LOUDONG GENERAL NICE RESOURCES (CHINA) HOLDINGS LIMITED
樓東俊安資源(中國)控股有限公司

(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)

Stock Code 股份代號：00988

2016
ANNUAL REPORT 年報

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Corporate Information

EXECUTIVE DIRECTORS
Geng Tao *(Chairman and Chief Executive Officer)*
Zhao Cheng Shu *(Deputy Chairman)*
Ng Tze For
Han Binke

INDEPENDENT NON-EXECUTIVE DIRECTORS
Choy So Yuk, *BBS, JP*
Leung Yuen Wing
Wu Zhao
Zhu Dengkai

AUDIT COMMITTEE
Leung Yuen Wing *(Chairman)*
Choy So Yuk, *BBS, JP*
Wu Zhao
Zhu Dengkai

REMUNERATION COMMITTEE
Zhu Dengkai *(Chairman)*
Choy So Yuk, *BBS, JP*
Leung Yuen Wing
Wu Zhao

NOMINATION COMMITTEE
Geng Tao *(Chairman)*
Han Binke
Choy So Yuk, *BBS, JP*
Leung Yuen Wing
Zhu Dengkai

EXECUTIVE COMMITTEE
Geng Tao *(Chairman)*
Ng Tze For
Han Binke

AUTHORISED REPRESENTATIVES
Ng Tze For
Chiu Yuk Ching

COMPANY SECRETARY
Chiu Yuk Ching

AUDITORS
CCTH CPA Limited

REGISTERED OFFICE
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Hamilton HM 11
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BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
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183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS
Bank of Communications Co., Ltd., Hong Kong Branch
Citic Bank International Limited
DBS Bank (Hong Kong) Limited
The Bank of East Asia, Limited
OCBC Wing Hang Bank Limited
Fubon Bank (Hong Kong) Limited

Chairman's Statement

Dear Shareholders,

Since taking on my new role as Chairman and CEO of Loudong General Nice Resources (China) Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") at the outset of 2017, my clear goal for the Group to achieve is to speed up the transitioning to deliver positive results and annual earnings growth to our Shareholders. Although 2016 has been a year of positive move with new acquisitions on logistics and warehouse business units, we are mindful that the pace of our asset re-positioning initiatives fell short of market expectation.

In 2016, the modest profit contribution from our logistics-warehousing business unit was more than offset by the substantial losses incurred in our Shanxi coking plant subsidiary despite the improved coke price and business environment in the second half of the year. In the review year, the Group's revenue and gross profit amounted to approximately HK$3,326,156,000 and HK$155,899,000 respectively, with loss attributable to owners of the Company amounted to approximately HK$679,007,000. For the year ended 31 December 2016, basic loss per share for continuing operations has recorded HK$0.17. The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).China's economy braced for "new normal" development in 2016, entailing a shift to a milder growth and structural optimization resulting in a 6.7% GDP increase. Fixed Asset Investment of the country rose 8.3% in 2016 and stimulated demand for steel products, lending robust support to domestic coke prices that have rebounded from a multiple years low in the beginning of the year. Yet, according to data of the National Bureau of Statistics, China's coke production reached 449.11 million tons in 2016, edging up a flat 0.6% from a year ago. Such meagre growth underpinned the coking industry's long overhang structural problems of overcapacity and stringent environmental regulations.

In view of the challenges, the Group constantly adapt ourselves and refocus the business strategy to a more diverse foundation in select commodities resources and logistics-warehousing assets. During review year, the Group successfully completed the acquisition of two logistics warehousing operations in Hebei and Inner-Mongolia respectively. It is expected that the logistics warehousing business will bring more stable income to the Group to achieve the target of delivering positive results and annual earnings growth.

In recent years, because of economic globalization and the rise of e-commerce, logistics and warehousing market is strongly developing with promising prospects. The State Council of the People's Republic of China has already released the "2014-2020 Mid- to Long-term Plan for logistics development" in 2014, deploy to accelerate the development of modern logistics industry, establish and enhance the modern logistics service system. It also adheres to increase the level of development of the logistics industry and provides development opportunities with the "One Belt One Road" strategy.

Chairman’s Statement

As we look to the future, the Group will continue to explore new investment opportunities and assess existing low-return assets or exit loss-making business units. The Group will also closely monitor the development of the oil and other resources markets, eyes on potential businesses, strives to enhance the overall return of shareholders, as well as to create sustainable development for the Group.

Finally, I would like to express my sincere appreciation to the Board and the Company’s people for their commitment as well as our shareholders and business partners for the support in the past year.

Chairman
Geng Tao

8 May 2017

Management Discussion and Analysis

FINANCIAL RESULTS

For the year ended 31 December 2016, the Group recorded revenue from operations of approximately HK$3,326,156,000 (2015: approximately HK$1,569,903,000), representing a 111.9% increase from the previous year, mostly attributable to revenue generated by the newly acquired subsidiary, Tianjin Property Qian'an Logistics Company Limited (天津物產遷安物流有限公司, "Qian'an Logistics"), despite plunging revenues in the coke manufacturing segment. The Group's gross profit rose to approximately HK$155,899,000 for the year ended 31 December 2016 from approximately HK$74,687,000 recorded in 2015, with the gross profit margin slightly decreased to 4.7% from 4.8% in prior year.

The loss attributable to the owners of the Company for the year ended 31 December 2016 shrank considerably to approximately HK$679,007,000 from about HK$1,291,990,000 posted in the preceding year, mainly due to significant reduction in overall impairment, although impairment of trade receivables and prepayments remained at high level.

BUSINESS REVIEW

The coke manufacturing segment, Shanxi Loudong, continued to be the primary loss-making unit of the Group in 2016, suffering its fourth consecutive year of heavy loss, amidst a tepid domestic market in China and the downturn of the commodities market leading to sharp drop in revenues, regardless of the price hike of coke noticed in the second half of the year. In 2016, revenues derived from the coke manufacturing division plummeted 38.2% to about HK$764,911,000 from approximately HK$1,238,648,000 a year earlier. Coke manufacturing segment loss amounted to approximately HK$565,732,000, similar to about HK$596,655,000 segment loss posted in 2015, largely because of massive write-down on accounts receivable and prepayments incurred in earlier years. Impairment of trade receivables remained at high level at about HK$355,866,000 in 2016, compared to approximately HK$351,211,000 in 2015, as the coking industry experienced a prolonged adverse market environment which had resulted in impairment having to be provided for overdue receivables of over one year. For customers with outstanding receivables of more than one year, Shanxi Loudong will stop business with them and will assign personnel to follow up settlement. In case of any further potential default, Shanxi Loudong will take to the court to resolve the issue.

Impairment of prepayments, deposits and other receivables increased to HK$113,931,000 in 2016 from about HK$39,825,000 in 2015, as a result of huge deposits made to coal suppliers in preceding years that had become over a year. Shanxi Loudong used to make deposits to coal suppliers to maintain a stable supply of raw materials. As coke market turned sour in the past few years, the utilization of coal dropped considerably in 2016, thus leading to huge unutilized deposits that exceeded one year. These coal suppliers are still supplying coal to Shanxi Loudong, thus part of the impairment may be reversed in the coming years.

Looking ahead, coking industry in China is expected to remain lacklustre owing to Beijing's sharper environmental focus, industry overcapacity and swinging government policies in regulating end-users in property and infrastructure investments. Coking plants and steel mills in major production areas – Hebei, Shanxi and Shandong provinces – will be subject to further production cut and restrictions to combat rampant smog that grappled northern China in winter. As outlook for coking business appears uninspiring after four years of consecutive loss while our 20-year old coking facilities are considered outdated and environmental unfriendly, it is an opportune moment to reassess the divestment alternative to better employ the Group's resources for other positive and stable return assets.

Management Discussion and Analysis

The debtor's turnover day of the Group in 2016 was 90 days compared with 215 days in 2015. In line with local market practice to compete with other coke producers, the Company has extended credit period to select credit-worthy customers notwithstanding the cyclical economy and lukewarm industry environment. In future, the Group will tighten its credit policy further to reduce credit extension to customers with more emphasis on repayment quality. If there are any irregularities in repayment, credit terms granted to debtors will be adjusted accordingly. If the balance due from debtors becomes doubtful, appropriate doubtful debt provision will be provided for.

As of 31 December 2016, the Group's total equity further decreased by about 32% to approximately HK$204,881,000 from approximately HK$301,504,000 recorded in 2015 with gearing ratio stood at 92% (31 December 2015: 87%).

In 2016, the Group completed the acquisition of two logistics warehousing businesses to broaden its business base and enhance its long-term sustainable profitability. In January 2016, the Group has completed the acquisition of Pride Logic Limited, through its wholly-owned subsidiary, holds 40% equity interests in Wulanchabu Integrated Logistics Park Company Limited ("WILP"), for the consideration of HK$640,000,000. WILP and its subsidiaries (the "WILP Group") are principally engaged in railway construction investment and coal storage, ordinary freight forwarding for coal trading, warehousing and piling of railway transportation.

In June 2016, the Group completed the acquisition of the entire equity interest of Tianjin Ruiqi Enterprise Management Company Limited which in turn holds 70% interest of Tianjin Property Qian'an Logistics Company Limited (天津物產遷安物流有限公司, "Qian'an Logistics"), for a consideration of RMB200,000,000. Qian'an Logistics is principally engaged in warehousing services, general cargo, trading of minerals, coal and coke. It holds two parcels of land (the "Hebei Land") which located at Qian'an City, Hebei Province, the PRC. (中國河北省遷安市) with an aggregate gross floor area of approximately 59,713 sq.m. and 22,636 sq.m. respectively. The Hebei Land is developed into a regional logistics services centre for the provision of comprehensive logistics services such as warehousing, trading and delivery of coke, commodities and chemicals to companies located in the region. The Board considers that the acquisition represents a good opportunity for the Group to further engage in the logistics and warehousing industry in the PRC and to expand its existing business portfolio for trading of coke, commodities and chemicals.

In August 2016, Hebei Baoli Huifeng Shiye Group Company Limited ("Baoli") which holds 30% of Qian'an Logistic entered into a supply agreement (the "Supply Agreement") with Qian'an Logistics (as supplier) for a term of three years. Under the Supply Agreement, Baoli, as the purchaser group, may during the term of the Supply Agreement and subject to the agreed maximum caps purchase coal, coke and iron ores (the "Goods") from the Group at the price determined through arm's length negotiations between the supplier and the purchaser by reference to the prevailing market prices of the Goods, and no less favourable than that provided to independent third parties. The Board considers that the Supply Agreement will enable the Group to receive a reliable and continuous income stream from the purchaser group.

Management Discussion and Analysis

Trading segment revenue totaled approximately HK$2,555,257,000 in 2016, jumped from about HK$318,246,000 a year earlier, thanks mostly to the substantial trading revenue generated by Qian'an Logistics, that accounted for about 77% of the segment revenue. Qian'an Logistics also contributed profit of about HK$34,439,000 in 2016, which reinforced our business strategy to focus on high return franchise business—logistics and warehousing.

In November 2016, the Company completed placing of 318,165,000 new shares of the Company (the "Placing") and raised net proceeds of approximately HK$143.8 million of which HK$75 million is for future acquisitions and the remaining balance for the general working capital of the Group. To cope with our future business development, more debt and capital market fund raising exercises will be considered when opportunities evolve.

OUTLOOK

Looking forward, we are committed to expedite the transformation of the Group to be a diversified merchant of select commodities, resources and logistics warehousing operation. While we acknowledge the massive work to fix and accomplish, we look forward to 2017 with confidence. At the same time, we remain vigilant over external factors that may affect our business such as global political tension, general trend of interest rates hike and tightened liquidity, volatile commodities cycle and overcapacity in steel and coke.

In recent years, the Chinese government vigorously supports the logistics and warehousing industry through the introduction of favorable policies like the one belt one road policy, whereas the Group pledges to transform its businesses to focus in this industry, so as to seize this opportunity to maximize our profitability. Significant segment profit contribution from logistics warehousing sector, typified by Qian'an Logistics on its first half-year profit, is expected in the years ahead.

Furthermore, the Group is determined to explore other opportunities in commodities and resources with potentials, including iron ores and coal, which would help enriching the business portfolio and diversity to minimize risk in this highly volatile market environment.

In addition, as international crude oil prices have begun to stabilize and somewhat range-bound in recent months, the Group believes there are considerable growth potentials for the oil & gas sector in the near future. The Group's 30% oil associate, Rockeast Energy Corporation ("RockEast"), has started to make a modest profit in 2016 after its infant operating stage. With stabilised oil price and increased production volume, RockEast aims to generate satisfactory growth in revenues and profit in the next few years. The Group will monitor closely any opportunities, whether existing associated companies or future projects, to capture the potentials in this sector.

The Group believes that with the continued support of our two State-owned bondholders and shareholders, China Huarong International Co Ltd (中國華融國際有限公司) and Tewoo Group Co Ltd (天津物產集團有限公司) respectively, it is in a strong position to build upon its core strengths to expand the platform to become one of China's leading players in select commodities, resources and logistics warehousing operation.

Management Discussion and Analysis

CAPITAL STRUCTURE, LIQUIDITY, FINANCIAL RESOURCES AND DEBT MATURITY PROFILE

As at 31 December 2016, the Group had total interest bearing bank and other borrowings in the amount of approximately HK$1,876,609,000 (31 December 2015: HK$1,904,009,000), representing a decrease of HK$27,400,000. The Group's interest bearing bank and other borrowings are repayable within one year.

The Group's total interest bearing bank and other borrowings of approximately HK$1,874,074,000 are denominated in Renminbi ("RMB") at floating interest rates. The Group's cash and bank balances of approximately HK$77,828,000 were 26% denominated in RMB, 3% in USD and 71% in HK$.

As at 31 December 2016, the Group had total convertible bonds with the aggregate principal amount of approximately HK$700,000,000 (31 December 2015: HK$700,000,000), which are redeemable in the 2018. The convertible bonds are denominated in HK$ and bear interest at fixed interest rate of 6% per annum.

TREASURY POLICY

The Group adopts a conservative approach towards its treasury policy. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluation of the financial condition of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

DELAY IN PUBLICATION OF ANNUAL RESULTS AND DESPATCH OF ANNUAL REPORT

On 21 March, 2017, 27 March 2017, 18 April 2017 and 2 May 2017, the Board announced that as additional time was required to provide for the Company's auditors to complete their audit procedures, in particular, the completion of audit works on Shanxi Loudong-General Nice Coking & Gas Co., Ltd., the publication of the annual results of the Group for the year ended 31 December 2016 ("Annual Results") postponed to 8 May 2017. On 28 April 2017, the Company announced that due to the delay in publication of the Annual Results, the dispatch of the 2016 Annual Report has to be delayed to such time after the publication of the Annual Results. The Company did not publish its Annual Results on or before 31 March 2017 and despatch of the 2016 Annual Report on or before 30 April 2017, and the delay in the publication of the announcement of the Annual Results and dispatch of the 2016 Annual Report constitute non compliance with the Listing Rules.

MATERIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

On 30 December 2015, the Group entered into a sale and purchase agreement to purchase 40% equity interests in WILP through the acquisition of 100% equity interest of Pride Logic Limited for a consideration HK$640,000,000. WILP is principally engaged in railway construction investment and coal storage in the PRC. Completion of the acquisition was taken place on 13 January 2016. For more details, please refer to the announcements of the Company dated 30 December 2015 and 13 January 2016.

On 29 March 2016, the Group made a submission of an irrevocable bid in an open tender process at Tianjin Property Rights Exchange for the acquisition of 70% of the equity interest of Qian'an Logistics from Tewoo Import and Export Trade Co., Ltd. for a total consideration of RMB200 million. The Group has succeeded in the opened tender bidding and the acquisition was completed on 20 June 2016. Qian'an Logistics is principally engaged in warehousing services, general cargo, trading of minerals, coal and coke. For more details, please refer to the announcements of the Company dated 30 March 2016, 6 April 2016, 8 April 2016 and 28 June 2016.

Management Discussion and Analysis

EMPLOYEES

As at 31 December 2016, the total number of employees of the Group was approximately 1,000 (31 December 2015: 720). Apart from the basic remuneration, discretionary bonus may be granted to eligible employees by reference to the Group's performance as well as the individual's performance. The Group also has adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. As at 31 December 2016, there were 4,214,351 (31 December 2015: 4,214,351) outstanding share options granted under such scheme.

CHARGE OF GROUP ASSETS

As at 31 December 2016, the bank deposits of approximately HK$19,307,000 (31 December 2015 HK$35,199,000) and a property with a carrying value of approximately HK$13,373,000 (31 December 2015: HK$13,715,000) are pledged as securities for the Group's banking facilities. Certain machineries with a carrying value of approximately HK$31,588,000 (2015: HK$20,756,000) were pledged to secure general banking facilities granted to the Group.

GEARING RATIO

As at 31 December 2016, the gearing ratio of the Group (being the ratio of net debt divided by total capital plus net debt) was approximately 92% (31 December 2015: approximately 87%). Net debt represents the aggregate amount of the Group's bank and other borrowings, promissory notes payable the non-current portion of the amount loans due to related parties and convertible bonds less cash and cash equivalents of the Group. Total capital represents total equity attributable to owners of the Company.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The Group's reporting currency is denominated in HK$. The Group's monetary assets, loans and transactions were principally denominated in RMB, USD and HK$. The Group had a net exchange exposure to RMB as the Group's assets were principally located in the PRC and the revenues were in RMB.

The Group does not have any derivative financial instruments or hedging instruments. The Group will constantly review the economic situation and its foreign currency risk profile, and will consider appropriate hedging measures in future as may be necessary.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2016 (2015: Nil).

Biography of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Geng Tao, aged 35, was appointed executive director of the Company with effect from 1 January 2017. He is also the chairman, the chief executive officer, chairman of each of the nomination committee and the executive committee of the Company. Mr. Geng obtained a bachelor degree in Computer Science and Technology (計算機科學與技術) from Beihang University in the People's Republic of China (the "PRC") in 2003, and a Mphil degree from the University of Cambridge in the United Kingdom in 2006. He has over 10 years of experience in the finance industry, and had held senior positions in various financial institutions from 2006 to 2016. He was a Senior Manager of the Finance and Trading Department and the Human Resources Department of China Minsheng Bank Corp., Ltd. (stock code: 1988), a company listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), from June 2006 to December 2008. He was the Head of the Beijing Changan Branch of China CITIC Bank and the Assistant General Manager of Corporate Finance Division of China CITIC Bank Corporation Limited (stock code: 998), a company listed on the main board of the Stock Exchange, from January 2009 to August 2013 and from August 2013 to October 2016 respectively.

Mr. Zhao Cheng Shu, aged 53, was appointed an executive Director of the Company on 2 April 2009. He is also the deputy chairman of the Company. Mr. Zhao is an economist and a senior engineer and has accumulated over 25 years of experience in the management of sizeable enterprises in the PRC. He is a specialist in corporate management and an entrepreneur. Currently he is a director and the general manager of Shanxi Loudong-General Nice Coking & Gas Co., Ltd. ("Shanxi Loudong"), a major subsidiary of the Company, and a director of a subsidiary of the Company. He is responsible for overall management and operations of Shanxi Loudong. Mr. Zhao is the general manager of Shanxi Loudong Industry and Trading Group Company ("Loudong Trading") and a director of Xin Lou Resources (Hong Kong) Limited, which is a subsidiary of Loudong Trading and has more than 5% of the issued shares of the Company. He is also the Vice President of the Federation of Young Entrepreneurs of Shanxi Province, Standing Committee of the Political Consultative Conference and Representative to the National People's Congress of Xiaoyi City of Shanxi Province, Deputy President of the Chamber of Industrial and Commerce of Xiaoyi City of Shanxi Province, Member of the Committee of the Political Consultative Conference of Luiliang City of Shanxi Province, etc. Mr. Zhao has contributed a lot to the society and thus been awarded many honourable titles and prizes, including "Advance Worker Assisting Economic Development of Private Enterprises of Luiliang City of Shanxi Province", "Outstanding Entrepreneur of Private Enterprise of Shanxi Province", "Young Leader of Special Technology of Luiliang City of Shanxi Province", "Outstanding Person in Pushing Relief from Poverty for the Society", "Role Model for Labour in Shanxi Province", "National Model for Labour ", "Ethical Role Model", "Medalist of Labour Day in Shanxi Province" etc. Mr. Zhao holds a Master degree in Enterprise Management specialising in Industrial Economics awarded by the Graduate School of China Institute of Social Science (中國社會科學院).

