Depreciation and amortisation	(2,745)	(25,979)	(2,107)	(30,831)
Reversal of allowance/(allowance) for inventories	1,255	(7,823)	–	(6,568)
Gain/(loss) on disposals of property, plant and equipment	–	457	(452)	5
Impairment loss on property, plant and equipment	(38,702)	(73,422)	(49,532)	(161,656)
Impairment loss on intangible asset	–	(17,573)	–	(17,573)
Impairment loss on receivables				
– trade receivables	–	(2,519)	–	(2,519)
– other receivables	–	–	(2,974)	(2,974)
Additions to segment non-current assets	–	(18,486)	(4,983)	(23,469)
At 31 December 2016				
Segment assets	–	324,102	137,553	461,655
Segment liabilities	–	227,349	153,630	380,979

9. Segment Information (Continued)

Information about operating segment profit or loss, assets and liabilities (Continued):

	Bags (Discontinued operation) HK$'000	Coal HK$'000	Coal upgrading HK$'000	Total HK$'000
Year ended 31 December 2015				
Revenue from external customers	5,710	240,128	–	245,838
Segment loss	(74,941)	(70,525)	(16,887)	(162,353)
Interest revenue	3	44	1	48
Interest expense	(81)	(416)	(536)	(1,033)
Income tax credit/(expense)	10,631	(4,669)	–	5,962
Depreciation and amortisation	(7,322)	(49,199)	(2,288)	(58,809)
Allowance for inventories	(5,705)	–	–	(5,705)
Gain/(loss) on disposals of property, plant and equipment	–	1,070	(9)	1,061
Impairment loss on property, plant and equipment	(20,937)	(66,750)	–	(87,687)
Impairment loss on intangible asset	–	(15,739)	–	(15,739)
Impairment loss on receivables				
– trade receivables	(48,160)	–	–	(48,160)
– other receivables	(236)	(1,901)	–	(2,137)
Additions to segment non-current assets	–	(4,179)	(76,175)	(80,354)
At 31 December 2015				
Segment assets	171,000	469,724	202,491	843,215
Segment liabilities	16,266	363,073	150,747	530,086

9. Segment Information (Continued)

Reconciliations of segment revenue, profit or loss, assets and liabilities:

	2016 HK$'000	2015 HK$'000
Revenue		
Total revenue of reportable segments	**264,392**	245,838
Elimination of discontinued operation (note 15)	**–**	(5,710)
Consolidated revenue from continuing operations	**264,392**	240,128
Profit or loss		
Total loss of reportable segments	**(116,446)**	(162,353)
Unallocated corporate income	**1,101**	1,766
Unallocated corporate expenses	**(58,961)**	(43,002)
Discontinued operation (note 15)	**45,595**	83,796
Consolidated loss for the year from continuing operations	**(128,711)**	(119,793)
Assets		
Total assets of reportable segments	**461,655**	843,215
Corporate assets	**43,541**	31,149
Deferred tax assets	**13,013**	17,842
Goodwill	**–**	2,907
Elimination of intersegment assets	**(45,842)**	(171,228)
Consolidated total assets	**472,367**	723,885
Liabilities		
Total liabilities of reportable segments	**380,979**	530,086
Corporate liabilities	**50,893**	73,424
Deferred tax liabilities	**28,546**	1,429
Elimination of intersegment liabilities	**(190,939)**	(245,138)
Consolidated total liabilities	**269,479**	359,801

9. Segment Information (Continued)

Geographical information:

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

	Revenue		Non-current assets	
	2016 **HK$'000**	2015 HK$'000	**2016** **HK$'000**	2015 HK$'000
Hong Kong	**–**	–	**599**	1,224
The PRC except Hong Kong	**264,392**	245,838	**334,164**	558,629
Consolidated total	**264,392**	245,838	**334,763**	559,853

Revenue from major customers:

	2016 **HK$'000**	2015 HK$'000
Coal segment		
Customer a	**40,173**	–
Customer b	**32,405**	–
Customer c	**–**	38,627
Customer d	**–**	31,805

10. Finance Costs

	2016 **HK$'000**	2015 HK$'000
Interest on other loans – wholly repayable within five years	**641**	3,312
Interest on loan from a director	**399**	400
Imputed interest expenses	**1,443**	2,187
Bank charges	**–**	81
Total borrowing costs	**2,483**	5,980
Amount capitalised	**(303)**	(1,448)
	2,180	4,532
Representing:		
Continuing operations	**2,180**	4,451
Discontinued operation (note 15)	**–**	81
	2,180	4,532

11. Income Tax Expense/(Credit)

Income tax expense/(credit) has been recognised in profit or loss as follows:

	2016 **HK$'000**	2015 HK$'000
Current tax – Overseas		
Under-provision in prior year	**–**	4
PRC interest withholding tax	**277**	209
	277	213
Deferred tax (note 31)	**32,449**	(5,966)
	32,726	(5,753)
Representing:		
Continuing operations	**32,726**	4,878
Discontinued operation (note 15)	**–**	(10,631)
	32,726	(5,753)

(a) No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2016 as the Group did not generate any assessable profits arising in Hong Kong during the year (2015: HK$Nil).

The Enterprise Income Tax rate applicable to the subsidiaries in the PRC is 25% (2015: 25%). However, no provision was made for the financial year ended 31 December 2016 as the subsidiaries have sufficient tax losses brought forward to set off against current year's assessable profit or have no assessable profit for the year.

11. Income Tax Expense/(Credit) (Continued)

(b) The reconciliation between income tax expense and the product of loss before tax multiplied by the PRC Enterprise Income Tax rate is as follows:

	2016 **HK$'000**	2015 HK$'000
Loss before tax		
Continuing operations	**(95,985)**	(114,915)
Discontinued operation (note 15)	**(45,595)**	(94,427)
	(141,580)	(209,342)
Tax at the PRC Enterprise Income Tax rate of 25% (2015: 25%)	**(35,395)**	(52,335)
Tax effect of expenses that are not deductible	**24,485**	12,441
Tax effect of temporary differences not recognised	**34,476**	40,594
Tax effect of tax losses not recognised	**29,748**	2,871
Tax effect of utilisation of tax losses not previously recognised	**(22,497)**	(2,017)
Reversal of deferred tax on undistributed earnings of a PRC subsidiary	**(294)**	(10,635)
Effect of different tax rates	**1,926**	3,115
PRC interest withholding tax	**277**	209
Under-provision in prior year	**–**	4
Income tax expense/(credit)	**32,726**	(5,753)