EXECUTIVE DIRECTORS (continued)

Mr. Ng Tze For, aged 55, was appointed an executive Director of the Company with effect from 11 September 2008. He is also a member of the executive committee of the Company and director of the subsidiaries of the Company. He was an alternate director to a non-executive, non-independent director of Palabora Mining Company Limited ("Palabora") from July 2013 to December 2014 and is currently a non-executive director of Palabora. Palabora has been de-listed from the Johannesburg Stock Exchange Limited since April 2014. He is also an alternate director to a non-executive director of IRC Limited whose shares are listed on the Stock Exchange. He has more than 25 years of experience in banking, corporate finance, business development and strategy planning for a number of international banks and listed companies in Hong Kong, Beijing and Shanghai. Mr. Ng graduated from The Chinese University of Hong Kong with a Bachelor of Business Administration Degree and obtained a Master Degree in Business Administration from City University of Hong Kong.

Mr. Han Binke, aged 31, was appointed an executive director of the Company with effect from 1 January 2017. He is also a member of the executive committee and the nomination committee of the Company. Mr. Han obtained a master of science in accounting and finance from Durham University in the United Kingdom in 2010. He has over five years of experience in investment banking. He was the vice president of the investment banking department of CCB International (China) Limited from March 2010 to November 2013.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Choy So Yuk, ***BBS, JP***, aged 66, was appointed an independent non-executive director of the Company on 5 June 2009. She is also a member of each of the audit committee, the nomination committee and the remuneration committee of the Company. She obtained her Bachelor of Science and Master of Philosophy degrees from the University of Hong Kong in 1974 and 1980 respectively. Ms. Choy was the founding managing director of SHK International Services Limited (which was subsequently acquired by Ms. Choy and changed its name to Oriental-Western Promotions Limited). Ms. Choy holds a wide variety of political, social and academic positions, such as a deputy of the National People's Congress of China and a director of Fujian Middle School. Ms. Choy was a member of the Fujian Provincial Committee of the Chinese People's Political Consultative Conference and a member of the Legislative Council in Hong Kong from 1998 to 2008. Ms. Choy is currently an independent non-executive director of Ping Shan Tea Group Limited (stock code: 364) since its listing on the Stock Exchange on 30 August 2002 and an independent non-executive director of Evershine Group Holdings Limited since 12 May 2015.

Mr. Leung Yuen Wing, aged 49, was appointed an independent non-executive Director on 1 November 2012. He is also the chairman of the audit committee, a member of each of the remuneration committee and the nomination committee of the Company. Mr. Leung is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Chartered Association of Certified Accountants. He had held managerial positions in various renowned accounting firms, an investment bank and enterprises including listed companies. Mr. Leung is currently the chief financial officer of a glass manufacturing company. Mr. Leung had been the company secretary and authorized representative of the Company, and he left the Group in February 2010. He was an independent non-executive director of PME Group Limited (stock code: 379), a company listed on the main board of the Stock Exchange from September 2004 to June 2013.

Biography of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS (continued)

Mr. Wu Zhao, aged 39, was appointed an independent non-executive director of the Company on 16 June 2016. He is also a member of the audit committee, the nomination committee and the remuneration committee of the Company. Mr. Wu obtained a bachelor degree in Engineering (Chemical) from the University of Queensland, Australia. He also obtained a master of commerce in applied finance and a master of information technology from the University of Queensland, Australia. He has approximately 12 years of experience in finance, information technology, investment and funds management. He is currently a director of a funds management company and is also licensed to carry out Type 1 (Dealings in Securities) and Type 4 (Advising on Securities) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"). He is also an independent non-executive director of Kate China Holdings Limited (stock code: 8125), a company listed on the Growth Enterprise Market of the Stock Exchange.

Mr. Zhu Dengkai, aged 38, was appointed an independent non-executive director of the Company with effect from 1 January 2017. He is also a member of the audit committee, the nomination committee and the remuneration committee of the Company. Mr. Zhu obtained a bachelor of laws degree in international law from Zhongnan University of Economic and Law in the PRC in 2000, a master of laws degree in European law from Université Paris1–Panthéon Sorbonne in France in 2004, and a master of laws degree in international law from the school of law of Renmin University of China in 2005. He has over 10 years of experience as a practicing lawyer and is a registered as a registered lawyer in the PRC. He was a practicing lawyer in King & Wood from April 2005 to August 2007 and in Jun He Law Offices from September 2007 to August 2010. Mr. Zhu is currently a senior partner in Zhonglun W&D Law Firm. He is also a member of China Lawyers Association and the contact person of a global lawyers union, INTERLAW, in Beijing, the deputy chairman and deputy editor of Taihe Global Institute and the chairman of Beijing Benevolent Foundation.

SENIOR MANAGEMENT

Mr. Kwok Kam Tim, aged 40, joined the Company in 2008 and is currently the chief financial officer of the Company. He was the company secretary and authorized representative of the Company from February 2010 to March 2013. Mr. Kwok is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Chartered Secretaries, and the Institute of Chartered Secretaries and Administrators. Mr. Kwok holds a Bachelor of Engineering degree from The Hong Kong University of Science and Technology, a Bachelor of Arts degree in Accountancy and a Master degree in Corporate Governance from The Hong Kong Polytechnic University. He had worked in an international accounting firm and has over 15 years of experience in accounting, auditing and financial management. Currently, Mr. Kwok is an independent non-executive director of Newtree Group Holdings Limited (stock code: 1323), the shares of which is listed on the main board of the Stock Exchange. He was also the independent non-executive director of Capital Finance Holdings Limited (stock code: 8239) during October 2009 to September 2015, and the independent non-executive director of Sky Forever Supply Chain Management Group Limited (stock code: 8047) from June 2014 to July 2014, both companies were listed on the growth enterprise market of the Stock Exchange.

Corporate Governance Report

For the year ended 31 December 2016

The board of directors of the Company (the "Board") is pleased to present the corporate governance report for the year ended 31 December 2016.

A. CORPORATE GOVERNANCE PRACTICES

The Board is committed to raising the standard of corporate governance within the Group at all times and believes that good corporate governance helps the Group safeguard the interests of its shareholders and improve its performance.

In the opinion of the directors of the Company (the "Directors"), the Company has complied with the respective code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year ended 31 December 2016, except for the following deviations:

Code Provision A.4.1

Under code provision A.4.1, non-executive directors should be appointed for a specific term and be subject to re-election. Three independent non-executive Directors ("INED") namely, Ms. Choy So Yuk, Mr. Leung Yuen Wing and Mr. Gao Wen Ping ("Mr. Gao", resigned as INED on 1 January 2017) were not appointed for a specific term. However, all Directors are subject to the retirement provisions in the Bye-laws of the Company which provides that one-third of the Directors for the time being shall retire from office by rotation and every Director shall be subject to retirement at least once every three years.

Code Provisions A.6.7 and E.1.2

Under code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings. Mr. Gao had not attended the annual general meeting held on 30 May 2016 (the "2016 AGM") as he was not in Hong Kong.

Under code provision E.1.2, the chairman of the Board should attend the annual general meeting. Due to other commitments which must be attended to by Mr. Cai Sui Xin ("Mr. Cai", the chairman and executive Director of the Company during the year and has resigned with effect from 1 January 2017), Mr. Cai was unable to attend the 2016 AGM. Mr. Lau Yu (an executive Director and the chief executive officer of the Company during the year and has resigned with effect from 1 January 2017) acted as the chairman of the 2016 AGM, Ms. Choy So Yuk, an INED, a member of each of the remuneration committee, the audit committee and the nomination committee and Mr. Leung Yuen Wing, an INED, the chairman of the audit committee, a member of each of the remuneration committee and the nomination committee attended the 2016 AGM.

Code Provision A.7.1

Under code provision A.7.1, for regular board meetings, and as far as practicable in all other cases, an agenda and accompanying board papers should be sent, in full, to all directors at least 3 days before the intended date of a board meeting or board committee meeting. Since additional time was required to prepare the board papers for the meetings, the board papers were not sent to all Directors 3 days before the meetings.

B. DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding directors' securities transactions set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules (the "Model Code"). Following specific enquiry by the Company, all Directors confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2016.

C. BOARD OF DIRECTORS

The Board currently comprises four executive Directors, namely Mr. Geng Tao (the Chairman and the chief executive officer), Mr. Zhao Cheng Shu (the deputy Chairman), Mr. Ng Tze For and Mr. Han Binke and four INEDs, namely Ms. Choy So Yuk, Mr. Leung Yuen Wing, Mr. Wu Zhao and Mr. Zhu Dengkai. Mr. Wu Zhao was appointed INED on 16 June 2016, Mr. Geng Tao, Mr. Han Binke were appointed executive Directors and Mr. Zhu Dengkai was appointed INED on 1 January 2017. Mr Cai Sui Xin resigned as Chairman and executive Director, Mr. Lau Yu resigned as Chief Executive Officer and executive Director and Mr. Gao Wen Ping resigned as INED on 1 January 2017.

The Board, led by the Chairman, is responsible for formulating the Group's overall strategy, sets the business directions and monitors the performance of the Group's businesses. The Board is accountable to the shareholders of the Company for its performance and activities and is the ultimate decision making body of the Group except for those matters that are reserved for approval by shareholders in accordance with the Bye-laws, the Listing Rules and other applicable laws and regulations.

The management has been delegated the authority and responsibility by the Board for the day-to-day operations and management of the Group. It works under the leadership and supervision of the Chief Executive Officer to implement the Board's decisions, makes business proposals and is accountable to the Board. In addition, the Board has delegated various responsibilities to Board committees, further details of these committees are set out in this report. The Board reserves the authority to approve interim and annual financial statements, dividend policy, business plans and material investment decisions.

During the year, 13 Board meetings and the 2016 AGM were held. The attendance records of individual Director are as follows:

Directors	Board Meetings No. of meetings attended/held	2016 AGM No. of meeting attended/held
Executive Directors		
Mr. Cai Sui Xin *(Chairman,* resigned on 1 January 2017)	6/13	0/1
Mr. Zhao Cheng Shu *(Deputy Chairman)*	10/13	0/1
Mr. Lau Yu *(Chief Executive Officer,* resigned on 1 January 2017)	12/13	1/1
Mr. Ng Tze For	13/13	1/1
Independent Non-executive Directors		
Ms. Choy So Yuk	11/13	1/1
Mr. Gao Wen Ping (resigned on 1 January 2017)	13/13	0/1
Mr. Leung Yuen Wing	11/13	1/1
Mr. Wu Zhao (appointed on 16 June 2016)	7/7	0/0

Throughout the year ended 31 December 2016, the Company met at all times the requirements of the Listing Rules to have at least three INEDs representing at least one-third of the Board and with at least one INED possessing appropriate accounting and financial management expertise and professional qualifications.

The Company has received from its INEDs annual confirmation of independence in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the INEDs are independent.

Biographical details of all Directors are disclosed in the section headed "Biography of Directors and Senior Management" in this Annual Report. To the best knowledge of the Company, there are no financial, business, family or other material or relevant relationships amongst members of the Board.

Pursuant to code provision A.6.5 of the CG Code, all directors should participate in continuous professional development to refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

An induction would be given to the newly appointed Director(s) to provide information regarding the business and operation of the Company as well as his responsibilities under the Listing Rules and relevant regulations.

During the year under review, the Company has arranged its lawyer to provide seminars in relation to the duties and responsibilities of a director, the Listing Rules compliance, and corporate governance mattes to the Directors, and all Directors had attended the seminars. The Company has also appointed a compliance adviser to provide guidance and advice on compliance issues relating to the Listing Rules. The compliance adviser of the Company met with Mr. Wu Zhao (who was appointed during the year) and briefed him the responsibilities and duties of a director under the Listing Rules. The Company has provided information regarding the financial and business of the Group to Mr. Wu after his appointment as an INED. Mr. Leung Yuen Wing also attended other seminars/training courses relevant to his profession and duties as a director.

Directors' training is an ongoing process, all Directors are encouraged to attend relevant training courses at the Company's expenses. Directors are requested to provide records of training they received to the company secretary of the Company (the "Company Secretary") for records.

D. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code requires that the roles of chairman and chief executive officer should be separated and performed by different individuals.

During the year 2016, Mr. Cai Sui Xin was the chairman while Mr. Lau Yu acted as the chief executive officer of the Company. The chairman of the Company is responsible for the leadership of the Board, ensuring its effectiveness in all aspects of its role. The chief executive officer is responsible for the day-to-day management and operation of the Group's business. The roles of the chairman and the chief executive officer are segregated.

On 1 January 2017, Mr. Cai resigned as an executive Director and the chairman of the Company and Mr. Lau Yu resigned as an executive Director and the chief executive officer of the Company. Mr. Geng Tao was appointed an executive Director and assumed the roles of the chairman and the chief executive officer of the Company following the resignation of Mr. Cai and Mr. Lau. The Board considers that vesting the roles of both chairman and chief executive officer in Mr. Geng can facilitate the effective implementation and execution of its business strategies by, and ensure a consistent leadership for, the Group. Further, a balance of power and authority between the Board and the management can be ensured by the operation of the Board which comprises four executive Directors and four INEDs. The Company will from time to time review the structure and composition of the Board to ensure that a balance of power and authority between the Board and the management is appropriately maintained for the Group.

E. NON-EXECUTIVE DIRECTORS

As mentioned in Paragraph A above, the INEDs namely Ms. Choy So Yuk, Leung Yuen Wing and Gao Wen Ping (resigned on 1 January 2017) were not appointed for a specific term. Mr. Wu Zhao (appointed an INED on 16 June 2016) and Mr. Zhu Dengkai (appointed an INED on 1 January 2017) were appointed for a term of 3 years. Under the retirement provisions in the Bye-laws which provides that every Director (including the INEDs) shall be subject to retirement at least once every three years.

F. BOARD COMMITTEES

The Board has established four committees, details of which are set out below.

Executive Committee

During the year 2016, the executive committee (the "Executive Committee") comprised three executive Directors, namely Mr. Lau Yu (acted as the chairman), Mr. Zhao Cheng Shu and Mr. Ng Tze For. Following the change of the composition of the Board members on 1 January 2017, the Executive Committee comprises Mr. Geng Tao (acts as the chairman), Mr. Ng Tze For and Mr. Han Binke. The Executive Committee was established to assist the Board in execution of its duties and to facilitate effective management. It has a written terms of reference under which certain functions, including the daily operation and management functions have been delegated to it.

Remuneration Committee

During the year 2016, the Remuneration Committee comprised Ms. Choy So Yuk (acted as the chairman), Mr. Gao Wen Ping, Mr. Leung Yuen Wing and Mr. Wu Zhao (nominated as a member on 16 June 2016). Following the change of the composition of the Board members on 1 January 2017, the Remuneration Committee comprises Mr. Zhu Dengkai (acts as the chairman), Ms. Choy So Yuk, Mr. Leung Yuen Wing and Mr. Wu Zhao. The terms of reference of the Remuneration Committee are available on the respective websites of the Company and the Stock Exchange.

The Remuneration Committee will meet at least once a year to discharge its responsibilities. The major roles of the Remuneration Committee are as follows:

(i) make recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(ii) ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration; and

(iii) make recommendations with respect to the remuneration of the Directors and the senior management of the Company for approval by the Board.

The Group's remuneration policy has been formulated with reference to the market practice and the qualification, duties and responsibilities of Directors and employees. In order to attract, retain, and motivate personnel of the required quality to manage the Company successfully, the Company adopted a share option scheme in 2007 to reward those eligible participants who contribute to the success of the Group's operations.

During the year 2016, the Remuneration Committee held three meetings and the attendance of individual members of the Remuneration Committee at the meetings is set out below:

Committee Members	Number of meetings attended/held
Ms. Choy So Yuk *(chairman)*	3/3
Mr. Gao Wen Ping (ceased to be a member on 1 January 2017)	3/3
Mr. Leung Yuen Wing	3/3
Mr. Wu Zhao (became a member on 16 June 2016)	1/1

During the year, the Remuneration Committee considered the policy for the remuneration of the Directors, reviewed and made recommendation to the Board on the remuneration packages of the Directors and recommended the remuneration package of the newly appointed INEDs for the Board's approval. Details of the remuneration of each of the Directors and the senior management for the year are set out in Note 10 (Directors' and Chief Executive's Remuneration) and Note 11 (Five Highest Paid Employees) of the consolidated financial statements.

Nomination Committee

During the year, the Nomination Committee comprised two executive Directors, namely Mr. Cai Sui Xin (acted as the chairman) and Mr. Zhao Cheng Shu and four INEDs, namely Ms. Choy So Yuk, Mr. Gao Wen Ping, Mr. Leung Yuen Wing and Mr. Wu Zhao (nominated as a member on 16 June 2016). Following the change of composition of the Board members on 1 January 2017, the Nomination Committee comprises two executive Directors, Mr.Geng Tao, Mr. Han Binke and four INEDs namely Ms Choy So Yuk, Mr Leung Yuen Wing, Mr. Wu Zhao and Mr. Zhu Dengkai. The terms of reference are available on the respective websites of the Company and the Stock Exchange.

The main duties and responsibilities of the Nomination Committee are as follows:

(i) review the structure, size, diversity and composition of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(ii) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(iii) assess the independence of independent non-executive Directors;

(iv) make recommendations to the Board on the appointment or re-appointment of Directors; and

(v) review the Board Diversity Policy and the measurable objectives that the Board had set for implementing the Board Diversity Policy, and the progress on achieving the objectives.

During the year, the Nomination Committee held two meetings and the attendance of individual member of the Nomination Committee at the meetings is set out below:

Committee Members	Number of meetings attended/held
Mr. Cai Sui Xin (*chairman*, ceased to be a member on 1 January 2017)	0/2
Mr. Zhao Cheng Shu (ceased to be a member on 1 January 2017)	2/2
Ms. Choy So Yuk	2/2
Mr. Gao Wen Ping (ceased to be a member on 1 January 2017)	2/2
Mr. Leung Yuen Wing	2/2
Mr. Wu Zhao (became a member on 16 June 2016)	1/1

In 2016, the Nomination Committee reviewed the structure, size and composition and the independence of INEDs and made recommendation to the Board the appointment of two INEDs and two executive Directors. It also reviewed the diversity (including the evaluation of skill, knowledge, cultural and education background, professional experience, age, gender and length of services of the Board members) of the Board and the Board Diversity Policy. The Nomination Committee considered the Board to possess a diversity of perspectives which is appropriate to the Group's requirement.

Board Diversity Policy

The Company recognizes the benefits of diversity in Board members. With a view to achieving a sustainable and balanced development, the Company sees diversity at the Board level as an essential element in supporting the attainment of its sustainable development. The Board adopted a Board Diversity Policy in 2013 which sets out the approach to achieve diversity on the Board. The Company seeks to achieve Board diversity through the consideration of a number of measurable objectives. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Board has set measurable objectives based on a range of diversity perspective, including but not limited to skills, knowledge, cultural and educational background, professional experience, age, gender and length of service for implementing the Board Diversity Policy. All Board appointments will be based on meritocracy and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The measurable objectives will be reviewed from time to time to ensure their appropriateness and the progress on achieving the objectives and make recommendations on any proposed changes to complement the Company's corporate strategy.

Audit Committee

During the year 2016, the Audit Committee comprised four INEDs, namely Mr. Leung Yuen Wing (acts as the chairman), Ms. Choy So Yuk, Mr. Gao Wen Ping and Mr. Wu Zhao (appointed on 16 June 2016). The chairman of the Audit Committee has the appropriate professional qualification as required by the Listing Rules. Following the change of composition of the Board members on 1 January 2017, the Audit Committee comprises Mr. Leung Yuen Wing (acts as the chairman), Mr. Choy So Yuk, Mr. Wu Zhao and Mr. Zhu Dengkai. The Audit Committee has a written terms of reference. The terms of reference are available on the respective websites of the Company and the Stock Exchange.

The major roles of the Audit Committee are as follows:

(i) consider and recommend the independence, remuneration, appointment, re-appointment and removal of external auditor;

(ii) review the independence and objectivity of the external auditor and the effectiveness of the audit process in accordance with applicable standards;

(iii) review the financial information, the financial and accounting policies and practices;

(iv) oversee financial reporting system, review the risk management and internal control systems and the effectiveness of the internal audit function; and

(v) review connected party transactions.

During the year under review, the Audit Committee held three meetings to review and discuss internal control systems, financial reporting matters and other areas of concerns during the audit. It also reviewed the Group's annual and interim report for the year with recommendations to the Board for approval, reviewed the independence of the new external auditors, discussed with the management and the external auditor the accounting policies and practices which may affect the Group, reviewed the connected and continuing connected transactions. Furthermore, it also reviewed the internal audit and the risk management system of the Company. The attendance record of individual member of the Audit Committee at these meetings is set out in the following table:

Committee Members	Number of meetings attended/held
Mr. Leung Yuen Wing *(chairman)*	3/3
Ms. Choy So Yuk	3/3
Mr. Gao Wen Ping (ceased to be a member on 1 January 2017)	3/3
Mr. Wu Zhao (became a member on 16 June 2016)	2/2

The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

The audited financial statements and the annual report of the Company for the year ended 31 December 2016 have been reviewed by the Audit Committee.

G. CORPORATE GOVERNANCE FUNCTIONS

The Board is collectively responsible for performing the corporate governance duties which include developing, reviewing and implementing the Company's policies, practices on corporate governance, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements and the shareholders' communication policy. During the year, the Board reviewed the Company's policies on corporate governance, the Board Diversity Policy, compliance with the CG Code, and disclosure in the corporate governance report.

H. AUDITORS' REMUNERATION

For the year under review, the fees in respect of audit services provided to the Company and its subsidiaries by the auditor of the Company amounted to HK$1,200,000 (2015: HK$1,350,000), and other non-audit service provided to the Company for the year 2016 amounted to HK$325,000 (2015: HK$165,000). The non-audit service for the year 2015 was in relation to the provision of advisory services to the Group.

I. FINANCIAL REPORTING

The Directors acknowledged their responsibility for preparing consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and its results and cash flows for the relevant financial period. In preparing the consolidated financial statements for the year ended 31 December 2016, the Directors ensured that the consolidated financial statements have been prepared in accordance with statutory requirements and applicable accounting standards and have applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis.

The Group incurred a loss attributable to owners of the Company of approximately 679,007,000 for the year ended 31 December 2016 and had net current liabilities of approximately 781,690,000 as at 31 December 2016. The auditor's report on the consolidated financial statements is unqualified and contained the material uncertainty relating to going concern of the Company and the Group, details of which are set out on page 44.

The statement made by CCTH CPA Limited, the independent auditor of the Company, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the "Independent Auditors' Report" in this Annual Report.

The Company changed its auditor to perform audit works for the year ended 31 December 2016, as additional time was required to provide to the new auditor to complete their audit procedures, the Company was not able to comply with the financial reporting provisions under the Listing Rules in announcing the annual results for the financial year ended 31 December 2016 on or before 31 March 2017 and despatch the annual report the year ended 31 December 2016 on or before 30 April 2017. Such delay has constituted non-compliance with the Listing Rules.

J. RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibilities for the risk management and internal control systems of the Group on an ongoing basis, and for reviewing its effectiveness. The Board is also responsible for establishing and maintaining appropriate and effective risk management and internal control systems. The established systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year under review, the Board has conducted a review of the effectiveness of the risk management and internal control systems of the Group, covering financial, operational, compliance and risk management aspects of the Group in order that the systems are practical and effective in providing reasonable assurance in relation to protection of material assets and identification of business risks. The systems were considered effective and adequate to safeguard the interests of the shareholders' investment.

The Group adopts a complete process style of risk management in a functional bottom up manner, including risk identification, assessment, evaluation and treatment. The functional areas across the Group provide input of risks with treatments, which are appraised and maintained. The risk management system, as well as the internal control system, are continuous, proactive and systematic processes.

The internal audit function of the Group is governed by an appointed professional with Certified Internal Auditor qualification. With the appointment of Chief Audit Executive, the effectiveness of the risk management and internal control systems is reviewed by conducting internal audit assignments. Recommendations for major observations of control weaknesses from the audits will be provided, so as to resolve material internal control defects.

Policies and Procedures for handling and dissemination of inside information had been established and are in place, in order to facilitate the escalation of information to the responsible person for determining the need of disclosure.

K. COMPANY SECRETARY

Ms. Chiu Yuk Ching, the Company Secretary, is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. During the year under review, the Company Secretary has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

L. SHAREHOLDERS' RIGHTS

Convening a general meeting

Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition. The requisition must be signed by the requisitionists and deposit at the principal place of business of the Company in Hong Kong.

The meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

Putting enquiries to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the Company Secretary and deposit at the Company's principal place of business in Hong Kong or by e-mail to enquiry@ldgnr.com.

Putting forward proposal at general meeting

The shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right to put forward proposals at an annual general meeting or special general meeting. The proposal must be made in writing and contain detail contact information and submit to the Company Secretary at the Company's principal place of business in Hong Kong. The procedure for putting forward proposals at general meeting is available on the website of the Company.

M. COMMUNICATION WITH SHAREHOLDERS

The Company acknowledges the importance of communicating with shareholders and investors. A shareholders' communication policy was adopted in March 2012. The primary communication channel between the Company and its shareholders is through the publication of announcements, circulars, interim and annual reports. These publications can be obtained from the Company's website.

In addition, Shareholders are encouraged to attend the Company's annual general meeting which provides a useful forum for shareholders to exchange views with the Board. Notice of annual general meeting together with the meeting materials are dispatched to all shareholders not less than 20 clear business days prior to the meeting. The Directors and external auditor are available to answer questions of the Group's business at the meeting. Separate resolutions are proposed at general meeting on each substantially separate issue, including the election of individual directors.

The Company has also complied with the requirements of the Listing Rules and the Bye-laws in respect of voting by poll and other related matters.

N. INVESTOR RELATIONS

There was no change to the Company's Bye-laws during the financial year 2016. A copy of the latest Bye-laws are posted on the websites of the Company and the Stock Exchange.

Environmental, Social and Governance Report

REPORTING SCOPE

Loudong General Nice Resources (China) Holdings Limited ("Loudong") is an investment holding company, and its subsidiaries have been engaged in coal processing, extraction of natural resources and their by-products, and commodity trading for many years. There has been a slump in the coal industry in recent years: in 2015, the coal and steel industry suffered from serious excess capacity and faced an unprecedented downturn. In view of rapid growth within China's logistics industry, in 2015 the Group also expanded its logistics and warehousing operations and this has become a major business within the Group. The Group's Tianjin Property Qian'an Logistics business in Hebei will be the reporting scope; which constitutes a major part of the Group's logistics and warehousing business. For convenience, this business will hereinafter be referred to as "the Company".

This annual report is prepared in accordance with the 'Comply or Explain' provisions specified in the Environmental, Social and Governance Reporting Guide issued by the Hong Kong Stock Exchange, and compiles Company data for the period January 2016 to December 2016 (hereinafter referred to as "the Reporting Period".

HOW WE REPORT

Lead by the Group's dedicated environmental and social team, this Report compiles and presents the following pertinent information in accordance with the requirements of the Environmental, Social and Governance Reporting Guide issued by the Hong Kong Stock Exchange:

1. Materiality: This Report shall specify when relevant environmental, social nd governance matters significantly impact investors and other related parties.

2. Quantitative: If key performance indicators (KPI) have been established, these indicators must be quantified and subjected to valid comparisons under appropriate conditions. All established indicators must explain their purpose and impact.

3. Balance: The Report must give an unbiased description of the Group's environmental, social and governance performance and avoid inappropriately misguiding readers or omitting important information.

4. Consistency: The Report uses a consistent data disclosure methodology to allow for meaningful comparisons to be made over time. Any subsequent changes in methodology shall be indicated in the Report.

Environmental, Social and Governance Report

ABOUT THE COMPANY

The Company is committed to environmentally-responsible business operations and works to reduce environmental pollution, save energy, reduce emissions and emphasise recycling in the hope of making an effort in the area of environmental protection. At the same time, the Company strictly adheres to national and regional environmental protection laws in the hope of substantially reducing pollution in its daily operations. The Company is principally engaged in warehousing operations in addition to trading in general commodities, minerals, coal and coking coal. In April 2016, the Company established its strength in the field by being named one of the top fifty logistics companies by the Hebei Provincial Association of Modern Logistics and the Hebei Provincial Federation of Logistics and Procurement.

STAKEHOLDER ENGAGEMENT

Environmental, social and governance issues require the cooperation of all stakeholders in striving toward common goals. The Company's stakeholders comprise shareholders, employees, customers, collaborative parties responsible for warehouse management, and so on. Different means of communicating relevant information are used on an everyday basis in interworking with our stakeholders, including the use of telephone, e-mail and face-to-face communication. Shareholder's meetings are convened for shareholders, and shareholders can telephone the Company with any questions they may have. In general, communication with employees takes the form of regular meetings, and increased mutual understanding can be achieved through e-mail or face-to-face communication. In communicating with our customers, besides everyday e-mail and telephone communication, the Loudong website also has information about the Group in order to facilitate their understanding of and communication with the Group. Information about the Group is published in the form of announcements on the Group's website, and includes financial information and reports, Director changes and name lists, as well as other important information such as acquisitions, sales, and so on. At the same time, financial summaries are regularly updated, allowing shareholders access to relevant information at their leisure.

ENVIRONMENT

In recent years, the China government has actively promoted environmental protection, and has paid close attention to pollution control and environmental improvement. In concert with national policy, the Company has implemented environmental protection measures in its business areas as outlined below:

ENERGY SAVING

Formulating an Energy Saving Management System with the hope of effectively saving energy and avoiding the unnecessary use of water, electricity and air-conditioning. Actively adopting effective energy-saving measures, making good use of water and electricity, and promoting the use of new, energy-saving technologies in daily operations to not only reduce the use of resources, but also to reduce relevant expenditure costs.

The Company practices two-sided printing in offices, and in the first quarter of 2016 switched to electronic communication methods in order to reduce paper used. The Operations in Hong Kong requires employees to switch off all computers, office equipment and air conditioners after use, and also promotes a paperless office, to reduce paper use as much as possible and sell used toner at a reduced-price to recyclers for recycling.

In terms of power saving, the Company has installed ground-source heat pumps which use the earth's shallow geothermal resources as a source of cold and heat, carrying out heat exchange for circulating water in central air conditioners. Ground-source heat pumps use less power and can increase efficiency several fold, effectively reducing energy consumption.

MEASURES TO REDUCE SIGNIFICANT ENVIRONMENTAL IMPACT

Even though the Company does not produce waste water, this does not diminish the importance the Company attaches to water quality. When permissible, domestic water is passed through sedimentation tanks before being discharged to ensure that the quality of neighbouring water sources is not affected.

In terms of warehouse management, the Company has five warehouses of which four are enclosed and one is open-air. Open-air warehouse is used to store steel materials and have a low impact on the environment, and enclosed warehouses store bulk cargo; as a result, pollution from the warehouses in the logistics park is very low.

Public transportation is the primary mode of transport used if employees are required to take business trips, in order to reduce additional carbon emissions. If location permits, high speed rail is the preferred means of transportation: besides being fast and convenient, high speed rail is electrically-powered which significantly reduces exhaust gas emissions. Make better use of telephone conference calls as a substitute for business trips would be the practice for Hong Kong operation.

ENVIRONMENTAL AWARENESS TRAINING

The Company fully understands the importance of strengthening an awareness of environmental protection amongst employees and has therefore formulated the following focal points for training:

(i) Employees must promptly report water, electricity or any other leaks to department heads so that they can be repaired as soon as possible, and resource wastage can be reduced;

(ii) Departments in all regions must make full use of natural lighting, and lights must be switched off in workplaces at the end of the day or if left vacant for extended periods in order to avoid electricity wastage;

(iii) If water equipment, electrical equipment, air conditioning and other equipment is required in daily operations, it must be switched off at the mains after use;

(iv) If computers are not used for extended periods, they must be put into sleep mode in order to reduce energy consumption;

(v) In terms of central air-conditioning management, temperatures cannot be set too low and employees are taught to keep windows closed as much as possible when using air conditioning. Air conditioning in employee canteens must be set to switch on and off at specific times before and after use;

(vi) Promoting the use of surplus water in processes that do not require sanitary water.

During the reporting period, the Company found no records of any complaints or violations of relevant environmental protection laws and regulations, and no hazardous waste was stored or produced.

EMPLOYMENT STANDARDS

Employees are an important asset to the Company, and long-term relationships with employees are an important part of successful company operations. The Company has formulated remuneration policies, recruitment and promotion systems, and provides all employees with benefits in the hope of creating a fair and pleasant working environment. During the reporting period, no reports of any violations of relevant employment laws and regulations were found, nor were any cases found of child labour or forced labour.

RECRUITMENT STANDARDS

According to mainland Chinese law, an employee can only be hired if he/she is at least 18 years old; an 8-hour work system is also stipulated, with a two day rest period for every five days worked, and forced overtime or forced retirement prohibited. The Company has complete employee recruitment management methods, the main principles of which are fairness in recruitment, equal competition, selection of the best candidate and the prioritisation of recruitment from within. The entire recruitment process from preliminary screening, first interview, repeat interviews, review, employment, right up to reporting for work, the probationary period and the transition to becoming a regular employee is clearly specified, with the aim of making recruitment both fair and just.

The Human Resources Department is specifically responsible for recruiting talent in the Company and has responsibility for drafting recruitment plans, organisation, implementation, and the evaluation of talent. Recruitment of senior personnel is directly lead by general managers with assistance from the Human Resources Department. After recruitment has been completed, the Human Resources Department undertakes review and collects opinions from applicants and new employees, assessing room for improvement in the recruitment process and thus continually improving the entire process.

For the Operation in Hong Kong Head Office, we firmly believe that outstanding teams are a means of safeguarding the Company's long-term development; we believe in "being people-oriented, serving others, keeping abreast of modern developments, mutual growth and prosperity." As a result, we view employees as an important asset and in light of this, the Hong Kong Head Office attracts employees by providing remuneration that is no lower than market levels, or that is even higher than market levels. In selecting new recruits and in the cultivation of talent, we emphasise the mental attitude of an employee with an insistence on selecting the best and cultivating standards, working diligently, being dedicated to one's work, being honest and upright in one's conduct, having a sense of responsibility, being capable of mutual understanding and respect, paying attention to teamwork, and maintaining a spirit of learning and forward progress.

Moreover, the Hong Kong Operation does not engage in any form of discrimination towards applicants and employees. When assessing an employee, we take no account of their age, gender, marital status, religion, nationality, disability, sexual orientation and so on; assessment factors comprise an employee's ability, qualifications, performance and mental attitude. During recruitment, we recruit talent through multiple channels including through internal recommendation, internal promotion, work transfer or social recruitment. Of these, internal promotion is prioritised in the hope of reducing employee turnover. In addition, we encourage employees to share their opinions with management; our Chief Executive Officer welcomes employees who wish to meet with him and share their opinions directly. During the reporting period, the Hong Kong Operation continuously complied with relevant employment regulations, and no matters of dispute occurred involving any employee.

EMPLOYEE PROMOTION

Employees are able to develop within the Company, which benefits both the employee and the Company. The Company has formulated a set of promotion systems which in addition to encouraging employees, aspires to build a fair, just and open promotion mechanism within the Company. Promotion is based on three key principles: (1) integrity and talent, both of which are equally important; (2) equal opportunity; and (3) the combination of career paths and "exceptional promotion".

The Company has more than one means of promotion; besides being generally based on age and experience, work performance and level of commitment are also important criteria in evaluating promotion. The method of evaluation generally takes the form of work performance appraisals undertaken by departmental managers. In addition to individual quarterly employee evaluations undertaken by superiors, in order to strengthen intra-departmental teams and promote employee initiative the Company also has quarterly departmental performance evaluations whereby departments evaluate one another's performance, for which scoring methods are clearly specified and thus transparent. Departments that excel in quarterly peer assessments receive a "Quarterly Outstanding Department" red banner as a form of encouragement. The Company provides a department that receives outstanding annual evaluation results with certain material rewards and, where appropriate, financial incentives.

EMPLOYEE BENEFITS

The Company not only provides subsidised work-related training but also has a staff scholarship scheme in order to encourage each employee to continually improve their own value and to establish high-quality teams. Employees who have completed a college degree or above are eligible for a one-off scholarship, serving as a Company incentive for employees to pursue leisure learning. The Hong Kong Operation constantly works to provide an environment within which employees can achieve professional growth; this benefits their career development whilst satisfying the long-term business requirements of the Company. To this end, we constantly encourage employees to participate in continuing education. We provide employees with study allowances to encourage them to participate in training courses held by specialist organisations, to improve their specialist knowledge and skillsets. We also provide reading material to Directors to help them fulfil their duties, allowing them as much access as possible to the latest and most comprehensive information concerning regulatory rules and corporate governance. In 2016, arrangements were made for Directors and Compliance Department employees to participate in over 20 hours of training in which lawyers explained regulatory provisions to them, in order to improve their understanding in this area.

In order to create a pleasant work environment for employees, the Company not only provides insurance for elderly provision, medical treatment, childbirth, unemployment and industrial injury in strict compliance with national laws and regulations concerning human resources, but also provides annual leave, marriage leave, maternity leave and paternity leave. Benefits also increase, with morale boosted by issuing bonuses on a monthly basis rather than quarterly, as in the past. Remuneration for Hong Kong Head Office employees comprises not only a basic wage and annual bonuses, but also includes travel insurance for some regions covering medical treatment and hospitalisation, and in addition to statutory leave, employees are also provided with other paid leave (such as sick leave, marriage leave, bereavement leave, study leave, and so on).

The Company has formulated a detailed remuneration policy and there are three categories of bonuses in addition to monthly salary: monthly bonuses, six-monthly bonuses, and annual bonuses. Salaries are also revised according to Company and employee performance during the year.

OCCUPATIONAL HEALTH AND SAFETY

Ensuring the occupational health and safety of employees is a priority for all companies, and providing relevant personal protective equipment is the most basic requirement. The Company provides raincoats, rain shoes, safety helmets, insulated shoes, gloves, face masks, and so on. Worksite safety, safe operating procedures and the education of employees deals with some of the potential accidents that can occur, and is a necessary focus of attention. During the reporting period, the Company did not discover any records of complaints, or violations of laws and regulations relating to occupational health and safety. The Company has also formulated relevant health and safety policies in response to the characteristics of the logistics industry, in which employees who enter or exit worksites are not solely employees of the Company.

WORKPLACE SAFETY

Employees and external personnel must adhere to the Worksite Admissions Notice which controls individuals entering and exiting worksites; vehicles entering and exiting worksites also have the following restrictions:

(i) Restricted entry to (certain) areas;

(ii) Vehicle speed restrictions;

(iii) Mandatory adherence to vehicle size requirements; for example, over-length, over-width, over-height and over-weight vehicles are not permitted to enter.

Owing to the nature of the business, loading and unloading is one of the main, routine work procedures. The Company has formulated a Loading and Unloading Management System so that employees understand how this important work procedure can be carried out safely, and why it depends upon strict compliance and cooperation from all employees.

Moreover, the safety and maintenance of lifting equipment also plays an important part. As a result, the Company is committed to ensuring safety in everyday working and has formulated a Lifting Equipment Operating System, Forklift Operation, Maintenance Management and Safe Operation Provisions, and a Gantry Crane Safety Management System.

The inspection of gantry cranes at regular intervals is an important factor in ensuring that these machines can be safely operated. Therefore, the Company arranges for testing organisations to test relevant machinery and equipment once every two years, with regular inspection and maintenance undertaken on a day-to-day basis. Each inspection stipulated in operating manuals or documentation must be undertaken before equipment is used. If equipment has not been used for a period of time, it can only by used once the safety of the machinery has been confirmed. Personnel involved in the installation or maintenance of hoisting machinery must have relevant operating certification before working.

The Company regularly uses forklifts in its everyday operations and as a result has Forklift Operating, Maintenance Management and Safe Operation Regulations. Forklifts must be operated by specialist drivers, and items for everyday inspection and maintenance are all clearly specified in regulations documents to ensure employees clearly understand what is required. In addition, route plans and speeds are also regulated to avoid accidents as much as possible.

Gantry cranes are widely used in the Company and as their operation is relatively complex, specialist training is required in addition to practice and technical and operational safety assessments before these cranes can be used. Before operating these cranes, employees must complete the “Five Handover, Three Inspection” work process and strictly adhere to the “Ten Do-Not Lift (Items)” principle.

SAFETY AND EMERGENCY RESPONSE PLANS

It is usually difficult to predict when accidents will occur; however, the Company hopes to teach an awareness of safety and emergency response so that losses can be kept to a minimum when accidents occur.

Fire Drills

In addition to arranging fire drills for employees, the Company also invites other collaborative partners such as contractors to participate in these drills. The entire process is led by safety supervisors who explain and demonstrate the use of fire extinguishers and fire hoses, in addition to explaining the reporting process in the unfortunate event of a fire.

Lifting Equipment Emergency Response Plans

In order to prevent items falling from high altitude, mechanical loss of control, toppling over and boom breakages whilst cranes are being used, the Company has formulated a Lifting Equipment Emergency Response Plan, upholding the guiding principles of “safety first, precaution is crucial” and “prioritising protection of employee safety, prioritising protection of the environment.” The Company has established emergency response leading groups that must immediately rush to the scene of an accident, should an accident occur. Moreover, the preparation of first aid supplies, relevant training exercises, communication channels and work distribution amongst staff are also important aspects of emergency response planning.

KEY SAFETY REORGANISATION PLAN

In order to conduct a complete overhaul, as well as to find and prevent safety hazards as early as possible, the Company has established dedicated safety teams with members comprising Company employees and contractors, to find safety hazards in the Company in a phased manner, and investigate corresponding measures for improvement. This program hopes to overhaul the following four important areas of safety:

(i) Firefighting safety equipment inspection;

(ii) Electrical safety inspection;

(iii) Safety inspection of special equipment;

(iv) Transport safety inspection.