12. Loss for the Year

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

	Continuing operations		Discontinued operation		Total	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Auditor's remuneration	**1,000**	1,000	**–**	–	**1,000**	1,000
Allowance for inventories (included in cost of sales)	**7,823**	–	**–**	5,705	**7,823**	5,705
Reversal of allowance for inventories	**–**	–	**(1,255)**	–	**(1,255)**	–
Amortisation of mining right (included in cost of sales)	**3,510**	7,653	**–**	–	**3,510**	7,653
Cost of inventories sold	**124,893**	141,954	**–**	11,660	**124,893**	153,614
Depreciation of property, plant and equipment	**24,766**	43,949	**3,125**	8,223	**27,891**	52,172
Fair value losses on initial recognition of financial liabilities	**194**	–	**–**	–	**194**	–
Gain/(loss) on disposals of property, plant and equipment	**(5)**	(1,030)	**–**	–	**(5)**	(1,030)
Impairment loss on property, plant and equipment (note 18)	**122,954**	66,750	**38,702**	20,937	**161,656**	87,687
Impairment loss on goodwill (note 20)	**2,907**	–	**–**	–	**2,907**	–
Impairment loss on intangible asset (note 21)	**17,573**	15,739	**–**	–	**17,573**	15,739
Impairment loss on receivables						
– trade receivables (note 23)	**2,519**	–	**–**	48,160	**2,519**	48,160
– other receivables	**2,974**	1,901	**–**	236	**2,974**	2,137
	5,493	1,901	**–**	48,396	**5,493**	50,297
Operating lease charges						
– Land and buildings	**2,585**	2,061	**471**	1,336	**3,056**	3,397
– Machinery	**–**	439	**–**	–	**–**	439

Cost of inventories sold includes staff costs, allowance for inventories, amortisation of mining right and depreciation of approximately HK$64,817,000 (2015: HK$90,047,000) which are included in the amounts disclosed separately.

13. Employee Benefits Expense (Including Directors' Emoluments)

	2016 HK$'000	2015 HK$'000
Employee benefits expense:		
Salaries, bonuses and allowances	**76,467**	94,276
Equity-settled share-based payments	**–**	6,147
Retirement benefit scheme contributions	**3,965**	6,951
	80,432	107,374

Five highest paid individuals

The five highest paid individuals in the Group during the year included three (2015: three) directors whose emoluments are reflected in the analysis presented in note 14. The emoluments of the remaining two (2015: two) individuals are set out below:

	2016 HK$'000	2015 HK$'000
Basic salaries and allowances	**3,142**	5,463
Discretionary bonus	**159**	480
	3,301	5,943

The emoluments fell within the following bands:

	Number of individuals 2016	2015
HK$1,000,001 – HK$1,500,000	**1**	–
HK$1,500,001 – HK$2,000,000	**1**	1
HK$4,000,001 – HK$4,500,000	**–**	1
	2	2

14. Benefits and Interests of Directors

(a) Directors' emoluments

The emoluments of each director is set out below:

Name of director	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking					
	Fees HK$'000	Salaries and allowances HK$'000	Discretionary bonus HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Estimated money value of share options HK$'000	Total HK$'000
Mr. Xu Bin	–	2,400	–	18	–	2,418
Mr. Zhang Fusheng (Chief executive)	–	700	–	2	–	702
Mr. Ng Ying Kit	–	1,200	800	18	–	2,018
Ms. Huo Lijie (note (i))	–	529	–	–	–	529
Mr. Tse Kam Fow (note (ii))	–	400	2,000	3	–	2,403
Mr. Kwok Chi Shing	240	–	–	–	–	240
Mr. Huang Shaoru	120	–	–	–	–	120
Mr. Chang Xuejun (note (iii))	190	–	–	–	–	190
Mr. Kwok Siu Man (note (ii))	40	–	–	–	–	40
Total for 2016	590	5,229	2,800	41	–	8,660
Mr. Xu Bin	–	2,190	2,400	18	1,256	5,864
Mr. Zhang Fusheng (Chief executive)	–	484	–	69	–	553
Mr. Ng Ying Kit	–	1,086	600	16	913	2,615
Mr. Tse Kam Fow (note (ii))	–	2,171	2,400	16	1,256	5,843
Mr. Mak Shiu Chung, Godfrey (note (iv))	–	29	–	1	–	30
Mr. Wang Hon Chen (note (v))	144	–	–	–	–	144
Mr. Kwok Chi Shing	240	–	–	–	91	331
Mr. Huang Shaoru	120	–	–	–	91	211
Mr. Kwok Siu Man (note (ii))	217	–	–	–	91	308
Mr. Tsang Wai Sum (note (iv))	23	–	–	–	–	23
Total for 2015	744	5,960	5,400	120	3,698	15,922

Notes:

(i) Appointed on 11 January 2016

(ii) Resigned on 1 March 2016

(iii) Appointed on 17 March 2016

(iv) Resigned on 5 February 2015

(v) Removed on 30 September 2015

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

14. Benefits and Interests of Directors (Continued)

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

Pursuant to agreements dated 2 January 2014, 5 May 2014 and 7 May 2015 (collectively refer to as the "**Loan Agreements**") made between the Company and Mr. Xu Bin ("**Mr. Xu**"), the Company agreed to pay interest expense to Mr. Xu for loans granted to the Company in accordance with the terms of the Loan Agreements. Mr. Xu was paid an interest expense of HK$399,000 for the year ended 31 December 2016 (2015: HK$400,000).

Pursuant to an agreement dated 18 May 2012 (the "**License Agreement**") made between Beijing Guochuan New Energy and Technology Development Company Limited ("**Beijing Guochuan**", a wholly-owned subsidiary of the Company) and Mr. Xu, Beijing Guochuan agreed to pay license fee to Mr. Xu for the non-exclusive right to use the five registered patents in the PRC in relation to low-rank coal upgrading methodologies and manufacturing of steam digesters (the "**Proprietary Technology**") in accordance with the terms of the License Agreement. The License Agreement has expired on 17 May 2015 and the amount incurred by Beijing Gouchuan to Mr. Xu for the year ended 31 December 2015 was HK$410,000.

Following the expiry of the License Agreement, on 1 December 2015, the Company entered into a new license agreement (the "**New License Agreement**") with Mr. Xu and Gouden Kolen Company Limited ("**Gouden Kolen**"), a Company incorporated in the British Virgin Islands with limited liability wholly owned by Mr. Xu, in relation to the licensing of the Proprietary Technology. Pursuant to the New License Agreement, Mr. Xu was paid a nominal license fee of HK$ 1 for the year ended 31 December 2015.

Mr. Xu is an executive director of the Company and is directly interested in these transactions.

Save for contracts amongst group companies and the aforementioned transactions, no other significant transactions, arrangements and contracts to which the Company was a party and in which a director of the Company and other 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.