Environmental, Social and Governance Report

SERVICE QUALITY

The Company provides logistics and warehousing services and is committed to transporting goods to the customer in a precise, punctual and safe manner. During the reporting period, no reports or customer complaints of violations of relevant service responsibility laws and regulations were found.

Service quality and contractor performance are intimately linked; in order to strengthen contractor management of personnel entering and leaving factory buildings, the Company has established an Outsourced Personnel Management System to ensure that contractors understand and conform to the Company's safety requirements before they begin work. In addition, the Company is also trialling safety assessments of contractors, whereby contractors are only employed if their evaluation results meet set criteria. After employment, it is also hoped that those with excellent scores in trial evaluations can enjoy priority in future contracted engineering, whilst those with less than ideal evaluation scores will be considered for elimination. For added transparency, evaluation content is detailed in the Outsourced Engineering Project Safety Measures. Moreover, regular meetings are convened with contractors so as to communicate relevant essential points of environmental protection and safety.

Anti-corruption and anti-bribery are essential elements in creating a fair business environment and the Company has formulated anti-commercial bribery management systems to this end, principally targeted at the following employees:

(i) Management: Company management must be conversant with relevant state anti-commercial bribery and integrity policies in order to lead the Company's operating activities, strengthen supervision, and make improvements if loopholes are found;

(ii) Procurement and Sales Staff: In light of the nature of their work, the Company has undertaken anti-corruption education and project discussion of a more thorough nature with its procurement and sales staff in order to strengthen their notions of anti-corruption. In procurement and sales processes, discounts must be clearly listed on invoices, if circumstances allow;

(iii) Accounting Department Personnel: These individuals must establish a sense of integrity and understand the seriousness of falsifying accounts; the Company's annual financial audit is one of the ways in which the relative performance of Accounting Department personnel can be supervised.

Reporting circumstances of bribery plays a key role in all anti-corruption work; therefore whistle-blowing hotlines and the installation of whistle-blowing mailboxes are also imperative. The Company has relevant management systems to maintain confidentiality of the whistle-blower's identity, the contents of what they report and the circumstances of the investigation, as well as coordinate the investigation with relevant departments. The Company believes that General Managers must set an example in assuming responsibility for anti-bribery; the Anti-Commercial Bribery Accountability System states that in instances of bribery, General Managers must assume relevant responsibilities to make management appear more responsible.

COMMUNITY PARTICIPATION

Contributing to society and working to jointly build a better environment is an element of corporate responsibility. In the year 2015-2016, Loudong was awarded the Hong Kong Council of Social Service "Caring Company" logo, demonstrating that the Group had reached a certain level of contribution and achievement in caring for the community, employees and the environment. In addition, Loudong also supports "Mooncakes for Charity" jointly run by Hong Kong Community Chest and Wing Wah. For each box of mooncakes sold, Wing Wah donates a certain amount to Hong Kong Community Chest to subsidise one of its 158 affiliated social welfare institutions, which is very meaningful. In addition, during the reporting period the Company paid construction and maintenance administration fees and taxes to the Qian'an City Water Authority for use in building and maintaining waterways in Qian'an city. The Company also allocated funds to a green logistics park, as a contribution to residents in the area.

OUTLOOK

In the future, the Company will succeed with assurance by proactively developing different kinds of business with potential within a fiercely competitive marketplace. This Report only covers the Loudong's Qian'an Logistics business; in future it is hoped that the reporting scope will be extended to cover more of the Group's other businesses, providing information for comparison and enriching the contents of the Report.

COMMENTS ON THE REPORT

Any comments regarding the Report or regarding environmental, social and governance aspects of the Company can be provided by the following means; the Company values your opinions:

Address:	Unit B, 12th Floor Lippo Leighton Tower 103 Leighton Road Causeway Bay Hong Kong
Telephone:	852 2895 6733
Fax:	852 2895 6876
E-mail:	enquiry@ldgnr.com

Report of the Directors

The directors of Loudong General Nice Resources (China) Holdings Limited (the "Company") are pleased to present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 47 to the consolidated financial statements.

An analysis of the Group's performance for the year by operating segment is set out in note 6 to the consolidated financial statements.

BUSINESS REVIEW

A review of the Group's business during the year and an indication of likely developments in the Group's business, as required by Schedule 5 to the Companies Ordinance, is provided in the section "Management Discussion and Analysis" on pages 5 to 9 and the "Chairman's Statement" sections of this report. The above sections form part of this Directors' Report.

PRINCIPAL RISKS AND UNCERTAINTIES

There are certain risks and uncertainties that the Group faces during its operation. Such risks and uncertainties include factors such as economy conditions of both inside and outside China and United States, PRC's foreign exchange policies, changes relating to laws and regulations and enforcement policies, and the price and supply of raw materials. While these risks continue to exist, the Group will closely monitor any signs of these occurrence and all departments of the Group will be involved in identifying and evaluating risks relating to their operational scope. Subsequently, appropriate plans will be devised to minimize the impacts derived from risks and uncertainties confronting the operation of the Group.

ENVIRONMENTAL POLICY AND PERFORMANCE AND THE COMPLIANCE OF LAWS AND REGULATIONS

The Group is committed to maintain an environmental friendly strategy by ways of minimizing pollution and wastage dispose to the environment, energy saving, low carbon emission, and emphasizing on recycling. The offices were aimed in minimizing the use of papers and consumables, and concentrated in the use of electronic media. The factories were restructured based on the national environmental policies for years, and continuing upgrade the factories to satisfy the latest governmental environmental requirements. Certain factories were fulfilled the standards of ISO9001 and ISO14001 on the quality management and environmental management respectively. Disposal and wastage were collected and used to produce side products to reduce pollution from direct disposal to the environment. In addition, the newly constructed factories and machineries were strictly fulfilled the national environmental policies before they are started to operate. Sufficient provision was made for the assets retirements in the oil companies to ensure a minimal damage to the environment. The Group is consistently reviewed the compliance on environmental policies in each location to ensure the compliance of relevant laws, rules and regulations, and consistently enhance our standard to increase our contribution to the environment.

During the year, as far as the Company is aware, there was no material breach or non-compliance with applicable laws and regulations by the Group that have significant impact on the business and operations of the Group.

Report of the Directors

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2016 and the Group's financial position at that date are set out in the consolidated financial statements on pages 54 to 150.

The board of directors of the Company (the "Board") does not recommend payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, is set out on pages 153 to 154, which does not form part of the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 15 and 16 to the consolidated financial statements, respectively. Further details of the Group's investment properties are set out on page 152.

BANK BORROWINGS

Details of bank borrowings of the Group are set out in note 29 to the consolidated financial statements on page 118.

SHARE CAPITAL AND CONVERTIBLE BONDS

Details of movements in the Company's share capital and the Convertible bonds during the year are set out in notes 34 and 30 to the consolidated financial statements respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2016.

DISTRIBUTABLE RESERVES

At 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted approximately to HK$465,967,000 (2015: HK$33,256,000).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 42.22% (2015: 41.74%) of the total sales for the year and sales to the largest customer included therein amounted for 18.30% (2015: 10.27%). Purchases from the Group's five largest suppliers accounted for 68.59% (2015: 48.52%) of the total purchases for the year and purchases from the largest supplier included therein amounted for 55.27% (2015: 11.44%).

To the best knowledge of the directors of the Company (the "Directors"), none of the Directors or any of their associates or any shareholders holding more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers or five largest suppliers.

Report of the Directors

DIRECTORS

The Directors who were in office during the year and those as at the date of this report are as follows:

Executive Directors:
Mr. Geng Tao (appointed on 1 January 2017)
Mr. Zhao Cheng Shu
Mr. Ng Tze For
Mr. Han Binke (appointed on 1 January 2017)
Mr. Cai Sui Xin (resigned on 1 January 2017)
Mr. Lau Yu (resigned on 1 January 2017)

Independent Non-executive Directors:
Ms. Choy So Yuk
Mr. Leung Yuen Wing
Mr. Wu Zhao (appointed on 16 June 2016)
Mr. Zhu Dengkai (appointed on 1 January 2017)
Mr. Gao Wen Ping (resigned on 1 January 2017)

In accordance with Bye-laws 86(2), 87(1) and 87(2) of the Company's Bye-laws, Mr. Zhao Cheng Shu, Mr. Geng Tao, Mr. Han Binke, Ms. Choy So Yuk, Mr. Wu Zhao and Mr. Zhu Dengkai will retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence from each of its independent non-executive Directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company still considers all of its independent non-executive Directors to be independent.

MANAGEMENT CONTRACTS

During the year, the Group has appointed Tewoo Import and Export Trade Co., Limited ("Tewoo") to manage the operation of Tianjin Property Qian'an Logistics Company Limited 天津物產遷安物流有限公司 ("Qian'an"), a 70%-owned subsidiary of the Company. Formal agreement was entered into between the Qian'an and Tewoo in February 2017 for a term commencing from the date of completion of the acquisition of Qian'an by the Group to 31 December 2019. None of the Directors have interests, whether directly or indirectly, in the aforesaid management contract.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 10 to 12.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are recommended by the remuneration committee of the Company and determined by the Board with reference to Directors' duties, qualification, responsibilities and performance of the Directors, the results of the Group and the market practice.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors and senior management of the Company is currently in force and was in force throughout the year. The Group has appropriately purchased directors and officers liability insurance for years to minimize the risks of Directors and senior management for the performance of their corporate duties.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the holding company of the Company or any of the Company's subsidiaries or fellow subsidiaries was a party during the year.

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 40 to the financial statements also constituted continuing connected transactions under the Listing Rules which are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules. The Group have entered into the following connected transaction and continuing connected transaction and disclosed in the announcements of the Company:

On 18 May 2015, the Group entered into a subscription agreement (the "CB1 Subscription Agreement") with China Huarong International Holdings Limited ("China Huarong") for the issue of a three-year convertible bonds in an aggregate principal amount of HK$400,000,000 (the "CB1") to China Huarong. The CB1 carries interest at rate of 6% per annum payable yearly and is convertible into shares of the Company at an initial conversion price of HK$0.331 per conversion share. Prior to the completion of the subscription, China Huarong has novated all its rights and obligations under the CB1 Subscription Agreement to its wholly-owned subsidiary, China Huarong Investment Management Limited ("Huarong Investment"). As security of the CB1, General Nice Resources (Hong Kong) Limited ("GNR"), the then substantial shareholder of the Company, has charged its 319,100,000 shares of the Company in favour of Huarong Investment under a share charge, and Mr. Cai Sui Xin ("Mr. Cai") has provided a personal guarantee to guarantee in favour of Huarong Investment the performance of the obligations by the Company under the CB1 Subscription Agreement. Mr. Cai was the chairman and executive Director of the Company and GNR and had corporate interest in the shares of the Company through GNR. Mr. Lau Yu was the director and the chief executive officer of the Company and GNR. The proceeds of HK$400,000,000 was to fulfilling the general working capital requirement of the Group and the funding requirement for the potential acquisition of companies principally engaged in logistics and operation of warehouse businesses located in the PRC.

On 18 May 2015, GNR and China Huarong entered into a subscription agreement (the "EB Subscription Agreement") for the issue of a 3-year exchangeable bonds in the aggregate principal amount of HK$100,000,000 with a coupon rate of 6% per annum payable yearly and an initial exchange price of HK$0.331 per share. Upon full exercise of the exchangeable bonds, a total of 302,114,803 shares of the Company will be transferred from GNR to China Huarong (or a group company of China Huarong). Mr. Cai has provided a personal guarantee in favour of Huarong Investment for the performance of the obligations of GNR under the EB Subscription Agreement.

As China Huarong has entered into the CB1 Subscription Agreement with the Company and in addition, entered into the EB Subscription Agreement with GNR, China Huarong was a deemed connected person of the Company and the issue of the CB1 constituted a connected transaction for the Company under Chapter 14A of the Listing Rules and was subject to the approval of the independent shareholders by way of poll. The CB1 Subscription Agreement had been approved by the independent shareholder of the Company at the special general meeting held on 4 July 2015 and was completed on 19 August 2015. The conversion price of CB1 was adjusted from HK$0.331 per Share to HK$0.29 per Share subsequent to the issue of a HK$300,000,000 convertible bonds by the Company and further adjusted to HK$0.287 per Share subsequent to completion of placing of 318,165,000 new Shares in November 2016.

On 31 August 2016, Qian'an, a 70% owned subsidiary of the Company, entered into a supply agreement (the "Supply Agreement") with Hebei Baoli Huifeng Shiye Group Company Limited 河北寶利滙豐實業集團有限公司 ("Baoli"), the shareholder holding 30% interest of Qian'an and an associate of Mr. Zhao Wen Bao, who is a substantial shareholder of Baoli and a director of each of Baoli and Qian'an, for a term of three years commencing from 31 August 2016 and ending on the day preceding the third anniversary of the Supply Agreement. Pursuant to the Supply Agreement, Baoli and its subsidiaries or associates may from time to time during the term of the Supply Agreement purchase coal, coke and iron ores from Qian'an and its subsidiaries or associates by placing purchase orders in accordance with the terms and conditions of the Supply Agreement. The price shall be determined through arm's length negotiations between the supply and the purchase by reference to the prevailing market price of the goods, and no less favorable than that provided to independent third parties.

Baoli is a connected person of the Company at the subsidiary level, the transactions contemplated under the Supply Agreement constituted continuing connected transaction for the Company under the Listing Rules.

The expected maximum aggregate annual value for the transactions contemplated under the Supply Agreement for the year ended 31 December 2016 is RMB246,000,000, and for the year ending 31 December 2017, 2018 and 2019 is RMB365,000,000, RMB418,000,000 and RMB366,000,000 respectively and the actual aggregate value during the year is approximately RMB98,739,000.

Further details of the Supply Agreement have been disclosed in the Company's announcement dated 31 August 2016.

The continuing connected transactions under the Supply Agreement have been reviewed by the Company's independent non-executive Directors who have confirmed that the transactions have been entered into:

a) in the ordinary and usual course of business of the Group;

b) on normal commercial terms; and

c) in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The auditors of the Company have provided a confirmation in accordance with the relevant provisions of the Listing Rules applicable to the continuing connected transaction under the Supply Agreement for the year ended 31 December 2016.

RELATED PARTY TRANSACTION

A summary of the related party transactions entered into by the Group during the year ended 31 December 2016 is contained in note 40 to the consolidated financial statements. Save and except the connected transactions/containing connected transactions disclosed above, the related party transactions did not constitute connected transactions/continuing connected transactions or constituted connected transactions/continuing connected transactions but were exempted from all disclosure and independent shareholders' approval requirements under the Listing Rules.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 31 December 2016, the following Directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange:

	Long and short position in the shares and underlying shares of the Company				
	Number of ordinary shares		Number of underlying shares subject to the outstanding share options		Approximate percentage of the issued share capital
Name of Director	Personal interests	Corporate interests		Total	
Mr. Cai Sui Xin (resigned on 1 January 2017)	7,205,545(L)	334,051,660(L) (Note 1)	–	341,257,205(L)	7.92%
		302,114,803(S) (Note 2)	–	302,114,803(S)	7.01%
Mr. Zhao Cheng Shu	5,438,150(L)	–	–	5,438,150(L)	0.13%
Mr. Lau Yu (resigned on 1 January 2017)	21,448,550(L)	–	–	21,448,550(L)	0.50%
Mr. Ng Tze For	–	–	3,942,457(L)	3,942,457(L)	0.09%
Ms. Choy So Yuk	271,908(L)	–	–	271,908(L)	0.01%
Mr. Leung Yuen Wing	224,213(L)	–	–	224,213(L)	0.01%

L – Long position
S – Short position

Notes:

1. These shares are beneficially owned by GNR and Mr. Cai Sui Xin is deemed to be interested in such shares under the SFO by virtue of the fact that each of General Nice Development Limited ("GND") and General Nice Investment (China) Limited ("GNI") holds 40% equity interest in GNR while General Nice Group Holdings Limited ("GNG") and Mr. Cai Sui Xin hold 50% and 5% equity interests in each of GND and GNI respectively. GNG is in turn wholly owned by Mr. Cai Sui Xin.

2. Pursuant to the exchangeable bonds subscription agreement dated 18 May 2015 entered into between GNR and China Huarong International Holdings Limited ("China Huarong") GNR has agreed to issue to China Huarong (or a group company of China Huarong) a 3-year exchangeable bonds (the "Exchangeable Bonds") in the aggregate principal amount of HK$100 million with an initial exchange price of HK$0.331 per share. Upon full exercise of the Exchangeable Bonds, a total of 302,114,803 shares will be transferred from GNR to the holders of the Exchangeable Bond.

Save as disclosed above, as at 31 December 2016, none of the Directors and chief executive of the Company was interested, or was deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation which were required to be notified to the Company and the Stock Exchange or recorded in the Register as aforesaid.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "Interests of Directors and chief executive" and "Share option scheme" in this report, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable a director of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group believes that employees are valuable assets and the key element to sustain its growth and development. Thus the Group maintain a competitive remuneration package, discretionary bonus, training and occupational health and safety to retain the employees. The Group will consistently review the remuneration packages so as to competitive with the market. Further, the Group has adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group. Customers and suppliers are another important elements for the Group to success. Thus the Group would value good relationship with the customers and suppliers by ways of providing high quality services and products to the customers, as well as maintaining a mutual trust and commitment with the suppliers.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 25 June 2007 for the purpose of providing incentives to Participants (as defined in the Scheme) to contribute to the Group and/or to enable the Group to recruit high-calibre employees and attract resources that are valuable to the Group and the shareholders of the Company as a whole.

Details of the Scheme are set out in note 35 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

Save as disclosed under the section headed "Interests of Directors and chief executive" above, as at 31 December 2016, the following persons had an interest in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

	Long and short positions in the shares/underlying shares of the Company			
Name	Capacity	Nature of Interest	No. of shares/ underlying shares	Approximate percentage of the issued share capital
GNR	Beneficial owner	Corporate interests	334,051,660(L) (Note 1) 302,114,803(S) (Note 2)	7.75% 7.01%
GND	Interest of controlled corporation	Corporate interests	334,051,660(L) (Note 1) 302,114,803(S) (Note 2)	7.75% 7.01%
GNI	Interest of controlled corporation	Corporate interests	334,051,660(L) (Note 1) 302,114,803(S) (Note 2)	7.75% 7.01%
GNG	Interest of controlled corporation	Corporate interests	334,051,660(L) (Note 1) 302,114,803(S) (Note 2)	7.75% 7.01%
Tsoi Ming Chi	Interest of controlled corporation	Corporate interests	334,051,660(L) (Note 1) 302,114,803(S) (Note 2)	7.75% 7.01%
Xin Lou Resources (Hong Kong) Limited ("Xin Lou")	Beneficial owner	Corporate interests	321,858,177(L)	7.47%
Shanxi Loudong Industry & Trading Group Company (formerly known as Xiaoyi Loudong Industry & Trading Group Company ("Loudong Trading")	Interest of controlled corporation	Corporate interests	321,858,177(L) (Note 3)	7.47%
Wise Perfection Limited	Beneficial owner	Corporate interests	237,412,000(L) (Note 4)	5.51%

Name	Capacity	Nature of Interest	No. of shares/ underlying shares	Approximate percentage of the issued share capital
	Long and short positions in the shares/underlying shares of the Company			
Rong De Investments Limited	Interest of controlled corporation	Corporate interests	237,412,000(L) (Note 4)	5.51%
Chu Hing Tsung	Interest of controlled corporation	Corporate interests	237,412,000(L) (Note 4)	5.51%
Liao Tengjia	Interest of controlled corporation	Corporate interests	237,412,000(L) (Note 4)	5.51%
Xinya Global Limited 新亞環球有限公司	Beneficial owner	Corporate interests	1,194,675,732(L) (Note 5)	27.72%
Tewoo Import & Export (HK) Limited	Interest of controlled corporation	Corporate interests	1,194,675,732(L) (Note 5)	27.72%
Tianjin Tian Yuen Investment Limited* 天津天源投資有限公司	Interest of controlled corporation	Corporate interests	1,194,675,732(L) (Note 5)	27.72%
Tewoo Import and Export Trade Co., Limited* 天津物產進出口貿易有限公司	Interest of controlled corporation	Corporate interests	1,194,675,732(L) (Note 5)	27.72%
Tewoo Group (Hong Kong) Limited	Interest of controlled corporation	Corporate interests	1,194,675,732(L) (Note 5)	27.72%
Tewoo Group Co., Ltd.* 天津物產集團有限公司	Interest of controlled corporation	Corporate interests	1,194,675,732(L) (Note 5)	27.72%
Tianjin Guo Xiang Asset Management Limited* 天津國翔資產管理有限公司	Interest of controlled corporation	Corporate interests	1,194,675,732(L) (Note 5)	27.72%
Tianjin Guo Xing Asset Operation Limited* 天津國興資本運營有限公司	Interest of controlled corporation	Corporate interests	1,194,675,732(L) (Note 5)	27.72%
Tianjin Yi Qing Asset Management Limited 天津市一輕資產經營管理有限公司	Interest of controlled corporation	Corporate interests	1,194,675,732(L) (Note 5)	27.72%
Tianjin Yi Qing Group Holdings Limited 天津市一輕集團(控股)有限公司	Interest of controlled corporation	Corporate interests	1,194,675,732(L) (Note 5)	27.72%
China Huarong	Interest of controlled corporation	Corporate interests	1,695,843,025(L) (Note 6)	39.34%

Notes:

1. These shares are beneficially owned by GNR. Each of GND and GNI holds 40% equity interest in GNR while GNG and Mr. Tsoi Ming Chi hold 50% and 35% equity interests in each of GND and GNI respectively. Accordingly each of GND, GNI, GNG and Mr. Tsoi Ming Chi is deemed to be interested in such shares held by GNR under the SFO.

2. Pursuant to the Exchangeable Bonds subscription agreement dated 18 May 2015 entered into between GNR and China Huarong, GNR has agreed to issue to China Huarong (or a group company of China Huarong) the Exchangeable Bonds. Upon full exercise of the Exchangeable Bonds, a total of 302,114,803 shares will be transferred from GNR to the holder(s) of the Exchangeable Bonds.

3. Loudong Trading is deemed to be interested in the shares held by Xin Lou by virtue of the fact that Xin Lou is its wholly owned subsidiary.

4. These shares are beneficially owned by Wise Perfection Limited which is wholly owned by Rong De Investments Limited. Rong De Investments Limited is owned as to 34.06% by Chu Hing Tsung and 36% by Liao Tenjia. Accordingly each of Rong De Investments Limited, Chu Hing Tsung and Liao Tengjia is deemed to be interested in the shares held by Wise Perfection Limited.

5. These interests comprise 388,224,120 issued shares of the Company beneficially owned by Xinya Global Limited and 806,451,612 underlying shares which may be allotted and issued to Xinya Global Limited upon full exercise of the conversion rights attaching to the convertible bonds with the principal amount of HK$300,000,000 at a conversion price of HK$0.372 per share (as adjusted). Xinya Global Limited is wholly owned by Tewoo Import & Export (HK) Limited. Tweoo Import & Export (HK) Limited is owned as to 49% by Tewoo Import And Export Trade Co., Limited and 51% by Tewoo Group (Hong Kong) Limited. Tewoo Import And Export Trade Co., Limited is owned as to 49% by Tianjin Tian Yuen Investment Limited and 51% by Tewoo Group Co. Limited. Tianjin Tian Yuen Investment Limited is wholly owned by Tiajin Guo Xiang Asset Management Limited. Each of Tianjin Yi Qing Asset Management Limited and Tianjin Guo Xing Asset Operation Limited owns 50% of Tianjin Guo Xiang Asset Management Limited. Tianjin Yi Qing Asset Management Limited is wholly owned by Tianjin Yi Qing Group Holdings Limited. Tewoo Group (Hong Kong) Limited is wholly owned by Tewoo Group Co., Limited. Accordingly, each of Tewoo Import & Export (HK) Limited, Tewoo Import And Export Trade Co., Limited, Tewoo Group (Hong Kong) Limited, Tewoo Group Co., Limited, Tianjin Tian Yuen Investment Limited, Tianjin Guo Xiang Asset Management Limited, Tianjin Yi Qing Asset Management Limited, Tianjin Yi Qing Group Holdings Limited and Tianjin Guo Xing Asset Operation Limited is deemed to be interested in the shares held by Xinya Global Limited.

6. According to the records of the Company, China Huarong Investment Management Limited is interested in 1,695,843,025 underlying shares (of which 1,393,728,222 shares (as adjusted subsequent to the adjustment of the conversion price to HK$0.287 per shares) may be allotted and issued upon the exercise of the conversion rights attaching to the convertible bonds with the principal amount of HK$400,000,000 at conversion price of HK$0.287 (as adjusted) per conversion share and 302,114,803 shares may be transferred from GNR to it upon exercise of the conversion rights attached to the Exchangeable Bonds). China Huarong owns 100% of China Huarong Investment Management Limited and is deemed to be interested in 1,695,843,025 underlying shares held by China Huarong Investment Management Limited, China Huarong International Holdings Limited is owned as to 88.1% by Huarong Real Estate Co., Ltd. and as to 11.9% by Huarong Zhiyuan Investment & Management Co., Ltd. Each of Huarong Real Estate Co., Ltd. and Huarong Zhiyuan Investment & Management Co., Ltd. is wholly-owned by China Huarong Asset Management Co., Ltd.

Save as disclosed above, the Directors are not aware of any other persons who, at 31 December 2016, had interests or short positions in the shares or underlying shares of the Company which are recorded in the register and required to be kept under Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules from the date of the last annual report of the Company to the date of this annual report.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year, the following Director is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules:

Mr. Cai Sui Xin, the chairman and executive director of the Company during the year and resigned as the chairman and executive director of the Company on 1 January 2017, is also a director and beneficial owner of GND, GNR (in liquidation as at 31 December 2016) and General Nice (Tianjin) Industry Co. Ltd. ("GNT") which are also involved in the trading of minerals. Mr. Cai is also interested in 49% equity interest of Tianjin Gangjun Logistics Development Co., Ltd. (天津港俊物流發展有限公司) ("Tianjin Gangjun") which is principally engaged in the provision of depot storage services and the trading of ores and coke.

As the Board is independent from the board of directors of GND, GNR, GNT and Tianjin Gangjun and the above director does not control the Board, the Group is capable of carrying on its businesses independently of, and at arm's length from, the business of GND, GNR, GNT and Tianjin Gangjun.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 13 to 23 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events of the Group after the reporting period and set out in note 44 to the consolidated financial statements.

AUDITORS

On 29 December 2016, the Board appointed CCTH CPA Limited as auditor of the Company to fill the casual vacancy caused by the resignation of Ascenda Cachet CPA Limited until the conclusion of the 2017 annual general meeting. Save for the above, there were no other changes in the Company's auditors in the past three years.

A resolution for the reappointment of CCTH CPA Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD
Geng Tao
Chairman

Hong Kong
8 May 2017

Independent Auditors' Report

CCTH CPA LIMITED
中正天恆會計師有限公司

To the shareholders of Loudong General Nice Resources (China) Holdings Limited
(Incorporated in the Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Loudong General Nice Resources (China) Holdings Limited and its subsidiaries (the "Group") set out on pages 54 to 150, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December 2016 and of its consolidated financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS OF OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2 to the consolidated financial statements regarding the adoption of going concern basis on which the consolidated financial statements have been prepared. The Group recorded a consolidated net loss of HK$702,775,000 for the year ended 31 December 2016 and, as of the date, the Group had net current liabilities of HK$781,690,000. As at 31 December 2016, the Group had bank and other borrowings repayable on demand or within one year after that date amounted to HK$1,876,609,000 which are included in current liabilities.

The conditions set out in Note 2 to the consolidated financial statements indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Group and the Company to continue as a going concern. The consolidated financial statements do not include any adjustments that would result from a failure to obtain the funding as referred to in Note 2 for financing the working capital and financial commitments of the Group and the Company for the foreseeable future. Our opinion is not modified in respect of this matter.

Independent Auditors' Report

KEY AUDIT MATTERS

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

Impairment assessment for property, plant and equipment and prepaid land lease payments

Refer to note 15 and note 17 to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
As at 31 December 2016, the Group had property, plant and equipment and prepaid land lease payments amounted to approximately HK$295,931,000 and HK$76,028,000 respectively. Following a review of the financial performance of the Group's business of production and sales of metallurgical coke which gave rise a significant loss to the Group and the outlook for this industry, management conducted impairment assessment of the Group's assets used in this business operations and concluded that impairment loss amounted to HK$30,931,000 on the property, plant and equipment is required to be made based on their fair value less costs of disposal, by reference to their estimated sale prices or depreciated replacement costs as valued by external valuer. We focused on the impairment assessment of the Group's property, plant and equipment and prepaid land lease payments as the estimation of the fair value less costs of disposal of such assets involved judgments and assumptions used in the estimation of sale prices or depreciated replacement costs of these assets.	Our procedures in relation to management's impairment assessment on property, plant and equipment and prepaid land lease payments included: – We evaluated the external valuer's independence, competence, capabilities and objectivity. – We assessed the valuation methodologies used by the management and external valuer to estimate the sale prices or depreciated replacement costs. – We checked, on a sample basis, the accuracy and relevance of the data and information provided by management.

Independent Auditors' Report

KEY AUDIT MATTERS (continued)

Business combination

Refer to note 37 to the consolidated financial statements.

Key audit matter

During the year, the Group acquired 100% equity interest in Tianjin Ruiqi Enterprise Management Company Limited ("Tianjin Ruiqi"), which in turn holds 70% interest in Tianjin Property Qian'an Logistics Company Limited, for the cash consideration of RMB200,000,000 (equivalent to HK$240,402,000). In determining the fair value of the assets and liabilities of Tianjin Ruiqi and its subsidiary acquired, management reviewed in details the nature of such assets and liabilities and the basis of estimating their fair value as valued by external valuer.

We focused on this area because accounting for acquisition requires the identification and valuation of assets and the allocation of purchase price to the assets and liabilities acquired, which involves a number of judgments and assumptions.

How the matter was addressed in our audit

Our procedures in relation to the recognition of the business combination included:

– We evaluated the external valuer's independence, competence, capabilities and objectivity.

– We assessed the valuation methodologies used by the management and external valuer to estimate the fair value of the assets and liabilities of the subsidiaries acquired.

– We considered and challenged management's assessment of the appropriate accounting treatment and the identification of tangible and intangible assets and the allocation of purchase price to the assets and liabilities acquired.

– We have also considered the adequacy of the Group's disclosure in respect of the acquisition in note 37 to the consolidated financial statements.

KEY AUDIT MATTERS (continued)

Recoverability of trade receivables

Refer to note 23 to the consolidated financial statements.

Key audit matter

At 31 December 2016, the carrying amount of the Group’s trade receivables is HK$760,873,000, of which impairment losses amounted to HK$355,866,000 was recognised in respect of the current year.

Recoverability of trade receivables involved management judgment in assessing the allowance for doubtful debts for trade receivables. The ability of the debtors to repay the Group depends on customer-specific and market conditions which involve inherent uncertainty.

We have identified impairment assessment of trade receivables as a key audit matter due to the magnitude of the receivables and the estimation and judgments involved in the determination of the recoverable amounts of these receivables.

How the matter was addressed in our audit

Our procedures in relation to management’s impairment assessment on trade receivables included:

– We obtained an understanding of the design, implementation and operating effectiveness of management’s internal controls relating to credit control, debt collection and making provisions for doubtful debts.

– We assessed the classification and accuracy of individual balances in trade receivables ageing report by testing the underlying invoices on a sample basis.

– We assessed subsequent settlement of receivable balances. Where settlement had not been received subsequent to the year end date, we obtained an understanding of the basis of management’s judgments about the recoverability of the outstanding receivables and evaluate the allowance for doubtful debts made by management for these individual balances.

– We assessed the historical accuracy of the estimates made by the management for the allowance for doubtful debts.

Independent Auditors' Report

KEY AUDIT MATTERS (continued)

Recoverability of prepayments, deposits and other receivables

Refer to note 24 to the consolidated financial statements.

Key audit matter

As at 31 December 2016, the carrying amounts of the Group's deposits for purchase of goods and other receivables are HK$1,462,606,000 and HK$48,799,000 respectively, of which impairment losses amounted to HK$45,920,000 and HK$68,011,000 were recognised in respect of the current year.

Recoverability of deposits paid of purchase of goods and other receivables involved management judgment in assessing the impairment losses of such deposits and receivables. Completion of the purchase of goods and the ability of the debtors to repay the Group depend on customer-specific and market conditions which involve inherent uncertainty.

We have identified impairment assessment of deposits for purchase of goods and other receivables as a key audit matter due to the magnitude of the deposits and receivables and the estimation and judgments involved in the determination of their recoverable amounts.

How the matter was addressed in our audit

Our procedures in relation to management's impairment assessment on prepayments, deposits and other receivables included:

– We obtained an understanding of the Group's processes and controls relating to monitoring of recoverability of the deposits paid for purchase of goods and other receivables and identifying any impairment indicators.

– We assessed the classification and accuracy of individual deposits and receivables by testing relevant corroborative evidence on a sample basis.

– We assessed subsequent purchase of goods and settlement of receivable balances. Where purchase of goods had not made and/or settlement of receivables had not been received subsequent to the year end date, we obtained an understanding of the basis of management's judgments about the recoverability of the deposits and receivables and evaluate any impairment losses which are required to be made.

KEY AUDIT MATTERS (continued)

Revenue recognition

Refer to note 7 to the consolidated financial statements.

Key audit matter

Revenue principally comprises of net invoiced value of goods sold.

Revenue from sales of goods is recognised when the relevant goods are delivered and title has passed. The accounting policy for revenue recognition in this respect is disclosed in note 4 to the consolidated financial statements. For the year ended 31 December 2016, the Group recognised revenue from sales of goods amounted to approximately HK$3,324,207,000.

We identified recognition of revenue as a key audit matter because revenue is quantitatively significant and is one of the key performance indicators of the Group.

How the matter was addressed in our audit

Our audit procedures to assess the recognition of revenue included:

– We assessed the design, implementation and operating effectiveness of management's key internal controls over revenue recognition for sales of goods.

– We checked, on a sample basis, the terms set out in the sale and purchase agreements; and assessed whether the significant risks and rewards of ownership of the goods have been transfered to the customers by reviewing the relevant documents, including delivery notices and acknowledgement to receipts.

– We assessed, on a sample basis, whether revenue transactions recorded during the financial year had been recognised in the appropriate financial period by comparing the transactions selected with relevant underlying documentation, including goods delivery notes and the terms set out in the sale agreements.

KEY AUDIT MATTERS (continued)

Impairment assessment of goodwill

Refer to note 20 to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
As at 31 December 2016, the carrying amount of the goodwill recognised by the Group amounted to HK$196,736,000, of which impairment loss amounted to approximately HK$29,238,000 has been made in respect of the current year. We focused on the impairment assessment of the goodwill as the magnitude of this goodwill is significant and management assessment of the value in use of the cash-generating units ("CGUs") of these businesses involves judgments and estimates about the future results of these businesses, key assumptions including revenue growth rate and gross profit margin, long-term growth rate and the discount rates applied to future cash flow forecast.	Our procedures in relation to management's impairment assessment on the goodwill included: – We evaluated and challenged the composition of the Group's future cash flow forecasts in each CGU, and the process by which they were drawn up, including testing the underlying value in use calculation. – We challenged the key assumptions including revenue growth rate, gross profit margin and long-term growth rate by comparing the current year's actual results with future plans. We considered the appropriateness of the discount rates adopted by management. – We have also considered the adequacy of the disclosure of impairment assessments of the goodwill set out in note 20 to the consolidated financial statements.

Impairment assessment for interests in associates

Refer to note 18 to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
As at 31 December 2016, the carrying amount of the Group's interests in associate is HK$938,367,000 Management conducted impairment assessment of the interests in associates on value in use basis and concluded that it was appropriate to recognise a reversal of the impairment loss for the current year amounted to HK$26,655,000 previously made against the investment in an associate. We focused on the impairment assessment of the Group's interests in associates as the magnitude of the interests in associates is significant and management assessment of the value in use involves judgments and estimates about the future results of the investments, key assumptions including revenue growth rate and gross profit margin and the discount rates applied to future cash flow forecast.	Our procedures in relation to management's impairment assessment on interests in associates included: – We evaluated and challenged the composition of the associates' future cash flow forecasts, and the process by which they were drawn up, including testing the underlying value in use calculation. – We challenged the key assumptions including revenue growth rate and gross profit margin by comparing the current year's actual results with future plans. We considered the appropriateness of the discount rates adopted by management.

Impairment assessment of oil properties

Refer to note 21 to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
As at 31 December 2016, the carrying amount of the Group's oil properties is HK$215,802,000. Management conducted impairment assessment of the Group's oil properties on the value in use basis, with reference to the valuation conducted by external valuer, and considered it appropriate to recognise impairment loss amounted to HK$13,614,000 in respect of the current year. We focused on the impairment assessment of the Group's oil properties due to the significant judgments involved in management's impairment assessment, key assumptions including future oil prices and the discount rates applied to future cash flow forecast.	Our procedures in relation to the impairment assessment of the Group's oil properties included: – We evaluated the external valuer's independence, competence, capabilities and objectivity. – We assessed the methodologies used by the management and external valuer for the estimation of the recoverable amount of oil properties. – We checked, on a sample basis, the accuracy and relevance of the data and information provided by management to the external valuer.

OTHER MATTERS

The consolidated financial statements of the Group for the year ended 31 December 2015 were audited by another auditor who expressed an unqualified opinion on those consolidated financial statements on 31 March 2016.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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 HKFRSs issued by the HKICPA and the disclosure requirements of 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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

CCTH CPA Limited
Certified Public Accountants
Hong Kong, 8 May 2017

Kwong Tin Lap
Practising certificate number: P01953

Unit 5-6, 7/F., Greenfield Tower, Concordia Plaza
1 Science Museum Road, Tsim Sha Tsui
Kowloon, Hong Kong

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
REVENUE	7	**3,326,156**	1,569,903
Cost of sales and services		**(3,170,257)**	(1,495,216)
Gross profit		**155,899**	74,687
Other income and gains	7	**54,235**	29,620
Selling and distribution expenses		**(40,631)**	(118,887)
Administrative expenses		**(72,663)**	(85,818)
Other operating expenses		**–**	(4,185)
Impairment of property, plant and equipment	15(d)	**(30,931)**	–
Impairment of investment in an associate	18(b)	**–**	(354,488)
Impairment of goodwill	20	**(29,238)**	–
Impairment of oil properties	21	**(13,614)**	(72,145)
Impairment of trade receivables	23	**(355,866)**	(351,211)
Impairment of prepayments, deposits and other receivables	24	**(113,931)**	(39,825)
Share of loss of associates	18	**(1,452)**	(1,195)
Finance costs	8	**(193,086)**	(191,572)
LOSS BEFORE TAX	9	**(641,278)**	(1,115,019)
Income tax expense	12	**(61,497)**	(222,844)
LOSS FOR THE YEAR		**(702,775)**	(1,337,863)
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**21,533**	14,970
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**21,533**	14,970
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(681,242)**	(1,322,893)
Loss attributable to:			
Owners of the Company		**(679,007)**	(1,291,990)
Non-controlling interests		**(23,768)**	(45,873)
		(702,775)	(1,337,863)
Total comprehensive income attributable to:			
Owners of the Company		**(658,076)**	(1,277,851)
Non-controlling interests		**(23,166)**	(45,042)
		(681,242)	(1,322,893)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	14		
Basic		**(HK$0.17)**	(HK$0.42)
Diluted		**N/A**	N/A

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	**2016 HK$'000**	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**295,931**	250,790
Investment property	16	**16,080**	13,007
Prepaid land lease payments	17	**76,028**	32,128
Interests in associates	18	**938,367**	320,904
Available-for-sale investments	19	**7,063**	7,548
Goodwill	20	**196,736**	115,740
Oil properties	21	**215,802**	231,261
Total non-current assets		**1,746,007**	971,378
CURRENT ASSETS			
Inventories	22	**142,820**	50,427
Prepaid land lease payments	17	**2,261**	953
Trade and bills receivables	23	**1,430,867**	890,209
Prepayments, deposits and other receivables	24	**1,625,508**	1,596,646
Equity investments at fair value through profit or loss	25	**558**	597
Amounts due from related companies	40(b)	**46,305**	47,455
Income tax recoverable		**88**	–
Pledged bank deposits	26	**19,307**	35,199
Cash and cash equivalents	26	**77,828**	457,123
Total current assets		**3,345,542**	3,078,609
CURRENT LIABILITIES			
Trade and bills payables	27	**659,838**	339,422
Other payables and accruals	28	**1,096,577**	298,512
Bank and other borrowings	29	**1,876,609**	1,105,663
Promissory notes payable	31	**48,715**	3,100
Amounts due to related companies	40(b)	**16,753**	17,902
Income tax payable		**428,740**	403,474
Total current liabilities		**4,127,232**	2,168,073
NET CURRENT (LIABILITIES) ASSETS		**(781,690)**	910,536
TOTAL ASSETS LESS CURRENT LIABILITIES		**964,317**	1,881,914

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT LIABILITIES			
Bank and other borrowings	29	–	798,346
Loans from related companies	40(b)	817	873
Assets retirement obligations	32	12,063	12,183
Promissory notes payable	31	–	45,538
Convertible bonds	30	657,947	636,388
Deferred tax liabilities	33	88,609	87,082
Total non-current liabilities		759,436	1,580,410
Net assets		204,881	301,504
EQUITY			
Share capital	34	43,099	34,292
Reserves		160,375	298,425
Equity attributable to owners of the Company		203,474	332,717
Non-controlling interests		1,407	(31,213)
Total equity		204,881	301,504