15. Discontinued Operation

Pursuant to a sale and purchase agreement dated 27 October 2016 entered into between the Company and an independent third party, the Company disposed of 100% interests in East Harvest International Limited ("**EHI**"), a company incorporated in the British Virgin Islands at a consideration of HK$22,800,000. EHI was engaged in investment holding, with its subsidiaries engaged in manufacture and sale of plastic woven bags, paper bags and plastic barrels in the PRC. The disposal was completed on 24 November 2016 and the Group discontinued its manufacture and sale of plastic woven bags, paper bags and plastic barrels business.

The profit/(loss) for the year from the discontinued operation is analysed as follows:

	2016 **HK$'000**	2015 HK$'000
Loss for the year from discontinued operation	**(45,595)**	(83,796)
Gain on disposal of subsidiaries (note 36(a))	**48,731**	–
Profit/(loss) for the year from discontinued operation attributable to owners of the Company	**3,136**	(83,796)

15. Discontinued Operation (Continued)

The results of the discontinued operation for period from 1 January 2016 to 24 November 2016, which have been included in consolidated profit or loss (2015: 1January 2015 to 31 December 2015), are as follows:

	2016 HK$'000	2015 HK$'000
Revenue (note 7)	**–**	5,710
Cost of sales	**–**	(11,661)
Gross loss	**–**	(5,951)
Other income (note 8)	**1,475**	4
Administrative expenses	**(7,219)**	(16,552)
Impairment loss on property, plant and equipment	**(38,702)**	(20,937)
Impairment loss on trade and other receivables	**–**	(48,396)
Other operating expenses	**(1,149)**	(2,514)
Loss from operations	**(45,595)**	(94,346)
Finance costs (note 10)	**–**	(81)
Loss before tax	**(45,595)**	(94,427)
Income tax credit (note 11)	**–**	10,631
Loss for the year	**(45,595)**	(83,796)
Cash flows from discontinued operation:		
Net cash outflows from operating activities	**(254)**	(8,153)
Net cash inflows from investing activities	**–**	4
Net cash outflows	**(254)**	(8,149)

16. Dividends

The directors do not recommend the payment of any dividend for the year ended 31 December 2016 (2015: HK$Nil).

17. Loss Per Share

(a) From continuing and discontinued operations

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately HK$120,278,000 (2015: HK$170,849,000) and the weighted average number of ordinary shares of 503,477,166 (2015: 483,504,563) in issue during the year.

Diluted loss per share

No diluted loss per share is presented as the Company did not have any dilutive potential ordinary shares during the year ended 31 December 2016. The effect of all potential ordinary shares is anti-dilutive for the year ended 31 December 2015.

(b) From continuing operations

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately HK$123,414,000 (2015: HK$87,053,000) and the denominator used is the same as that detailed above for basis loss per share from continuing and discontinued operations.

Diluted loss per share

No diluted loss per share is presented as the Company did not have any dilutive potential ordinary shares during the year ended 31 December 2016. The effect of all potential ordinary shares is anti-dilutive for the year ended 31 December 2015.

(c) From discontinued operation

Basic earnings per share from the discontinued operation is HK0.62 cent per share (2015: loss per share HK$17.33 cent per share), based on the profit for the year from discontinued operation attributable to the owners of the Company of approximately HK$3,136,000 (2015: loss of HK$83,796,000) and the denominator used is the same as that detailed above for basis loss per share from continuing and discontinued operations.

No diluted loss per share is presented as the Company did not have any dilutive potential ordinary shares during the year ended 31 December 2016. The effect of all potential ordinary shares is anti-dilutive for the year ended 31 December 2015.

18. Property, Plant and Equipment

	Buildings HK$'000	Leasehold improvements HK$'000	Mining structures HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost								
At 1 January 2015	208,891	2,995	142,987	293,869	33,995	10,187	105,184	798,108
Additions	15	–	–	2,455	411	2,914	77,085	82,880
Disposals/write off	–	(152)	–	(10,473)	(3,341)	(2,351)	(225)	(16,542)
Exchange differences	(12,350)	(43)	(8,453)	(17,022)	(1,786)	(627)	(9,592)	(49,873)
At 31 December 2015	196,556	2,800	134,534	268,829	29,279	10,123	172,452	814,573
At 1 January 2016	**196,556**	**2,800**	**134,534**	**268,829**	**29,279**	**10,123**	**172,452**	**814,573**
Additions	**635**	**–**	**–**	**13,431**	**45**	**4,376**	**4,982**	**23,469**
Disposals/write off	**–**	**–**	**–**	**–**	**(9)**	**(1,286)**	**(486)**	**(1,781)**
Disposal of subsidiaries (note 36(a))	**(80,142)**	**–**	**–**	**(39,097)**	**–**	**(837)**	**–**	**(120,076)**
Exchange differences	**(9,350)**	**(35)**	**(6,829)**	**(13,903)**	**(1,403)**	**(640)**	**(8,948)**	**(41,108)**
At 31 December 2016	**107,699**	**2,765**	**127,705**	**229,260**	**27,912**	**11,736**	**168,000**	**675,077**
Accumulated depreciation and impairment								
At 1 January 2015	52,339	1,341	18,165	117,874	21,054	4,618	229	215,620
Charge for the year	9,919	725	9,653	24,832	5,523	1,520	–	52,172
Disposals/write off	–	(152)	–	(10,473)	(3,310)	(1,791)	(225)	(15,951)
Impairment (note (d) and (e))	17,927	–	22,651	44,012	1,368	1,729	–	87,687
Exchange differences	(4,317)	(6)	(2,491)	(9,531)	(1,362)	(337)	(4)	(18,048)
At 31 December 2015	75,868	1,908	47,978	166,714	23,273	5,739	–	321,480
At 1 January 2016	**75,868**	**1,908**	**47,978**	**166,714**	**23,273**	**5,739**	**–**	**321,480**
Charge for the year	**5,609**	**302**	**5,044**	**13,448**	**2,036**	**1,452**	**–**	**27,891**
Disposals/write off	**–**	**–**	**–**	**–**	**(9)**	**(859)**	**–**	**(868)**
Impairment (note (c) to (e))	**58,774**	**–**	**25,424**	**27,607**	**1,257**	**1,797**	**46,797**	**161,656**
Disposal of subsidiaries (note 36(a))	**(69,436)**	**–**	**–**	**(38,250)**	**–**	**(837)**	**–**	**(108,523)**
Exchange differences	**(6,209)**	**(5)**	**(3,747)**	**(9,915)**	**(1,273)**	**(387)**	**(2,014)**	**(23,550)**
At 31 December 2016	**64,606**	**2,205**	**74,699**	**159,604**	**25,284**	**6,905**	**44,783**	**378,086**
Carrying amount								
At 31 December 2016	**43,093**	**560**	**53,006**	**69,656**	**2,628**	**4,831**	**123,217**	**296,991**
At 31 December 2015	120,688	892	86,556	102,115	6,006	4,384	172,452	493,093

18. Property, Plant and Equipment (Continued)

Notes:

(a) At 31 December 2016, the carrying amount of certain buildings amounted to approximately HK$26,385,000 (2015: HK$42,119,000) for which relevant legal titles have not yet been obtained. At the date of approval of these consolidated financial statements, the application for obtaining the aforesaid legal titles is still in progress.