The consolidated financial statements on pages 54 to 150 were approved and authorised by issue by the board of directors on 8 May 2017 and are signed on its behalf by:

Zhao Cheng Shu
Director

Ng Tze For
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to owners of the Company										
	Share capital HK$'000 (Note 34)	Share premium account HK$'000	Share option reserve HK$'000 (Note 36(a))	Equity component of convertible bonds HK$'000	Exchange fluctuation reserve HK$'000	Capital reserve HK$'000 (Note 36(b))	Contributed surplus HK$'000 (Note 36(c))	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2015	28,592	913,334	1,534	–	93,101	688,569	1,742,526	(2,494,346)	973,310	13,829	987,139
Loss for the year	–	–	–	–	–	–	–	(1,291,990)	(1,291,990)	(45,873)	(1,337,863)
Other comprehensive income for the year:											
– Exchange differences on translation of foreign operations	–	–	–	–	14,139	–	–	–	14,139	831	14,970
Total comprehensive income for the year	–	–	–	–	14,139	–	–	(1,291,990)	(1,277,851)	(45,042)	(1,322,893)
Reduction in contribution surplus and share premium (note 36(d))	–	(913,334)	–	–	–	–	(969,436)	1,882,770	–	–	–
Shares issued as consideration for the acquisition of subsidiaries	5,700	564,700	–	–	–	–	–	–	570,400	–	570,400
Transfer of share option reserve upon lapsing of share options	–	–	(95)	–	–	–	–	95	–	–	–
Issue of convertible bonds, net of transaction costs	–	–	–	66,356	–	–	–	–	66,356	–	66,356
Share of reserve of an associate	–	–	502	–	–	–	–	–	502	–	502
As 31 December 2015 and January 2016	34,292	564,700	1,941	66,356	107,240	688,569	773,090	(1,903,471)	332,717	(31,213)	301,504
Loss for the year	–	–	–	–	–	–	–	(679,007)	(679,007)	(23,768)	(702,775)
Other comprehensive income for the year:											
– Exchange differences on translation of foreign operations	–	–	–	–	20,931	–	–	–	20,931	602	21,533
Total comprehensive income for the year	–	–	–	–	20,931	–	–	(679,007)	(658,076)	(23,166)	(681,242)
Shares issued as consideration for acquisition of associates	5,625	376,875	–	–	–	–	–	–	382,500	–	382,500
Issue of shares upon share placing	3,182	143,174	–	–	–	–	–	–	146,356	–	146,356
Share issue expenses	–	(2,240)	–	–	–	–	–	–	(2,240)	–	(2,240)
Increase in non-controlling interests from acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	55,786	55,786
Share of reserve of an associate	–	–	2,217	–	–	–	–	–	2,217	–	2,217
At 31 December 2016	43,099	1,082,509	4,158	66,356	128,171	688,569	773,090	(2,582,478)	203,474	1,407	204,881

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(641,278)**	(1,115,019)
Adjustments for:			
Share of loss of associates		**1,452**	1,195
Finance costs		**193,086**	191,572
Impairment of property, plant and equipment		**30,931**	–
Impairment of investment in an associate		**–**	354,488
Impairment of goodwill		**29,238**	–
Impairment of oil properties		**13,614**	72,145
Impairment of trade receivables		**355,866**	351,211
Impairment of prepayments, deposits and other receivables		**113,931**	39,825
Depreciation of property, plant and equipment		**59,482**	20,754
Accretion expenses – oil properties		**733**	698
Amortisation of prepaid land lease payments		**1,646**	984
Amortisation of oil properties		**3,619**	3,488
Impairment of available-for-sale investments		**–**	3,944
Write-down of inventories		**–**	8,111
Loss on early redemption of a promissory note		**–**	1,362
Interest income		**(86)**	(3,151)
Gain on disposal of equity investments at fair value through profit or loss		**–**	(622)
Gain on disposal of property, plant and equipment		**(1,951)**	–
Gain on change in fair value of an investment property		**(3,073)**	(1,015)
Reimbursement of depreciation charge		**(6,121)**	(19,356)
Reversal of impairment of amount due from associates		**(26,555)**	–
Reversal of impairment of trade receivables		**(343)**	–
Net foreign exchange gains		**(4,939)**	–
		119,252	(89,386)
(Increase)/decrease in inventories		**(96,292)**	61,699
Proceeds from disposal of equity investments at fair value through profit or loss		**–**	14,699
Increase in trade and bills receivables		**(678,275)**	(117,308)
(Increase)/decrease in prepayments, deposits and other receivables		**(22,493)**	402,745
Decrease in net amounts due from related companies		**–**	21,265
Decrease in trade and bills payables		**(51,876)**	(374,188)
Increase in other payables and accruals		**729,891**	52,661
Utilisation of assets retirement obligations	32	**(859)**	(2,046)
Cash used in operations		**(652)**	(29,859)
Income tax paid		**(10,270)**	(93,961)
Net cash used in operating activities		**(10,922)**	(123,820)

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**86**	3,151
Purchase of property, plant and equipment		**(7,837)**	(91)
Additions of oil properties		**(1,498)**	(2,738)
Acquisition of subsidiaries	37	**(240,364)**	100
Acquisition of an associate		**(190,000)**	(150,000)
Refund of acquisition consideration for an associate overpaid		**3,731**	–
Decrease in pledged bank deposits		**14,233**	216,664
Deposit paid for acquisition of a subsidiary		**(18,740)**	–
Net cash (used in)/generated by investing activities		**(440,389)**	67,086
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(61,898)**	(106,723)
Proceeds from issue of shares, net of expenses		**144,116**	–
New bank and other borrowings		**427,105**	1,480,330
Repayment of banks and other borrowings		**(427,805)**	(1,321,943)
Issue of convertible bonds		**–**	697,928
Redemption of promissory notes		**(3,100)**	(14,202)
Repayments to related companies		**–**	(251,768)
Net cash generated by financing activities		**78,418**	483,622
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(372,893)**	426,888
Cash and cash equivalents at beginning of the year		**449,159**	22,521
Effect of foreign exchange rate changes, net		**(973)**	(250)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**75,293**	449,159
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	26	**77,828**	457,123
Bank overdrafts	29	**(2,535)**	(7,964)
		75,293	449,159

Notes to Consolidated Financial Statements

31 December 2016

1 CORPORATE INFORMATION

Loudong General Nice Resources (China) Holdings Limited (the "Company", and together with its subsidiaries, collectively the "Group") was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). The Company's shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since January 1994.

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is situated at Unit B, 12/F., Lippo Leighton Tower, 103 Leighton Road, Causeway Bay, Hong Kong.

The Company is an investment holding company. The Company's subsidiaries are principally engaged in coal processing and production of metallurgical coke and by-products, trading of commodities and exploration and production of oil as well as the provision of well services, and provision of logistics and warehousing services.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the consolidated financial statements of the Group, the directors of the Company have given consideration to the future liquidity of the Group in light of the fact that the Group recorded a consolidated net loss of HK$702,775,000 for the year ended 31 December 2016 and, as of that date, the Group's current liabilities exceed its current assets by HK$781,690,000. As at 31 December 2016, the Group had bank and other borrowings repayable on demand or within one year after that date amounted to HK$1,876,609,000 which are included in current liabilities.

Notwithstanding the aforesaid conditions, the consolidated financial statements have been prepared on a going concern basis on the assumption that the Group is able to operate as a going concern for the foreseeable future. In the opinion of the directors of the Company, the Group can meet its financial obligations as and when they fall due within the next year from the date of approval of these consolidated financial statements, after taking into consideration of several measures and arrangements made subsequent to the reporting date as detailed below:

(a) On 5 May 2017, the Company entered into a loan agreement with an independent third party under which a loan facility of HK$900,000,000 was granted to the Company. The loan, which is unsecured, carries interest at 13% per annum and is due for repayment immediately after two years from the date of the first drawdown of any amount of the loan. Up to the date of approval of these consolidated financial statements, this loan facility was not utilized by the Company.

(b) The directors will continuously and closely monitor the Group's liquidity position and financial performance and implement measures to improve the Group's cash flows.

In light of the measures and arrangements implemented to date, the directors of the Company are of the view that the Group has sufficient cash resources to satisfy its working capital and other financial obligations for the next year from the date of approval of these consolidated financial statements after having taken into account of the Group's projected cash flows, current financial resources and capital expenditure requirements with respect to the production facilities and development of its business. Accordingly, the directors of the Company are of the view that it is appropriate to prepare these consolidated financial statements on a going concern basis.

Should the Group be unable to continue in operate as a going concern, adjustments would have to be made to restate the values of assets to their estimated recoverable amounts, to provide further liabilities that might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these potential adjustments have not been reflected in the consolidated financial statements.

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and revised HKFRSs applied in the current year

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year.

Amendments to HKAS 1	Presentation of Financial Statements
Amendments to HKAS 27 (2011)	Equity Method in Separate Financial
Statements Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
HKFRS 14	Regulatory Deferral Accounts
Annual improvement to HKFRSs 2012 – 2014 Cycle	Amendments to a number of HKFRSs

The application of the above new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and financial position for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

New and revised HKFRSs not yet effective

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

Amendments to HKAS 7	Disclosure Initiative (1)
Amendments to HKAS 12	Recognition of Deferral Tax Assets for Unrealised Losses (1)
Amendments to HKAS 40	Transfer of Investment property (2)
Annual improvement to HKFRSs 2014 – 2016 Cycle	Amendments to a number of HKFRSs (1)(2)
Amendments to HKFRS 2	Share-based Payment (2)
HKFRS 9 (2014)	Financial Instruments (2)
HKFRS 15	Revenue from Contracts with Customers (2)
Amendments to HKFRS 15	Revenue from Contracts with Customers (2)
HKFRS 16	Leases (3)
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (4)

(1) Effective for annual periods beginning on or after 1 January 2017

(2) Effective for annual periods beginning on or after 1 January 2018

(3) Effective for annual periods beginning on or after 1 January 2019

(4) Effective date to be determined

HKFRS 9 Financial instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to included a) impairment requirement for financial assets and b) limited amendments to classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 9 Financial Instruments (continued)

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that solely payments of principal and interest on the principal amount of outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credits loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have been also been introduced.

The directors anticipate that the application of HKFRS 9 in the future may have an impact on the amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 15 Revenue from Contracts with Customers and the related Amendments

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent consideration, as well as licensing application guidance.

The directors anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Other than the above, the directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the Group's consolidated financial statements.

4 SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The consolidated financial statements have been prepared under the historical cost convention, except for investment property and equity investments at fair value through profit and loss which are measured at fair value as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

These consolidated financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries.

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group has power over the investee; the Group is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to affect those returns through its power over the investee.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the aforementioned three elements of control. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates

An associate is an entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustment are made to bring into line any dissimilar accounting policies that may exist.

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

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

Impairment of non-financial assets

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Construction in progress represents production facilities under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and borrowing costs in accordance with the Group's accounting policies. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment, other than construction in progress, to its residual value over its estimated useful life. The estimated useful lives of the property, plant and equipment are as follows:

Leasehold land	Over the lease term
Buildings	30 years
Plant facilities	30 years
Office equipment	10 years
Oil equipment	2-30 years
Machinery	20 years
Motor vehicles	10 years
Plant infrastructure	20 years
Leasehold improvements, furniture and fixtures	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period with any change in estimate accounted for on a prospective basis.

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

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

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

Oil properties

The successful efforts method of accounting is adopted. The Group capitalises the initial acquisition costs of oil properties. Impairment of initial acquisition costs is recognised based on exploratory experience and management judgement and charged to profit and loss. The cost of drilling and equipping successful exploratory wells, all development expenditure on construction, installation or completion of infrastructure facilities, such as platforms, pipelines, processing plants and the drilling of development wells and the building of enhanced recovery facilities, including those renewals and betterments that extend the economic lives of the assets, and the related borrowing costs are capitalised. The cost of unsuccessful exploratory wells and all other exploration costs are expensed as incurred.

The Group carries exploratory well costs as an asset when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where the Group is making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these criteria are charged to expenses. Exploratory wells that discover potentially economic reserves in areas where major capital expenditure will be required before production would begin and when the major capital expenditure depends upon the successful completion of further exploratory work remain capitalised and are reviewed periodically for impairment.

The capitalised acquisition costs of oil properties are amortised on a unit-of-production basis over the estimated proved and probable reserves of the relevant oil properties. Common facilities that are built specifically to service production directly attributed to designated oil properties are depreciated based on the proved and probable reserves of the respective oil properties on a pro-rata basis. Common facilities that are not built specifically to service identified oil properties are depreciated using the straight-line method over their estimated useful lives. Costs associated with significant development projects are not depreciated until commercial production commences and the reserves related to those costs are excluded from the calculation of depreciation.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

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

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

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

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as 'prepaid land lease payments' in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value present as other income and gains and negative net changes in fair value presented as finance costs in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised as other income in profit or loss, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the accounting policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

Include other criteria for writing off amounts charged to the allowance account against the carrying amount of impaired financial assets.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, and other financial liabilities.

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in the profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of HKAS 39 are satisfied.

Other financial liabilities

Other financial liabilities (including trade and bills payables, other payables and accruals, amounts due to related companies, bank and other borrowings and promissory notes payable) are subsequently measured at amortised cost using the effective interest method.

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

Financial guarantee contract

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are indirectly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. When the conversion option remains unexercised at the maturity date of the convertible bonds, the balance recognised in equity will be transferred to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible bonds using the effective interest method.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

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

Offsetting of financial instruments

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

Asset retirement obligation

Asset retirement obligation is recognised in full on the installation of oil properties. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding addition to the related oil properties of an amount equivalent to the provision is also created. Changes in the estimated timing of the asset abandonment or asset abandonment cost estimated are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to oil properties. The unwinding of the discount on the asset retirement obligation is included as a finance cost.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

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

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

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 profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge. Where the Group receives grant of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for “Financial liabilities” above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a straight-line basis over the lease terms;

(c) logistics and warehousing income, when the relevant service has been rendered; and

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 35 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

Where share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits

For the Company and its subsidiaries located in Hong Kong

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

For the subsidiaries located in the People's Republic of China ("PRC")

(a) Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(b) Medical benefit costs

The Group participates in government-organised defined contribution medical benefits plans, under which it pays contribution to the plans at a fixed percentage of wages and salaries of the existing full time employees in the PRC and has no further legal or constructive obligations to pay additional contributions. The contributions are charged as an expense to profit or loss as incurred.

(c) Housing fund

The Group contributes on a monthly basis to defined contribution housing fund plans organised by the PRC government. Contributions to these plans by the Group are expensed as incurred.

For subsidiaries located in United States of America ("USA")

Pension scheme

The Group contributes on a monthly basis to the Social Security Trust Fund maintained by the United States Treasury. The Federal and States governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., 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. The capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries and associates are currencies other than Hong Kong dollar. For the purpose of presenting consolidated financial statements, the assets and liabilities of these entities are translated into the presentation currency at the exchange rates prevailing at the end of the reporting period and their income and expenses are translated into Hong Kong dollars at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the dates of the transactions are used. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the exchange rate prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

5 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgment in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Income taxes

Significant judgments on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provisions are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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 described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units (the "CGU") to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill arising from the acquisition of subsidiaries was HK$196,736,000 (2015: HK$115,740,000) after impairment of goodwill of HK$29,238,000 (2015: Nil) charged to the profit or loss for the year. Further details are disclosed in note 20 to the consolidated financial statements.

Impairment of property, plant and equipment

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs. The Group's management uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred tax assets relating to recognised tax losses was recognised at 31 December 2015 and 2016. Further details are contained in note 33 to the consolidated financial statements.

5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Useful lives of property, plant and equipment

The management of the Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Provision for impairment of receivables

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectibles and ageing analysis of accounts and on the management's judgement. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer.

Estimation of oil reserves

Estimates of oil reserve are regarded an important element in testing for impairment of oil properties. Changes in proven and probable oil reserves will affect unit-of-production depreciation and amortisation recorded in the Group's consolidated financial statements for oil properties.

Proven and probable reserve estimates are subject to revision, either upward or downward, as warranted by additional data. Revisions are necessary due to changes in assumptions based on, among other things, reservoir performance, prices, economic conditions and government restrictions.

Estimation on asset retirement obligation

Asset abandonment costs will be incurred by the Group at the end of the operating life of the oil wells and equipment. The abandonment cost estimates varies in response to many factors including changes to relevant legal requirements, emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure would also change in response to changes in reserves or changes in laws regulations or their interpretation. The present values of these estimated future abandonment costs are included in cost of oil properties with equivalent amounts recognised as asset retirement obligations.

6 OPERATING SEGMENT INFORMATION

The directors determine its operating segments based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business units and review of these units' performance.

The Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) The coke manufacturing segment is engaged in the production and sales of metallurgical coke;

(b) The commodities trading segment is engaged in the trading of commodities;

(c) The oil segment is engaged in exploration and production of oil as well as the provision of well drilling services; and

(d) The logistics segment is engaged in the provision of transportation and warehousing services.

The logistics segment commenced operations during the second half of the prior year ended 31 December 2015 by the acquisition of the entire equity interest in Dongguan City Hai Hui Logistics Company Limited ("Hai Hui") (note 37(b)) and 39% effective equity interest in Inner Mongolia Eurasian Continent Bridge Logistics Limited Liability Company ("Mongolia Logistics") (note 18(c)) by the Group.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's loss before tax except that interest income, finance costs, as well as head office and corporate expenses are excluded from such measurement. There were no intersegment sales in the current year (2015: Nil).

Segment assets exclude available-for-sale investments, amounts due from related companies, equity investments at fair value through profit and loss, pledged bank deposits, and other unallocated head office and corporate assets as these assets are managed on a group basis. Segment liabilities exclude amounts due to related companies, promissory notes payable, convertible bonds, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

6 OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2016

	Coke manufacturing HK$'000	Commodities trading HK$'000	Oil HK$'000	Logistics HK$'000	Total HK$'000
Segment revenue					
Sales to external customers	764,911	2,555,257	4,039	1,949	3,326,156
Segment (loss) profit	(565,732)	26,149	2,404	(18,150)	(555,329)
Interest income					55
Unallocated income					6,579
Unallocated expense					(24,620)
Finance costs					(67,963)
Loss before tax					(641,278)
Segment assets	1,956,921	1,337,278	494,841	1,099,677	4,888,717
Unallocated assets					202,832
Total assets					5,091,549
Segment liabilities	2,299,567	1,151,443	13,682	127,344	3,592,036
Unallocated liabilities					1,294,632
Total liabilities					4,886,668
Other segment information					
Capital expenditure allocated to segments	–	–	416	151,298	151,714
Unallocated capital expenditure					–
Total capital expenditure					151,714
Depreciation and amortisation allocated to segments	55,215	–	7,184	1,993	64,392
Unallocated depreciation and amortisation					355
Total depreciation and amortisation					64,747
Impairment loss allocated to segments:					
Property, plant and equipment	30,931	–	–	–	30,931
Investment in an associate	–	–	–	–	–
Goodwill	–	–	11,642	17,596	29,238
Oil properties	–	–	13,614	–	13,614
Trade and bills receivables	346,720	3,159	76	5,911	355,866
Prepayments, deposits and other receivables	111,055	–	–	2,876	113,931
	488,706	3,159	25,332	26,383	543,580
Unallocated impairment loss recognised: Available-for-sale equity investments					–
Total impairment loss recognised					543,580

6 OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2015

	Coke manufacturing HK$'000	Commodities trading HK$'000	Oil HK$'000	Logistics HK$'000	Total HK$'000
Segment revenue					
Sales to external customers	1,238,648	318,246	10,840	2,169	1,569,903
Segment (loss) profit	(596,655)	(21,642)	(444,878)	914	(1,062,261)
Interest income					12
Unallocated income					5,974
Unallocated expense					(41,063)
Finance costs					(17,681)
Loss before tax					(1,115,019)
Segment assets	2,512,797	274,381	495,108	248,847	3,531,133
Unallocated assets					518,854
Total assets					4,049,987
Segment liabilities	2,299,172	191,069	12,671	47,534	2,550,446
Unallocated liabilities					1,198,037
Total liabilities					3,748,483
Other segment information					
Capital expenditure allocated to segments	–	–	2,741	22,082	24,823
Unallocated capital expenditure					26
Total capital expenditure					24,849
Depreciation and amortisation allocated to segments	16,846	–	7,338	676	24,860
Unallocated depreciation and amortisation					366
Total depreciation and amortisation					25,226
Impairment loss allocated to segments:					
Property, plant and equipment	–	–	–	–	–
Investment in an associate	–	–	354,488	–	354,488
Goodwill	–	–	–	–	–
Oil properties	–	–	72,145	–	72,145
Trade and bills receivables	323,829	26,161	1,221	–	351,211
Prepayments, deposits and other receivables	39,825	–	–	–	39,825
	363,654	26,161	427,854	–	817,669
Unallocated impairment loss recognised:					
Available-for-sale equity investments					3,944
Total impairment loss recognised					821,613

6 OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2016 HK$'000	2015 HK$'000
PRC	**3,081,841**	1,233,996
Hong Kong	**124,902**	133,877
Singapore	**–**	180,341
Other countries	**119,413**	21,689
	3,326,156	1,569,903

The revenue information above is based on the location of the customers.