(b) At 31 December 2016, the construction in progress of approximately HK$123,217,000 (2015: HK$172,452,000) represents a low-rank coal upgrading plant in Xilinhaota City, Inner Mongolia, the PRC, which has been constructed on a piece of land of which the subsidiary, Xilinhaote City Guochuan Energy Technology Development Co., Ltd. ("**Xilinhaote Guochuan**"), entered into a Grant Contract for State-owned Land Use Right ("**Land use right contract**") but the legal land use right title has not been obtained up to the date of this report. The application of the land use right is subject to the payment of land premium of approximately HK$17.7 million.

(c) Due to the unfavorable conditions of the coal industry in the PRC and the lack of progress of the negotiations with certain potential customers, management has postponed the commercial production plan of the Xilinhaota Guochuan to the third quarter of 2017. The prolonged decline in the upgraded coal demand indicated a potential impairment loss on the assets allocated to the Coal upgrading CGU. As at 31 December 2016, the Group carried out reviews of the recoverable amount of the assets, including the property, plant and equipment, goodwill (note 20) and deposit paid for land use right, allocated to the Coal upgrading CGU, having regard to the current market conditions of coal-related industries. The review led to an impairment loss on property, plant and equipment under the Coal Upgrading CGU of approximately HK$49,532,000 that has been recognised in profit or loss.

The recoverable amount of the assets of Coal Upgrading CGU of HK$131,271,000 has been determined by the directors based on the fair value less cost of disposal approach by reference to the discounted cash flow forecasts for the next 5 years approved by the management (level 3 fair value measurements).

Key assumptions adopted by management in the valuation model are as follows:

(i) The Group will commit to the terms within the Land use right contract entered between the Xilinhaote Municipal Land Resources Bureau and Xilinhaote Guochuan, and will obtain the legal land use rights certificate in 2017 by payment of the land use right premium of approximately HK$17.7 million.

(ii) The first phase of coal upgrading plant with annual capacity of 500,000 tonnes of upgraded coal will commence production from July 2017. The Group will successfully implement its business plan to raise sufficient funds to finance the construction of the remaining phases of low-rank coal upgrading facilities in Xilinhaote City, Inner Mongolia, the PRC. Construction of the 2nd and 3rd phases of the coal upgrading plant will be completed on schedule and the CGU will be able to increase its aggregated annual capacity from 500,000 tonnes to 1,000,000 tonnes of upgraded coal by the third quarter of 2018 and from 1,000,000 tonnes to 2,000,000 tonnes of upgraded coal by the end of 2020. The additional funding requirement of approximately HK$214 million will be financed by the cash flows generated from Coal CGU and Coal Upgrading CGU or the Group's fund raising activities.

(iii) The technology and equipment of the Coal Upgrading CGU is able to process the low rank coal into upgraded coal with 5,000kcal/kg (the "**upgraded coal**"). All the upgraded coal will be sold at average selling price with value-added tax of RMB300 per tonne during the 5-year forecast period.

(iv) Inflation rate applied in the 5-Year cash flow forecast is 3% p.a (2015: 3% p.a.) and no inflation rate assumed in the residual period. The inflation rate does not exceed the average inflation rate for the relevant market in the PRC.

(v) Discount rate of 11.97% (2015: 12.5%) is adopted based on the assessment of the discount rate analysis independently performed by an independent valuer.

18. Property, Plant and Equipment (Continued)

Notes: (Continued)

(d) Given the challenging market conditions in the mining industry, the coal prices in the PRC market stayed at relatively low level over the first half of 2016. The coal price trend appears likely to last for at least the next few years, therefore the Group tested the assets belonging to the Coal CGU for impairment. As at 31 December 2016, the Group assessed the recoverable amount of the assets, including the property, plant and equipment and the intangible asset (note 21), allocated to the Coal CGU, having regard to the market conditions of coal in the PRC. The review led to the recognition of an impairment loss on property, plant and equipment under the Coal CGU of approximately HK$73,422,000 that has been recognised in profit or loss.

The recoverable amount of the assets of Coal CGU of approximately HK$202,890,000 has been determined by the directors based on the value in use approach by reference to the discounted cash flow forecasts for the remaining license period as approved by the directors.

Key assumptions adopted by the management in the cash flow forecast of Coal CGU are as follows:

(i) Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited ("**Inner Mongolia Jinyuanli**", a subsidiary of the Company) will continue to operate the coal mine at annual production capacity of 1.2 million tonnes throughout the remaining license period up to July 2037.

(ii) The coal from the Inner Mongolia Mine 958 (the "**Mine 958**") with 3,500kcal/kg will be sold at the average selling price of RMB110 per tonne (with value-added tax of 17%) for the period from 2017 to 2019. This price will be increased to RMB115 per tonne in the period from 2020 to 2022 and further increased to RMB120 per tonne from 2023 and thereafter kept constant in the remaining license period.

(iii) The owner of coal mine 958 could successfully apply for the renewal of coal mining license upon expiry date on 8 November 2017; or to supply sufficient tonnes of coal with similar quality to the Group if the coal mining license could not be renewed.

(iv) Inflation rate of 2% p.a. (2015: 2%) is applied in the cash flow forecast for the remaining license period. The inflation rate does not exceed the average inflation rate for the relevant market in the PRC.

(v) Pre-tax discount rate of 12.84% (2015: 13.2%) is adopted based on the assessment of the discount rate analysis independently performed by an independent valuer.

(e) The production plant of Bags business had been idle since 2015, therefore management suspended the operation of the Bags Business and actively sought for potential buyers to realise the assets in the Bags business. During the interim review, no solid offer was received for the production plant in Changchun (the "**Production Plant**"), which accounted for most of the asset value of Bags business cash-generating unit (the "**Bags CGU**"). The directors determined to recognise an impairment loss on the buildings of the Production Plant of approximately HK$38,702,000 by reference to the estimated market value of the land and buildings of the Production Plant provided by an independent qualified professional valuer amounting to HK$11,628,000 as at 30 June 2016. On 24 November 2016, the Company completed the disposal of Bags CGU and details are disclosed in Notes 15 and 36(a) to the consolidated financial statements.

19. Prepaid Land Lease Payments

The Group's interests in prepaid land lease payments represent prepaid operating lease payments and their carrying amount is analysed as follows:

	2016 HK$'000	2015 HK$'000
At 1 January	**2,548**	2,779
Amortisation for the year	**(66)**	(70)
Disposal of subsidiaries (note 36(a))	**(2,375)**	–
Exchange differences	**(107)**	(161)
At 31 December	**–**	2,548
Current portion	**–**	(67)
Non-current portion	**–**	2,481

20. Goodwill

	2016 HK$'000	2015 HK$'000
Cost		
At 1 January and 31 December	**2,907**	2,907
Accumulated impairment losses		
Impairment loss recognised for the year and at 31December	**(2,907)**	–
Carrying amount		
At 31 December	**–**	2,907

Goodwill acquired in a business combination is allocated, at acquisition, to the CGU that is expected to benefit from that business combination. The carrying amount of goodwill had been allocated to the Coal upgrading CGU.

As at 31 December 2016, the Group reassessed the recoverable amount of the assets, including the property, plant and equipment and deposits paid for acquisition of land use right under the Coal upgrading CGU, having regard to the current market conditions of coal-related industries. The assessment led to the full impairment of goodwill during the reporting period that has been recognised in profit or loss. Details please refer to note 18(c) to the consolidated financial statements.

21. Intangible Asset

	Mining right 2016 HK$'000	2015 HK$'000
Cost		
At 1 January	**91,736**	97,500
Exchange differences	**(4,657)**	(5,764)
At 31 December	**87,079**	91,736
Accumulated amortisation and impairment		
At 1 January	**31,590**	9,804
Amortisation for the year	**3,510**	7,653
Impairment for the year	**17,573**	15,739
Exchange differences	**(2,512)**	(1,606)
At 31 December	**50,161**	31,590
Carrying amount		
At 31 December	**36,918**	60,146

The mining right represents the purchase cost of the exclusive right for certain volume of underground coal at the Mine 958 which expires on 4 July 2037.

The average remaining amortisation period of the mining right is 20.52 years (2015: 21.52 years).

Due to overcapacity of the coal industry and structural decline in coal demand caused by the policies of the PRC government, the coal prices of the PRC market are likely to stay at a relatively low level over the next few years. This indicates a potential impairment loss on the assets, including the intangible asset, used under the Coal CGU. As at 31 December 2016, the Group carried out reviews of the recoverable amount of the assets, including the intangible asset and the property, plant and equipment (note 18(d)) allocated to the Coal CGU, having regard to the market conditions of coal in the PRC. The review led to the recognition of an impairment loss on intangible asset of approximately HK$17,573,000 in profit or loss. Details please refer to note 18(d) to the consolidated financial statements.

22. Inventories

	2016 HK$'000	2015 HK$'000
Raw materials	**5,834**	13,853
Finished goods	**1,557**	3,870
	7,391	17,723

23. Trade and Bill Receivables

	2016 **HK$'000**	2015 HK$'000
Trade receivables	**3,627**	172,098
Impairment loss on trade receivables	**(2,411)**	(116,502)
	1,216	55,596
Bill receivables	**6,439**	1,343
	7,655	56,939

The general credit terms of sales of bags and barrels and coal upgrading business are 30 days. For sale of coal, payment in advance is required but credit terms of 90 days are granted to certain key customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the senior management.

The ageing analysis of trade receivables, based on the date of delivery, and net of allowance, is as follows:

	2016 **HK$'000**	2015 HK$'000
0 to 90 days	**1,100**	34,762
91 to 180 days	**–**	9,450
181 to 365 days	**116**	10,876
Over 365 days	**–**	508
	1,216	55,596

As 31 December 2016, an impairment provision of approximately HK$2,411,000 (2015: HK$116,502,000) was made for estimated irrecoverable trade receivables which relate to customers that were in financial difficulties. It was assessed that these receivables are expected to be irrecoverable.

Reconciliation of impairment loss on trade receivables:

	2016 **HK$'000**	2015 HK$'000
At 1 January	**116,502**	74,883
Impairment loss for the year	**2,519**	48,160
Disposal of subsidiaries	**(111,499)**	–
Exchange differences	**(5,111)**	(6,541)
At 31 December	**2,411**	116,502

23. Trade and Bill Receivables (Continued)

As of 31 December 2016, trade receivables of approximately HK$116,000 (2015: HK$20,834,000) were past due but not impaired. These relate to several independent customers that have good track record with the Group. The ageing analysis of these trade receivables is as follows:

	2016 **HK$'000**	2015 HK$'000
91 to 180 days	**–**	9,450
181 to 365 days	**116**	10,876
Over 365 days	**–**	508
	116	20,834

The carrying amounts of the Group's trade receivables are denominated in Renminbi ("**RMB**").

24. Restricted Bank Deposits

The Group's restricted bank deposits of approximately HK$7,134,000 (2015: HK$7,493,000) are the deposits kept for the coal mining business, which are required by related coal mining regulation in the PRC. The aforesaid deposits are in RMB and at market interest rate.

25. Bank and Cash Balances

At 31 December 2016, the Group's bank and cash balances denominated in RMB and kept in the PRC amounted to approximately HK$51,630,000 (2015: HK$19,555,000). 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. Due to a Director

The analysis of the carrying amount of the amounts due to a director is as follows:

	Note	**2016** **HK$'000**	2015 HK$'000
Current liabilities			
Other payables	(a)	**–**	2,822
Loans	(b)	**–**	6,516
		–	9,338
Non-current liabilities			
Loans	(b)	**20,230**	29,888
		20,230	39,226

26. Due to a Director (Continued)

Notes:

(a) The other payables were fully repaid during the year.

(b) The loans from a Director included interest payables of approximately HK$1,021,000 (2015: HK$752,000), which are unsecured, interest-free and repayable on 31 December 2018 (2015: 31 December 2017). The remaining balances are loans from a director and details are set out as below:

Fully repayable:	Interest rate	Security	**2016 HK$'000**	2015 HK$'000
On demand	Nil	Nil	**–**	6,516
31 December 2018 (2015: 31 October 2017)	Nil	Nil	**12,209**	21,136
31 December 2018 (2015: 31 December 2017)	5%	Nil	**7,000**	7,000
31 December 2017	5%	Nil	**–**	1,000
			19,209	35,652

Loans from a director repayable after one year are included in non-current liabilities and are recognised based on the effective interest method using discount rate of 4.75% (2015: 6%). As at 31 December 2016, the principle amounts of these loans from a director are approximately HK$20,397,000 (2015: HK$38,038,000).

Loans from a director of approximately HK$7,000,000 (2015: HK$8,000,000) are arranged at fixed rates, thus exposing the Group to fair value interest rate risk.