(b) Non-current assets

	2016 HK$'000	2015 HK$'000
PRC	**1,058,723**	415,689
USA	**296,201**	261,653
Other countries	**194,347**	178,296
	1,549,271	855,638

The above non-current assets information is based on the location of the assets and exclude goodwill of HK$196,736,000 (2015: HK$115,740,000).

Information about major customers

Revenue from major customers contributing over 10% of the revenue of the Group is as follows:

	Revenue generated from	2016 HK$'000	2015 HK$'000
Customer A	Coke manufacturing	**608,755**	N/A*
Customer B	Commodities trading	**N/A#**	161,283

* The revenue from customer A for the prior year ended 31 December 2015 did not contribute over 10% of the total revenue for that year.

The revenue from customer B for the current year ended 31 December 2016 did not contribute over 10% of the total revenue for the year.

7 REVENUE, OTHER INCOME AND GAINS

Revenue represents the aggregate of net invoiced value of goods sold, after allowances for returns and trade discounts, and sales of oil, net of royalties, obligations to governments and other mineral interest owners, and income from logistic services rendered, analysed as follows:

	2016 HK$'000	2015 HK$'000
Revenue from:		
Sales of goods	**3,324,207**	1,567,734
Rendering of services	**1,949**	2,169
	3,326,156	1,569,903

Other income and gains

An analysis of other income and gains is as follows:

	2016 HK$'000	2015 HK$'000
Rental income	**117**	125
Bank interest income	**86**	3,151
Government grants*	**10,853**	4,240
Gain on disposal of equity investments at fair value through profit or loss	**–**	622
Gain on disposal of property, plant and equipment, net	**1,951**	–
Gain on change in fair value of an investment property (note 16)	**3,073**	1,015
Reimbursement of depreciation charges	**6,121**	19,356
Reversal of impairment of investment in an associate	**26,555**	–
Reversal of impairment of trade receivables (note 23)	**343**	–
Sundry income	**5,136**	1,111
Total other income and gains	**54,235**	29,620

* Various government grants have been received for the Group's supply of heat in the PRC for previous year. There are no unfulfilled conditions or contingencies attached to these grants.

8 FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Interest expenses, net of reimbursement on borrowings:		
Bank loans, overdrafts and other loans	**126,350**	173,900
Convertible bonds (note 30)	**63,559**	15,172
Promissory notes payable (note 31)	**3,177**	2,500
	193,086	191,572

9 LOSS BEFORE TAX

The Group's loss before tax is arrived after charging:

	2016 HK$'000	2015 HK$'000
Cost of inventories sold*	**3,170,257**	1,495,215
Minimum lease payments under operating leases in respect of land and buildings	**715**	70
Auditors' remuneration		
Assurance services	**1,200**	1,350
Other services	**325**	165
Under-provision in prior year	**550**	539
	2,075	2,054
Staff costs (excluding directors' remuneration (note 10))		
Salaries and allowances	**34,872**	41,171
Retirement benefit costs	**531**	437
	35,403	41,608
Depreciation of property, plant and equipment	**59,482**	20,754
Accretion expenses – oil properties	**733**	698
Amortisation of prepaid land lease payments	**1,646**	984
Amortisation of oil properties	**3,619**	3,488
Impairment loss recognised on available-for-sale investments	**–**	3,944
Write-down of inventories	**–**	8,111
Loss on early redemption of a promissory note	**–**	1,362
Foreign exchange loss, net	**382**	18,268

* Cost of inventories sold includes approximately HK$23,806,000 and HK$53,089,000 (2015: HK$28,849,000 and HK$14,338,000) relating to staff costs and depreciation, respectively which amounts are also included in the respective total amounts disclosed separately above.

10 DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The emoluments paid or payable to each of the directors and chief executive were as follows:

	2016 HK$'000	2015 HK$'000
Fees	**531**	465
Other emoluments:		
Salaries, allowances and benefits in kind	**2,546**	3,508
Pension scheme contributions	**54**	72
	3,131	4,045

(a) Executive directors

	Fees HK$'000	**Salaries, allowances and benefits in kind** HK$'000	**Pension scheme contributions** HK$'000	**Total** HK$'000
2016				
Cai Sui Xin	**–**	**–**	**–**	**–**
Lau Yu**	**–**	**502**	**18**	**520**
Ng Tze For	**–**	**1,542**	**18**	**1,560**
Zhao Cheng Shu	**–**	**502**	**18**	**520**
	–	**2,546**	**54**	**2,600**
2015				
Cai Sui Xin	–	–	–	–
Lau Yu**	–	560	18	578
Li Xiao Juan***	–	828	18	846
Ng Tze For	–	1,560	18	1,578
Zhao Cheng Shu	–	560	18	578
	–	3,508	72	3,580

** Lau Yu was also the chief executive officer of the Company.

*** Li Xiao Juan resigned as an executive director of the Company with effect from 29 December 2015.

10 DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Non-executive director

	Fees 2016 HK$'000	2015 HK$'000
Li Xiao Long*	–	15

* Mr. Li Xiao Long resigned as a non-executive director of the Company with effect from 6 February 2015.

(c) Independent non-executive directors

	Fees 2016 HK$'000	2015 HK$'000
Choy So Yuk	**150**	150
Gao Wen Ping	**150**	150
Leung Yuen Wing	**150**	150
Wu Zhao*	**81**	–
	531	450

* Wu Zhao was appointed as independent non-executive director of the Company with effect from 16 June 2016.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2015: Nil).

There was no remuneration paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2015: Nil).

11 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees for the year included three (2015: four) directors, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining two (2015: one) highest paid employee who is neither a director nor the chief executive of the Company is as follows:

	2016 HK$'000	2015 HK$'000
Salaries, allowances and benefits in kind	**1,759**	969
Retirement scheme contributions	**36**	18
	1,795	987

The emoluments were within the following bands:

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

12 INCOME TAX EXPENSE

	2016 HK$'000	2015 HK$'000
Hong Kong profits tax	**–**	40
PRC corporate income tax	**63,981**	188,008
Underprovision in prior years	**(378)**	63,948
Current tax	**63,603**	251,996
Deferred tax (note 33)	**(2,106)**	(29,152)
Total tax charge for the year	**61,497**	222,844

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong for the year. Under the Corporate Income Tax Law of the PRC, the PRC corporate income tax is calculated at the rate of 25% (2015: 25%) on the Group's estimated assessable profits arising in the PRC. Tax on the assessable profits arising in the USA is calculated at the rate of 34% (2015: 34%), however, no such income tax has been provided as the Group did not generate any assessable profits arising in the USA.

12 INCOME TAX EXPENSE (continued)

A reconciliation of the tax expense applicable to loss before tax using the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory rates) to the effective tax rates, are as follows:

	Hong Kong		PRC		USA		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
2016								
Loss before tax	**(87,071)**		**(518,122)**		**(36,085)**		**(641,278)**	
Tax at the statutory tax rate	**(14,367)**	**16.5**	**(129,531)**	**25.0**	**(12,269)**	**34.0**	**(156,167)**	**24.4**
Adjustment in respect of previous periods	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Profits and losses attributable to associates	**240**	**0.2**	**–**	**–**	**–**	**–**	**240**	**0.0**
Income not subject to tax	**(598)**	**0.6**	**(9,335)**	**1.8**	**(14)**	**0.0**	**(9,947)**	**1.6**
Expenses not deductible for tax	**12,879**	**(17.7)**	**202,802**	**(39.1)**	**6,118**	**(17.0)**	**221,799**	**(34.6)**
Tax losses utilised from previous periods	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Temporary difference not recognised	**28**	**0.0**	**–**	**–**	**–**	**–**	**28**	**0.0**
Underprovision in prior year	**(379)**	**0.4**	**–**	**–**	**–**	**–**	**(379)**	**0.0**
Tax losses not recognised	**2,227**	**(2.6)**	**–**	**–**	**3,696**	**(10.2)**	**5,923**	**(0.9)**
Tax reduction	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Income tax expense	**30**	**–**	**63,936**	**(12.3)**	**(2,469)**	**6.8**	**61,497**	**(9.6)**
2015								
Loss before tax	(434,043)		(595,313)		(85,663)		(1,115,019)	
Tax at the statutory tax rate	(71,617)	16.5	(148,829)	25.0	(29,125)	34.0	(249,571)	22.4
Adjustment in respect of previous periods	23	0.0	–	–	–	–	23	0.0
Profits and losses attributable to associates	197	0.0	–	–	–	–	197	0.0
Income not subject to tax	(485)	0.1	(2,111)	0.4	(2,930)	3.4	(5,526)	0.5
Expenses not deductible for tax	72,186	(16.7)	338,948	(57.0)	381	(0.4)	411,515	(37.0)
Tax losses utilised from previous periods	(471)	0.1	–	–	–	–	(471)	0.0
Temporary difference not recognised	216	0.0	–	–	–	–	216	0.0
Underprovision in prior year	–	–	63,948	(10.7)	–	–	63,948	(5.7)
Tax losses not recognised	–	–	–	–	2,522	(3.0)	2,522	(0.2)
Tax reduction	(9)	–	–	–	–	–	(9)	0.0
Income tax expense	40	–	251,956	(42.3)	(29,152)	34.0	222,844	(20.0)

13 DIVIDENDS

No interim dividend was declared for the current year (2015: Nil).

The board of directors of the Company does not recommend the payment of a final dividend in respect of the year ended 31 December 2016 (2015: Nil).

14 LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share is based on the loss for the year attributable to ordinary equity holders of the Company of approximately HK$679,007,000 (2015: HK$1,291,990,000) and the weighted average of approximately 4,037,608,000 (2015: 3,075,990,000) ordinary shares in issue.

As the Group sustained a loss for both of the years presented, diluted earnings/loss per share for these years are not presented as the effects of potential shares issuable arising from the exercise of the share options and the conversion of the convertible bonds are regarded anti-dilutive.

15 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Plant facilities HK$'000	Office equipment HK$'000	Oil equipment HK$'000	Machinery HK$'000	Motor vehicles HK$'000	Plant infrastructure HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2016										
At 1 January 2016										
Cost	35,904	1,076,693	37,059	32,823	1,073,076	19,139	295,864	1,748	91,109*	2,663,415
Accumulated depreciation and impairment	(4,227)	(940,637)	(31,808)	(3,981)	(1,038,359)	(18,723)	(282,961)	(820)	(91,109)*	(2,412,625)
Carrying amount	31,677	136,056	5,251	28,842	34,717	416	12,903	928	–	250,790
At 1 January 2016, net of accumulated depreciation and impairment	31,677	136,056	5,251	28,842	34,717	416	12,903	928	–	250,790
Additions	–	–	157	416	4,194	–	–	–	3,070	7,837
Acquisition of subsidiaries (note 37(a))	–	–	525	–	2,363	34	–	–	140,955	143,877
Disposals	–	–	(219)	–	–	1,323	–	–	–	1,104
Depreciation provided for the year	(960)	(44,477)	(637)	(3,518)	(8,385)	(196)	(1,261)	(48)	–	(59,482)
(Impairment loss) reversal of impairment for the year	(88)	(88,450)	(21)	–	30,985	3,453	23,697	(507)	–	(30,931)
Exchange realignment	(1,025)	(3,129)	(402)	16	(3,582)	(1,120)	(1,777)	(25)	(6,220)	(17,264)
At 31 December 2016, net of accumulated depreciation and impairment	29,604	–	4,654	25,756	60,292	3,910	33,562	348	137,805	295,931
At 31 December 2016										
Cost	32,785	1,001,780	34,272	33,259	984,982	15,845	285,441	1,691	223,061	2,613,116
Accumulated depreciation and impairment	(3,181)	(1,001,780)	(29,618)	(7,503)	(924,690)	(11,935)	(251,879)	(1,343)	(85,256)	(2,317,185)
Carrying amount	29,604	–	4,654	25,756	60,292	3,910	33,562	348	137,805	295,931

15 PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold land and buildings HK$'000	Plant facilities HK$'000	Office equipment HK$'000	Oil equipment HK$'000	Machinery HK$'000	Motor vehicles HK$'000	Plant infrastructure HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2015										
At 1 January 2015										
Cost	20,419	1,131,408	33,290	32,837	1,142,002	20,599	303,477	1,074	95,384	2,780,490
Accumulated depreciation and impairment	(4,659)	(983,154)	(32,141)	(183)	(1,097,000)	(20,020)	(288,644)	(553)	(95,384)	(2,521,738)
Carrying amount	15,760	148,254	1,149	32,654	45,002	579	14,833	521	–	258,752
At 1 January 2015, net of accumulated depreciation and impairment	15,760	148,254	1,149	32,654	45,002	579	14,833	521	–	258,752
Additions	62	–	26	3	–	–	–	–	–	91
Acquisition of subsidiaries (note 37(b))	16,831	–	4,737	–	–	–	–	452	–	22,020
Depreciation provided for the year	(668)	(5,714)	(542)	(3,803)	(8,542)	(141)	(1,307)	(37)	–	(20,754)
Exchange realignment	(308)	(6,484)	(119)	(12)	(1,743)	(22)	(623)	(8)	–	(9,319)
At 31 December 2015, net of accumulated depreciation and impairment	31,677	136,056	5,251	28,842	34,717	416	12,903	928	–	250,790
At 31 December 2015										
Cost	35,904	1,076,693	37,059	32,823	1,073,076	19,139	295,864	1,748	91,109*	2,663,415
Accumulated depreciation and impairment	(4,227)	(940,637)	(31,808)	(3,981)	(1,038,359)	(18,723)	(282,961)	(820)	(91,109)*	(2,412,625)
Carrying amount	31,677	136,056	5,251	28,842	34,717	416	12,903	928	–	250,790

15 PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

(a) The Group's land and buildings is analysed as follows:

	2016 HK$'000	2015 HK$'000
Land and building Hong Kong under medium-term lease	**13,373**	13,715
Buildings in the PRC	**14,727**	16,412
Buildings in the USA	**1,504**	1,550
	29,604	31,677

(b) Certain land and buildings and machinery with the carrying amount of approximately HK$13,373,000 (2015: HK$13,715,000) and HK$31,588,000 (2015: HK$20,756,000) respectively were pledged to secure general banking facilities granted to the Group (note 29).

(c) In the current year, management of the Group decided to construct new plant facilities, which will be used to replace certain existing facilities for the coal processing and production of metallurgical coke after two years from the end of the reporting period. Upon the operations of the new plant facilities, the existing plant facilities used in these operations will be abandoned with insignificant residual value. Under these circumstances, the directors of the Company considered it appropriate to revise the remaining useful lives of the existing plant facilities from twenty-eight years to three years with effect from 1 January 2016, which resulted in an increase of the depreciation charge on such facilities by HK$33,492,000 (2015: Nil) for the current year. Up to the approval of these consolidated financial statements, the estimated total costs for the construction of the new plant facilities are yet to be determined by management of the Group.

(d) In view of the significant operating losses for the current year sustained by the Group's coke manufacturing segment (Note 6a), management of the Company conducted assessments of the recoverable amounts of the assets used in this business operation and considered it appropriate to recognise impairment loss amounted to HK$30,931,000 (2015: Nil) on the Group's property, plant and machinery, which is calculated on the basis of their fair value less costs of disposal, by reference to the estimated sale prices or depreciated replacement costs of the relevant assets.

16 INVESTMENT PROPERTY

	2016 HK$'000	2015 HK$'000
Fair value, at 1 January	**13,007**	11,992
Gain on change in fair value of investment property (note 7)	**3,073**	1,015
Fair value, at 31 December	**16,080**	13,007

The carrying amount shown above comprises:

	2016 HK$'000	2015 HK$'000
Investment property on land in the PRC on long-term lease	**16,080**	13,007

The Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment property.

The fair value of the Group's investment property at 31 December 2016 and 31 December 2015 has been arrived at on the basis of a valuation carried out on the respective dates by Greater China Appraisal Limited.

Greater China Appraisal Limited is an independent firm of professional valuer not connected with the Group and has appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on capitalisation of net income method, where the market rentals of all lettable units of the property are assessed by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yield rates observed by the valuer for similar properties in the locality and adjusted based on the valuer's knowledge of the factors specific to the respective properties.

There has been no change from the valuation technique used in the prior year. In estimating the fair value of the property, the highest and best use of the property is their current use.

16 INVESTMENT PROPERTY (continued)

Details of the Group's investment property and information about the fair value hierarchy are as follows:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Recurring fair value measurement for investment property:				
31 December 2016	**–**	**–**	**16,080**	**16,080**
31 December 2015	–	–	13,007	13,007

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Residential property	
	2016 HK$'000	2015 HK$'000
Carrying amount at 1 January	**13,007**	11,992
Gain on change in fair value recognised in profit or loss	**3,073**	1,015
Carrying amount at 31 December	**16,080**	13,007

Below is a summary of the valuation techniques used and key inputs to the valuation of investment property as at 31 December 2016:

Description	Fair value at 31 December 2016	Valuation techniques	Unobservable inputs	Range of unobservable Inputs	Relationship of unobservable inputs to fair value
Residential property	HK$16,080,000 (RMB:14,400,000)	Income capitalisation method (Investment method)	(i) Annual rental	RMB100,000	The higher the monthly rental, the higher the fair value
			(ii) Reversionary yield per annum	4%	The higher the reversionary yield, the lower the fair value
			(iii) Market unit sale rate	RMB61,400/Sq m	The higher the market rate, the higher the fair value

17 PREPAID LAND LEASE PAYMENTS

	2016 HK$'000	2015 HK$'000
Cost:		
At 1 January	**40,024**	41,902
Acquired on acquisition of subsidiaries (note 37(a))	**51,117**	–
Exchange realignment	**(4,779)**	(1,878)
At 31 December	**86,362**	40,024
Accumulated amortisation:		
At 1 January	**6,943**	6,271
Charge for the year	**1,646**	984
Exchange realignment	**(516)**	(312)
At 31 December	**8,073**	6,943
Carrying amount	**78,289**	33,081
Analysed for reporting purposes as:		
Current assets	**2,261**	953
Non-current assets	**76,028**	32,128
	78,289	33,081

18 INTERESTS IN ASSOCIATES

	2016 HK$'000	2015 HK$'000
Cost of investments in unlisted associates	**1,281,950**	693,627
Share of post–acquisition losses and other comprehensive income	**(1,452)**	(1,195)
Share of reserve of an associate	**2,217**	502
Impairment loss recognised	**(344,348)**	(372,030)
	938,367	320,904

Included in cost of investments in unlisted associates are goodwill arising on acquisition amounted to HK$833,543,000 (2015: HK$545,492,000).

18 INTERESTS IN ASSOCIATES (continued)

Movements during the year are as follows:

	2016 HK$'000	2015 HK$'000
Balance at beginning of the year	**320,904**	6,371
Acquisition of associates during the year		
– Wulanchabu (note a)	**572,500**	–
– Qian'an ENN Energy Limited (note 37(a))	**22,583**	–
– RockEast (note b)	**–**	520,000
– Mongolia Logistics (note c)	**–**	150,000
Share of post-acquisition losses and other comprehensive income for the year	**(1,452)**	(1,195)
Share of reserve of an associate	**2,217**	502
Impairment loss reversed (recognised) (note b)	**26,655**	(354,488)
Refund of acquisition consideration overpaid	**(3,731)**	–
Exchange realignment	**(1,309)**	(286)
Balance at end of the year	**938,367**	320,904

Notes:

(a) On 30 December 2015, the Group entered into a sale and purchase agreement with an independent third party, pursuant to which the Group acquired 100% equity interest in of Pride Logic Limited ("Pride Logic"). Pride Logic is an investment holding company and, through its wholly-owned subsidiaries, holds 40% equity interest in Wulanchabu Integrated Logisitics Park Company Limited ("Wulanchabu"), which is principally engaged in the construction of railway and coal storage in the PRC. The consideration for the acquisition is HK$640,000,000, which was settled by way of (i) payment in cash amounted to HK$190,000,000 and (ii) allotment and issue of 562,500,000 new ordinary shares of the Company of HK$0.01 each, credited as fully paid, at an issue price of HK$0.80 per share. The acquisition was completed on 13 January 2016. The fair value of the shares issued for the acquisition is HK$0.68 per share at the date of completion, being the closing market price of the Company's ordinary share at that date. The acquisition of Pride Logic has been accounted for as acquisition of assets which resulted in cost of investment in Wulanchabu recognised amounted to HK$572,500,000. As the Group is in a position to exercise significant influence over Wulanchabu, Wulanchabu is classified as an associate of the Group.

The issue of 562,500,000 shares of the Company for the acquisition of Pride Logic is regarded an non-cash item in the preparation of the Group's consolidated statement of cash flows for the current year.