The carrying amounts are denominated in the following currencies:

	Hong Kong dollar HK$'000	**RMB HK$'000**	**Total HK$'000**
2016			
Loans	**8,021**	**12,209**	**20,230**
2015			
Other payables	–	2,822	2,822
Loans	8,752	27,652	36,404
	8,752	30,474	39,226

The directors estimate the carrying amounts of amounts due to a director approximate their fair value as at 31 December 2016.

27. Due to Non-Controlling Shareholders

The analysis of the carrying amount of the amounts due to non-controlling shareholders is as follows:

	Note	**2016 HK$'000**	2015 HK$'000
Current liabilities			
Loans	(a)	**–**	8,821
Advances	(a)	**–**	5,253
Other payables	(b)	**6,874**	10,792
		6,874	24,866
Non-current liabilities			
Loans	(a)	**–**	3,508
		6,874	28,374

Notes:

(a) The loans and advances were unsecured, interest-free and fully repaid during the year.

(b) The other payables are unsecured, interest-free and repayable at normal business term.

The carrying amounts of the amounts due to non-controlling shareholders are denominated in RMB.

The directors estimate the carrying amount of the amounts due to non-controlling shareholders approximate its fair value as at 31 December 2016.

28. Other Loans

Other loans are repayable as follows:

	2016 HK$'000	2015 HK$'000
Within one year	**25,228**	–
In the second year	**9,150**	50,845
	34,378	50,845
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(25,228)**	–
Amount due for settlement after 12 months	**9,150**	50,845

28. Other Loans (Continued)

The carrying amounts of the Group's other loans are denominated in RMB.

The average interest rate at 31 December 2016 was 5.2% (2015: 5.7%) per annum.

Other loans of approximately HK$29,291,000 (2015: HK$45,586,000) are arranged at fixed interest rates and expose the Group to fair value interest rate risk.

The directors estimate the carrying amounts of the other loans approximate their fair value as at 31 December 2016.

Subsequent to the reporting period, the Group repaid other loans with principal amount of approximately HK$25,228,000.

29. Trade Payables

No trade payable is arising from continuing operations as at 31 December 2016. The ageing analysis of trade payables, based on the date of receipt of goods, was as follows:

	2016 **HK$'000**	2015 HK$'000
0 to 90 days	**–**	–
91 to 180 days	**–**	–
181 to 365 days	**–**	592
Over 365 days	**–**	2,754
	–	3,346

The carrying amounts of the Group's trade payables were denominated in RMB.

30. Deferred Revenue

Deferred revenue represented a grant provided by local government in the PRC to Xilinhaote Guochuan for purchase of assets and will be recognised in profit or loss on straight-line basis over the estimated useful life of the related assets.

31. Deferred Tax

The following are the deferred tax assets/(liabilities) recognised by the Group:

	Decelerated tax depreciation HK$'000	Future deductible expenses/ (taxable amounts) HK$'000	Tax losses HK$'000	Undistributed earnings of the PRC subsidiaries HK$'000	Tax on gain from intergroup debts transfer and interest income HK$'000	Total HK$'000
At 1 January 2015	14,727	(3,446)	12,427	(12,064)	–	11,644
Credit/(charge) to profit or loss for the year (note 11)	1,070	(4,008)	(1,731)	10,635	–	5,966
Exchange differences	(918)	380	(659)	–	–	(1,197)
At 31 December 2015 and 1 January 2016	**14,879**	**(7,074)**	**10,037**	**(1,429)**	**–**	**16,413**
Credit/(charge) to profit or loss for the year (note 11)	**(9,592)**	**9,079**	**(3,586)**	**294**	**(28,644)**	**(32,449)**
Exchange differences	**(342)**	**(31)**	**(357)**	**–**	**1,233**	**503**
At 31 December 2016	**4,945**	**1,974**	**6,094**	**(1,135)**	**(27,411)**	**(15,533)**

The following is the analysis of the deferred tax balances (after offset) for statement of financial position purposes:

	2016 HK$'000	2015 HK$'000
Deferred tax assets	**13,013**	17,842
Deferred tax liabilities	**(28,546)**	(1,429)
	(15,533)	16,413

At the end of the reporting period the Group has unused tax losses of approximately HK$61,954,000 (2015: HK$180,598,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$24,376,000 (2015: HK$40,146,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$37,578,000 (2015: HK$140,452,000) due to the unpredictability of future profit streams. These unrecognised tax losses are available for offsetting against future taxable profits in one to five years.

32. Share Capital

	Note	2016 Number of shares '000	2016 Amount HK$'000	2015 Number of shares '000	2015 Amount HK$'000
Authorised:					
Ordinary shares of HK$0.50 (2015: HK$0.50) each		**2,000,000**	**1,000,000**	2,000,000	1,000,000
Ordinary shares, issued and fully paid:					
At 1 January		**503,478**	**251,739**	458,478	229,239
Issue of shares pursuant to a placing agreement	(a)	**–**	**–**	45,000	22,500
At 31 December		**503,478**	**251,739**	503,478	251,739

Notes:

(a) On 11 June 2015, 45,000,000 ordinary shares of HK$0.50 each were issued by way of placing at a price of HK$0.82 per share for cash consideration of HK$36,900,000. The premium on issue of shares approximately HK$12,984,000, which was net of share issue expenses approximately of HK$1,416,000, was credited to the share premium account.

(b) On 14 December 2016, a special resolution was passed at the extraordinary general meeting ("**EGM**") to cancel the share premium account of approximately HK$293,461,000 to set off against the accumulated losses of the Company.

(c) On the same date, special resolutions were passed at the EGM to approve the capital reduction and subdivision ("**Capital Reduction**"). The directors propose that:

– the share capital of the Company be restructured in the following manner: (i) the par value of each issued share of the Company be reduced from HK$0.50 to HK$0.01 each by cancelling the paid up share capital to the extent of HK$0.49 on each issued share so that each issued share shall be treated as one fully paid up share of par value of HK$0.01 each in the share capital of the Company (the "**New Share**"); and (ii) immediately following the Capital Reduction, each authorised but unissued share of the Company of par value of HK$0.50 each be subdivided into 50 shares of HK$0.01 par value each; and

– the credit arising from the capital reduction in the amount of approximately HK$246,704,000 be applied towards offsetting the accumulated losses of the Company as at the effective date of the Capital Reduction, thereby reducing the accumulated losses of the Company subject to such conditions as the Court may impose, and the balance (if any) be transferred to a distributable reserve account of the Company which may be applied for such purposes as permitted under the Memorandum and Articles of Association and all applicable laws and rules including the Listing Rules and as the Board considers appropriate.

Up to the date of this report, the Company's Capital Reduction and subdivision is conditional and subject to (i) the approval of the Capital Reduction by the Grant Court of the Cayman Islands (the "**Court**"); (ii) the compliance with any conditions which the Court may impose in relation to the Capital Reduction; (iii) the registration by the Registrar of Companies of the Cayman Islands of the order of the Court confirming the Capital Reduction and the minutes approved by the Court containing the particulars required under the Companies Law with respect to the Capital Reduction; and (iv) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares arising from the Capital Reduction and Subdivision.

32. Share Capital (Continued)

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to recognise the return to the shareholders through the recognition of the debt and equity balance. Capital comprises all components of equity (i.e. share capital, accumulated losses and other reserves) except for non-controlling interests, which remains unchanged from prior year. As at 31 December 2016, total equity of approximately HK$157,629,000 (2015: HK$311,079,000) was managed by the Group as capital.

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 only externally imposed capital requirement is that, for the Group 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 quarterly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. At 31 December 2016, 68.98% (2015: 63.34%) of the shares were in public hands.

33. Share-Based Payments

Equity-settled share option scheme

The Company's share option scheme (the "**Scheme**") was adopted on 20 August 2009 for a period of 10 years. A summary of the principal terms of the Scheme is set out in the circular of the Company dated 4 August 2009.

Under the Scheme, the directors may, at their discretion, offer options to Participants (as defined in the circular of the Company dated 4 August 2009) to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

Details of the specific categories of options are as follows:

	Date of grant	**Vesting period**	**Exercise period**	**Exercise price HK$**
Directors, employees and consultants	30 April 2015	Nil	30 April 2015 to 29 April 2025	0.71
Directors and employees	28 July 2015	Nil	28 July 2015 to 27 July 2025	0.53

33. Share Based Payments (Continued)

Equity-settled share option scheme (Continued)

If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the directors and employees leave or the consultants terminated the services agreements with the Group.

Details of the movement of share options during the year are as follows:

	2016		2015	
	Number of share options	**Weighted average exercise price HK$**	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January	**25,650,000**	**0.631**	–	–
Granted during the year	**–**	**–**	25,650,000	0.631
Forfeited during the year	**(12,375,000)**	**0.645**	–	–
Outstanding at 31 December	**13,275,000**	**0.618**	25,650,000	0.631
Exercisable at 31 December	**13,275,000**	**0.618**	25,650,000	0.631

The options outstanding at the end of the year have a weighted average remaining contractual life of 8.46 years (2015: 9.44 years) and the exercise prices range from HK$0.53 to HK$0.71 (2015: HK$0.53 to HK$0.71). No share options were granted during the year ended 31 December 2016. In 2015, options were granted on 30 April 2015 and 28 July 2015. The estimated fair values of the options granted on those dates are HK$5,438,000 and HK$3,071,000 respectively.

These fair values were calculated using the Binomial option pricing model. The inputs into the model are as follows:

Share options granted on	30 April 2015	28 July 2015
Share price	HK$0.70	HK$0.465
Exercise price	HK$0.71	HK$0.530
Expected volatility	78.26%	81.34%
Expected life	10 years	10 years
Risk free rate	1.52%	1.72%
Expected dividend yield	1.12%	0.76%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 10 years. The expected life used in the model has been adjusted, based on the Group's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

Share options granted to consultants were incentives for helping the Group expand its business network, acquire and explore new business projects and opportunities. The fair value of such benefit could not be estimated reliably and as a result, the fair value is measured by reference to the fair value of share options granted.

34. Statement of Financial Position of the Company

	Note	As at 31 December 2016 HK$'000	2015 HK$'000
Non-current assets			
Investments in subsidiaries		**21**	22
Current assets			
Due from subsidiaries		**135,799**	255,083
Prepayment		**1,293**	96
Bank and cash balances		**23,406**	20,835
		160,498	276,014
Current liabilities			
Due to subsidiaries		**198**	198
Accrued charges and other payables		**1,370**	1,343
		1,568	1,541
Net current assets		**158,930**	274,473
Total assets less current liabilities		**158,951**	274,495
Non-current liabilities			
Due to a director		**8,021**	8,752
NET ASSETS		**150,930**	265,743
Capital and reserves			
Share capital		**251,739**	251,739
Reserves	35(a)	**(100,809)**	14,004
TOTAL EQUITY		**150,930**	265,743

Approved by the Board of Directors on 17 March 2017 and is signed on its behalf by:

Xu Bin	**Zhang Fusheng**
Director	*Director*

35. Other Reserves

(a) Company

	Note	Share premium HK$'000	Capital reserve HK$'000	Share-based payment reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2015		280,477	3,917	–	(110,315)	174,079
Total comprehensive income for the year		–	–	–	(181,568)	(181,568)
Issue of shares	32(a)	12,984	–	–	–	12,984
Recognition of share-based payments	33	–	–	8,509	–	8,509
At 31 December 2015		293,461	3,917	8,509	(291,883)	14,004
At 1 January 2016		**293,461**	**3,917**	**8,509**	**(291,883)**	**14,004**
Total comprehensive income for the year		**–**	**–**	**–**	**(114,813)**	**(114,813)**
Cancellation of share premium	32(b)	**(293,461)**	**–**	**–**	**293,461**	**–**
Share options forfeited		**–**	**–**	**(4,204)**	**4,204**	**–**
At 31 December 2016		**–**	**3,917**	**4,305**	**(109,031)**	**(100,809)**

(b) Nature and purpose of reserves

(i) Capital reserve

The capital reserve of the Group arose as a result of the Group reorganisation implemented in preparation for the listing of the Company's shares in 2001 and represented the difference between the nominal value of the aggregate share capital of the subsidiaries acquired under the reorganisation scheme, over the nominal value of the share capital of the Company issued in exchange therefore.

(ii) Future development fund

Pursuant to the relevant PRC regulations, the Group is required to set aside an amount to a future development fund at RMB9.5 (2015: RMB9.5) per tonne of raw coal mined. The fund can be used for future development of the coal mining operations, and is not available for distribution to shareholders. Upon incurring qualifying development expenditure, an equivalent amount is transferred from future development fund to retained earnings.

35. Other Reserves (Continued)

(b) Nature and purpose of reserves (Continued)

(iii) Safety fund

Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC, the Group is required to set aside an amount to a safety fund at RMB15 (2015: RMB15) per tonne of raw coal mined. The fund can be used for improvements of safety at the mines, and is not available for distribution to shareholders. Upon incurring qualifying safety expenditure, an equivalent amount is transferred from safety fund to retained earnings.

(iv) 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 policies set out in note 4(c)(iii) to the consolidated financial statements.

(v) Share-based payment reserve

The share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to the Participants of the Group recognised in accordance with the accounting policy adapted for equity-settled share-based payments in note 4(r) to the consolidated financial statements.

(vi) Warrants reserve

Warrants reserve represents the net proceeds received from the issue of warrants of the Company. Warrants reserve will be transferred to share premium account upon the exercise of the warrants or released to retained profits if the warrants remain unexercised at the expiry date.

36. Notes to the Consolidated Statement of Cash Flows

(a) Disposal of subsidiaries

As referred to in note 15 to the consolidated financial statements, on 24 November 2016 the Group discontinued its manufacture and sale of plastic woven bags, paper bags and plastic barrels business at the time of the disposal of EHI.

Net assets at the date of disposal were as follows:

	HK$'000
Property, plant and equipment	11,553
Prepaid land lease	2,375
Deposits, prepayments and other receivables	37
Bank and cash balances	2
Trade payables	(1,329)
Accrued charges and other payables	(11,864)
Current tax liabilities	(30)
Net assets disposed of	744
Release of foreign currency translation reserve	(26,741)
Direct cost to the disposal	66
Gain on disposal of subsidiaries (note 15)	48,731
Consideration satisfied by cash	22,800
Net cash inflow arising on disposal:	
Cash consideration received	22,800
Cash paid for direct cost	(66)
Cash and cash equivalents disposed of	(2)
	22,732

(b) Major non-cash transaction

During the year, the Group sold certain motor vehicles for settlement of its trade payables of approximately HK$884,000 (2015: HK$1,482,000).

37. Contingent Liabilities

Based on relevant coal mining regulations in the PRC (中華人民共和國國務院令第446號《國務院關於預防煤礦生產安全事故的特別規定》及發改電2014226號《關於遏制煤礦超能力生產規範企業生產行為的通知》), the over-production of Inner Mongolia Jinyuanli during the year ended 31 December 2016 may result in a maximum penalty of RMB2,000,000 (equivalent to HK$2,233,000) and, consideration of possible to bring its operations to a halt. Inner Mongolia Jinyuanli made an application to relevant authorities to increase its annual production capacity in May 2015 (the "**Application**") and is now still subject to an examination period.

Inner Mongolia Jinyuanli obtained the legal opinion from an independent legal advisor that it is very unlikely that Inner Mongolia Jinyuanli will be penalised or suspended the operations and it could maintain its operations of current production output before there are any further development of the Application. The directors relied on the above mentioned legal opinion to conduct the coal mining operations. Up to the date of this report, Inner Mongolia Jinyuanli does not receive any penalty notice nor any order to suspend its operation from government authorities concerning the above matter. Nevertheless, directors consider that the Group has a potential contingent liability arisen from the over-production of coal with a maximum amount of HK$2,233,000 as at 31 December 2016

38. Capital Commitments

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

	2016 **HK$'000**	2015 HK$'000
Property, plant and equipment	**31,030**	39,734
Prepaid land lease payments	**17,548**	18,486
	48,578	58,220

39. Lease Commitments

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

	2016 **HK$'000**	2015 HK$'000
Within one year	**2,984**	1,324
In the second to fifth years inclusive	**2,623**	2,352
After five years	**–**	147
	5,607	3,823

Operating lease payments represent rental payables by the Group for certain of its offices and factory. Leases are negotiated for terms ranging from two to nine years and rental are fixed over the lease terms and do not include contingent rentals.

40. Related Party Transactions

In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the year:

	2016 **HK$'000**	2015 HK$'000
License fee payable to a director	–	410
Loan interest paid to a director	**399**	400

The Company and a director entered into the New License Agreement. Pursuant to the New License Agreement, the Company paid a nominal license fee of HK$1 for the licensing of the Proprietary Technology (note 14(b)).

Compensation of key management personnel

The key management personnel of the Company comprises all directors, details of their remuneration are disclosed in note 14 to the consolidated financial statements.

41. Principal Subsidiaries

Particulars of the principal subsidiaries as at 31 December 2016 are as follow:

Name	Place of registration and operation	Paid up capital	Percentage of ownership interest/ voting power/ profit sharing	Principal activities
Changchun Guochuan Energy and Technology Development Company Limited ("**CCGC**")(1)	The PRC	RMB5,000,000	80%	Inactive
Inner Mongolia Jinyuanli (1)	The PRC	USD45,000,000	56.2%	Coal mining
Jilin Province De Feng Commodity Economics and Trading Co., Limited ("**Jilin De Feng**")(1)	The PRC	RMB20,000,000	51%	Inactive
Xilinhaote Guochuan(1)	The PRC	RMB80,000,000	100%	Coal upgrading(2)

(1) Sino-foreign equity joint venture

(2) As at 31 December 2016, the coal upgrading structure was still under construction and its business has not yet commenced.

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

41. Principal 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 elimination.

Name	Jilin De Feng		Inner Mongolia Jinyuanli		CCGC	
	2016	2015	**2016**	2015	**2016**	2015
Principal place of business/country of incorporation	**PRC/PRC**		**PRC/PRC**		**PRC/PRC**	
% of ownership interests/voting rights held by NCI	**49%/49%**	49%/49%	**43.8%/43.8%**	43.8%/43.8%	**20%/20%**	20%/20%
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 31 December:						
Non-current assets	**559**	720	**215,322**	330,557	**7,056**	12,206
Current assets	**44,826**	62,752	**76,406**	93,535	**289**	7,760
Non-current liabilities	**–**	–	**–**	–	**(13,209)**	(8,538)
Current liabilities	**(140)**	(15,215)	**(227,209)**	(347,858)	**(21,346)**	(32,943)
Net assets/(liabilities)	**45,245**	48,257	**64,519**	76,234	**(27,210)**	(21,515)
Accumulated NCI	**22,163**	23,638	**28,538**	33,669	**(5,442)**	(4,303)
Year ended 31 December:						
Revenue	**–**	2,601	**264,392**	237,527	**–**	–
Loss	**(587)**	(2,226)	**(8,198)**	(70,307)	**(7,092)**	(4,274)
Total comprehensive income	**(3,011)**	(5,294)	**(11,715)**	(76,235)	**(5,695)**	(2,991)
Loss allocated to NCI	**(1,475)**	(2,594)	**(5,131)**	(33,391)	**(1,139)**	(598)
Dividends paid to NCI	**–**	–	**–**	–	**–**	–
Net cash (used in)/generated from operating activities	**(12,579)**	4,183	**120,854**	4,365	**(796)**	403
Net cash generated from/(used in) investing activities	**2**	6	**(17,203)**	(3,972)	**(34)**	138
Net cash (used in)/generated from financing activities	**–**	–	**(55,604)**	–	**823**	(738)
Net (decrease)/increase in cash and cash equivalents	**(12,577)**	4,189	**48,047**	393	**(7)**	(197)