(b) On 6 August 2015, the Group entered into a sale and purchase agreement with an independent third party, pursuant to which the Group acquired 100% equity interest in Kai Sum International Limited ("Kai Sum"). Kai Sum is an investment holding company and, through its wholly-owned subsidiary, holds 30% equity interests in RockEast Energy Corporation ("RockEast"), which is principally engaged in exploration and production of oil and natural gas in Canada. The consideration for the acquisition is HK$510,000,000, which was settled by way of the allotment and issue of 500,000,000 new ordinary shares of the Company of HK$0.01 each, credited as fully paid, at an issue price of HK$1.02 per share. The acquisition was completed on 12 August 2015. The fair value of the shares issued for the acquisition is HK$1.04 per share at the date acquisition, being the closing market price of the Company's ordinary share on the completion date. The acquisition of Kai Sum was accounted for as acquisition of assets, which resulted in cost of investment in RockEast recognised amounted to HK$520,000,000. As the Group is in a position to exercise significant influence over RockEast, RockEast is classified as an associate of the Group.

18 INTERESTS IN ASSOCIATES (continued)

Notes: (Continued)

In the year ended 31 December 2015, the Company engaged Greater China Appraisal Limited, an independent firm of professional valuers, to conduct an assessment of the recoverable amount of the investment in RockEast. As a result of a dramatic decrease in crude oil price during that year, the estimated business value of RockEast shared by the Group was approximately HK$165,512,000 on the date of completion of the acquisition, which was significantly lower than the fair value of the new shares issued for the acquisition. An impairment loss of investment in associate of approximately HK$354,488,000 was recognised for the year ended 31 December 2015 immediately upon the completion of the acquisition.

In the current year, following the increase of the recoverable amounts of the Group's investment in RockEast upon increase in its estimated oil reserves, the directors are of the view that it is appropriate to recognise a reversal of the impairment loss amounted to HK$26,655,000 (2015: Nil) previously made against the investment in RockEast. Such reversal of impairment loss is included in other income and gains (note 6).

(c) On 22 October 2015, the Group entered into an agreement with an independent third party, pursuant to which the Group acquired 100% equity interest in Wealth Delight International Holdings Limited ("Wealth Delight"). Wealth Delight is an investment holding company and, through its wholly-owned subsidiary, holds 39% equity interest in Mongolia Logistics, which is principally engaged in the provision of logistics and warehousing services. The consideration for the acquisition is HK$150,000,000, which was paid in cash by the Group. The acquisition was completed on 26 October 2015. The acquisition of Wealthy Delight was accounted for as acquisition of assets, which resulted in cost of investment in Mongolia Logistics recognised amounted to HK$150,000,000. As the Group is in a position to exercise significant influence over Mongolia Logistics, Mongolia Logistics is classified as an associate of the Group.

Particulars of the principal associates of the Group are as follows:

Name	Place of establishment/ registration and operations	Paid up capital	Equity interest attributable to the Group 2016	2015	Principal activities
Nan Tie Lou Jun Coke Transportation Co., Ltd. ("Nan Tie")^#	Shanxi Province, the PRC	RMB10,000,000	**19%**	19%	Provision of loading storage and transportation service for coke, washed coals and raw coals
Shanxi Guo Xin Loujin New Resources Limited ^	Shanxi Province, the PRC	RMB30,000,000	**49%**	49%	Provision of coke oven gas compression, purification, methanation and separation process, and synthesizing coke oven gas into natural gas
RockEast	Canada	CAD30,364,992	**30%**	30%	Exploration and production of oil
Mongolia Logistics	Inner Mongolia Province, the PRC	RMB5,000,000	**39%**	39%	Provision of logistics and warehousing services
Wulanchabu	Inner Mongolia Province, the PRC	RMB50,000,000	**40%**	–	Provision of logistics and warehousing services
Qian'an ENN Energy Limited ^	Hebei Province, the PRC	RMB64,500,000	**21%**	–	Investment in natural gas manufacturing

Nan Tie is classified as an associate by virtue of the Group's significant influence over it.

^ The English names of these companies are directly translated from their Chinese names as no English names have been registered.

18 INTERESTS IN ASSOCIATES (continued)

RockEast, Mongolia Logistics and Wulanchabu, which are considered as material associates of the Group, are accounted for using the equity method.

The following table illustrates the summarised financial information is respect of RockEast, Mongolia Logistics and Wulanchabu and reconciled to the carrying amount in the consolidated financial statements.

	RockEast	
	2016	2015
	HK$'000	HK$'000
Non-current assets	**463,277**	392,936
Current assets	**25,619**	72,624
Current liabilities	**(10,058)**	(7,784)
Non-current liabilities	**(98,217)**	(85,655)
Net assets	**380,621**	372,121
Revenue	**46,852**	6,043
Profit/(loss) before tax	**1,110**	(2,571)
Income tax expense	**–**	–
Profit/(loss) for the year	**1,110**	(2,571)
Other comprehensive income	**–**	–
Total comprehensive income	**1,110**	(2,571)
Reconciliation to the Group's interest in the associates:		
Proportion of the Group's ownership	**30%**	30%
Group's share of net assets of the associates, excluding goodwill	**114,186**	111,636
Goodwill on acquisition (less accumulated impairment)	**80,161**	53,606
Carrying amount of the investment	**194,347**	165,242

18 INTERESTS IN ASSOCIATES (continued)

	Mongolia Logistics	
	2016	2015
	HK$'000	HK$'000
Non-current assets	**260,155**	275,876
Current assets	**42,909**	16,915
Current liabilities	**(264,044)**	(249,194)
Non-current liabilities	**(360)**	(360)
Net assets	**38,660**	43,237
Revenue	**1,818**	–
Loss before tax	**(5,950)**	(1,086)
Income tax	**–**	–
Loss for the year	**(5,950)**	(1,086)
Other comprehensive income	**–**	–
Total comprehensive income	**(5,950)**	(1,086)
Reconciliation to the Group's interest in the associates:		
Proportion of the Group's ownership	**39%**	39%
Group's share of net assets of the associates, excluding goodwill	**15,078**	16,862
Goodwill on acquisition	**132,714**	132,714
Carrying amount of the investment	**147,792**	149,576

18 INTERESTS IN ASSOCIATES (continued)

	Wulanchabu 2016 HK$'000
Non-current assets	635,961
Current assets	144,982
Current liabilities	(78,754)
Non-current liabilities	–
Net assets	702,189
Revenue	–
Profit before tax	–
Income tax	–
Loss for the year	–
Other comprehensive income	–
Total comprehensive income	–
Reconciliation to the Group's interest in the associates:	
Proportion of the Group's ownership	40%
Group's share of net assets of the associates, excluding goodwill	280,876
Goodwill on acquisition	291,624
Carrying amount of the investment	572,500

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2016 HK$'000	2015 HK$'000
Share of the associates' profit for the year	–	–
Share of associates' other comprehensive income	–	–
Aggregate carrying amount of the Group's investments in the associates	23,728	6,086

19 AVAILABLE-FOR-SALE INVESTMENTS

	2016 HK$'000	2015 HK$'000
Unlisted investments		
At cost	**10,636**	11,492
Less: impairment loss recognised	**(3,573)**	(3,944)
	7,063	7,548
Movements during the year are as follows:		
At 1 January	**7,548**	11,900
Impairment loss recognised for the year (note 9)	**–**	(3,944)
Exchange realignment	**(485)**	(408)
At 31 December	**7,063**	7,548

The unlisted investments represent investments in certain unlisted entities established in the PRC.

The unlisted investments are stated at cost less impairment because the range of reasonable fair value estimates cannot be measured reliably.

20 GOODWILL

	2016 HK$'000	2015 HK$'000
At 1 January		
Cost	**1,073,362**	1,022,403
Accumulated impairment	**(957,622)**	(957,622)
Carrying amount	**115,740**	64,781
Carrying amount at 1 January, net of accumulated impairment	**115,740**	64,781
Goodwill arising from acquisition of subsidiaries (notes 37(a) and 37(b))	**110,234**	50,959
Impairment loss recognised for the year	**(29,238)**	–
Carrying amount at 31 December	**196,736**	115,740
At 31 December		
Cost	**1,183,596**	1,073,362
Accumulated impairment	**(986,860)**	(957,622)
Carrying amount	**196,736**	115,740

An analysis of the goodwill attributable to the relevant cash-generating units ("CGUs") is as follows:

	Coke Management CGU HK$'000	Oil CGU HK$'000	Logistics CGU HK$'000	Total HK$'000
Carrying amount at 1 January 2015	–	64,781	–	64,781
Goodwill arising from acquisition of subsidiaries (note 37(b))	–	–	50,959	50,959
Carrying amount at 31 December 2015 and 1 January 2016	–	64,781	50,959	115,740
Goodwill arising from acquisition of subsidiaries (note 37(a))	–	–	110,234	110,234
Impairment loss recognised for the year	–	(11,642)	(17,596)	(29,238)
Carrying amount at 31 December 2016	–	53,139	143,597	196,736

20 GOODWILL (continued)

Coke Manufacturing CGU

The goodwill arose from the business combination in prior years and was fully impaired during the year ended 31 December 2013.

Oil CGU

The goodwill arose from the acquisition of Earning Power Inc. and its subsidiaries ("EPI Group") during the year ended 31 December 2014.

Impairment test of goodwill

The recoverable amounts of the Oil CGU is determined based on a value in use calculation by reference to the valuation conducted by Greater China Appraisal Limited, an independent firm of professional valuers with recognised qualifications and experience, using the income approach methodology. The discount rate applied to the cash flow projections is 20.7% (2015: 13%) and the growth rate used to extrapolate the cash flows of the oil operations beyond the five-year period is 2.34% (2015: 2.38%). Based on the assessment, the directors considered it appropriate to recognise impairment of goodwill relating to oil operations amounted to HK$11,642,000 (2015: Nil).

Logistics CGU

The goodwill of HK$110,234,000 and HK$50,959,000 arose from the acquisition of Tianjin Ruiqi Enterprise Management Company and its subsidiary ("Tianjin Ruiqi Group") and Hai Hui during the years ended 31 December 2016 and 31 December 2015 respectively (notes 37(a) and (b)).

Impairment test of goodwill

The directors of the Company conducted assessments of the recoverable amounts of the Logistics CGU with reference to the valuations conducted by Greater China Appraisal Limited, an independent firm of professional valuers with recognised qualifications and experience, using the income approach methodology. The discount rate applied to the cash flow projections of Tianjin Ruiqi Group and Hai Hui are 27.57% (2015: N/A) and 26.43% (2015: 18.16%) respectively and the growth rate used to extrapolate the cash flows of Tianjin Ruiqi Group and Hai Hui beyond the five-year period are 3% (2015: N/A) and 3% (2015: 3%) respectively. Based on the assessments, the directors considered it appropriate to recognise impairment of goodwill relating to logistics operations amounted to HK$17,596,000 (2015: Nil).

21 OIL PROPERTIES

	2016 HK$'000	2015 HK$'000
At 1 January		
Cost	**306,878**	292,382
Accumulated amortisation and impairment	**(75,617)**	(266)
Carrying amount	**231,261**	292,116
At 1 January, cost less accumulated amortisation	**231,261**	292,116
Additions, at cost	**1,498**	14,888
Disposals	**(401)**	–
Amortisation for the year	**(3,619)**	(3,488)
Impairment loss recognised for the year	**(13,614)**	(72,145)
Exchange realignment	**677**	(110)
At 31 December, cost less accumulated amortisation and impairment	**215,802**	231,261
At 31 December		
Cost	**308,401**	306,878
Accumulated amortisation and impairment	**(92,599)**	(75,617)
Carrying amount	**215,802**	231,261

The oil properties represent proven and probable oil reserves and the cost of successful exploratory wells in the States of Illinois and Indiana in the USA held by the EPI Group. The oil properties are amortised using the unit-of-production method based on the total estimated proven and probable reserves.

The additions to oil and gas properties of the Group for the year ended 31 December 2015 included estimated assets retirement obligations of approximately US$1,567,000 (equivalent to approximately HK$12,150,000) (note 32).

The directors of the Company conducted assessments of the recoverable amounts of the oil properties with reference to the valuations conducted by Greater China Appraisal Limited, an independent firm of professional valuers with recognised qualifications and experience, using the income approach methodology. Based on the assessments, the directors of the Company considered it appropriate to recognise an impairment loss of approximately HK$13,614,000 for the current year (2015: HK$72,145,000), as a result of decrease in crude oil price during the year.

22 INVENTORIES

	2016 HK$'000	2015 HK$'000
Raw materials	27,850	15,035
Work in progress	–	8,714
Finished goods	114,970	26,277
Spare parts	–	401
	142,820	50,427

23 TRADE AND BILLS RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade receivables	1,733,949	1,558,295
Less: Impairment of trade receivable	(973,076)	(673,874)
	760,873	884,421
Bills receivables	669,994	5,788
	1,430,867	890,209

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally three months for the customers in the coke manufacturing segment and commodities trading segment; and one month for the customers in the oil segment. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2016 HK$'000	2015 HK$'000
Not more than 30 days	345,609	24,516
31-60 days	86,425	161,597
61-90 days	165	63,812
91-365 days	15,990	430,832
Over 1 year	1,285,760	877,538
	1,733,949	1,558,295

23 TRADE AND BILLS RECEIVABLES (continued)

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

	2016 HK$'000	2015 HK$'000
At 1 January	**673,874**	313,411
Acquisition of subsidiaries (note 37(b))	**–**	34,175
Impairment losses recognised	**355,866**	351,211
Reversal of impairment losses (note 7)	**(343)**	–
Exchange realignment	**(56,321)**	(24,923)
At 31 December	**973,076**	673,874

The above provision for impairment of trade receivables as at 31 December 2016 was in relation to individually impaired trade receivables with a carrying amount of approximately HK$973,076,000 (2015: HK$775,051,000).

The Group does not hold any collateral or other credit enhancements over these balances.

The trade receivables that are not considered to be impaired is analysed as follows:

	2016 HK$'000	2015 HK$'000
Not past due	**432,123**	90,141
Past due:		
Less than 1 month	**1,970**	162,203
1 to 3 months	**7,799**	133,022
3 to 12 months	**5,898**	207,616
Over one year	**313,083**	190,262
	760,873	783,244

Receivables that were neither overdue nor impaired relate to a number of customers for whom there were no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and/or the balances are still considered fully recoverable.

As 31 December 2016 and 2015, trade and bills receivables were substantially denominated in the functional currencies of the relevant group entities.

24 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Refundable deposit for acquisition of a subsidiary (note 44(a))	**18,740**	–
Refundable deposits for purchases of goods (note (a))	**1,462,606**	1,003,215
Prepayments	**95,363**	236,522
Other receivables (note (b))	**48,799**	356,909
	1,625,508	1,596,646

Notes:

(a) The refundable deposits for purchases of goods mainly represent deposits paid for purchase of raw materials for the coal pressing and production of metallurgical coke. In view of the uncertainty of financial position of certain contracting parties and whether completion of purchase of goods takes place subsequently, management considered it appropriate to recognise impairment losses on the deposits paid to these contracting parties amounted to HK$45,920,000 (2015: HK$1,327,000) which was charged to profit or loss in respect of the current year.

(b) Included in other receivables and deposits are receivables from certain third parties amounted to HK$29,237,000 (2015: HK$279,067,000) which is unsecured, interest free and repayable on demand. In view of the uncertainty of financial position of certain debtors, management considered it appropriate to recognise impairment losses amounted to HK$68,011,000 (2015: HK$38,498,000) on such receivables which was charged to profit or loss in respect of the current year.

(c) As 31 December 2016 and 2015, deposits and other receivables to the extent of HK$7,483,000 (2015: HK$77,783,000) were denominated in currencies other than the functional currencies of the relevant group entities.

25 EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 HK$'000	2015 HK$'000
Equity securities listed in the PRC	**558**	597

26 CASH AND CASH EQUIVALENTS

	2016 HK$'000	2015 HK$'000
Cash and bank balances	**97,135**	492,322
Less: Pledged bank deposits with maturity period over three months	**(19,307)**	(35,199)
Cash and cash equivalents	**77,828**	457,123

At the end of the reporting period, the cash and bank balance of the Group denominated in Renminbi ("RMB") amounted to approximately HK$39,475,000 (2015: HK$40,557,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group was permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

As 31 December 2016, the Group's cash and cash equivalents to the extent of HK$13,256,000 (2015: HK$17,303,000) were denominated in currencies other than the functional currencies of the relevant group entities.

27 TRADE AND BILLS PAYABLES

	2016 HK$'000	2015 HK$'000
Trade payables	**659,838**	323,222
Bills payables	**–**	16,200
	659,838	339,422

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

	2016 HK$'000	2015 HK$'000
Not more than 30 days	**276,538**	14,506
31-60 days	**80,719**	166,689
61-90 days	**4,193**	5,664
91-365 days	**26,238**	62,996
Over 1 year	**272,150**	73,367
	659,838	323,222

The trade payables are non interest-bearing and are normally settled on 90-day terms. The bills payable are of original maturity term between 1 month to 1 year.

As 31 December 2016 and 2015, trade and bills payables were substantially denominated in the functional currencies of the relevant group entities.

28 OTHER PAYABLES AND ACCRUALS

	2016 HK$'000	2015 HK$'000
Customer advances	**654,414**	106,347
Other payables	**185,322**	61,719
Value-added tax and on other taxes payables	**60,280**	903
Accrued interest on bank and other borrowings	**162,992**	65,234
Accrued interest on convertible bonds	**10,356**	10,356
Other accrued charges	**23,213**	53,953
	1,096,577	298,512

Other payables are non-interest-bearing and have an average term of three months. Such payables increased significantly which is mainly attributable to a subsidiary acquired during the year,

As 31 December 2016 and 2015, other payables and accruals were substantially denominated in the functional currencies of the relevant group entities.

29 BANK AND OTHER BORROWINGS

	2016 HK$'000	2015 HK$'000
Secured bank loans and overdrafts repayable:		
Within one year or on demand	**1,619,967**	941,684
In the second to fifth year	**–**	687,348
	1,619,967	1,629,032
Secured other borrowings repayable:		
Within one year	**256,642**	163,979
In the second to fifth year	**–**	110,998
	256,642	274,977
Total borrowings	**1,876,609**	1,904,009
Analysed for reporting purposes as:		
Current liabilities	**1,876,609**	1,105,663
Non-current liabilities	**–**	798,346
	1,876,609	1,904,009

Included in secured bank loans and overdrafts are bank overdrafts amounted to HK$2,535,000 (2015: HK$7,964,000).

The Group's bank and other borrowings, which carried interests ranged from 3.25% to 6.75%, are secured by:

(a) the Group's land and buildings, which had an aggregate carrying value at the end of the reporting period of approximately HK$13,373,000 (2015: HK$13,715,000) (note 15);

(b) the Group's machinery, which had an aggregate carrying value at the end of the reporting period of approximately HK$31,588,000 (2015: HK$20,756,000) (note 15);

(c) pledge of certain of the Group's bank deposits of approximately HK$19,307,000 (2015: HK$35,199,000) (note 26);

(d) personal guarantees from certain directors of the Company, directors of a subsidiary and a close family member of a director of a subsidiary;

(e) corporate guarantees from the Company, related companies and independent third parties; and

(f) a related company's land and buildings.

As 31 December 2016 and 2015, bank and other borrowings were substantially denominated in the functional currencies of the relevant group entities.

30 CONVERTIBLE BONDS

CB I

On 19 August 2015, the Company issued to China Huarong International Holdings Limited a three-year convertible bonds with an aggregate principal amounts of HK$400,000,000 (the "CB I") for a consideration of HK$400,000,000. The CB I carries interest at 6% per annum, which is payable annually in arrears on 19 August. The maturity date of the CB I is the third anniversary of the date of issue of the CB I (the "Maturity Date I"). The CB I is convertible into ordinary shares of the Company during the period from the date of issue of CB I to the day immediately prior to the Maturity Date I at the initial conversion price of HK$0.331 per share, subject to adjustments, which was adjusted to HK$0.290 per share as a result of the issue of CBII (as defined below) and further adjusted to HK$0.287 per share following placing of new shares made in November 2016 (the "Placing"). Unless previously redeemed, converted, purchased and cancelled, the Company shall redeem the CB I at 100% of the principal amount at the Maturity Date I.

The CB I is secured by: (i) charges over 319,000,000 shares of the Company held by General Nice Resources (Hong Kong) Limited, which is controlled by Mr. Cai Sui Xin, a director of the Company who resigned on 1 January 2017; and (ii) personal guarantee provided by Mr. Cai Sui Xin.

CB II

On 2 December 2015, the Company issued to Xinya Global Limited, an strategic investor of the Company, a three-year convertible bonds with an aggregate principal amounts of HK$300,000,000 (the "CB II") for a consideration of HK$300,000,000. The CB II carries interest at 6% per annum, which is payable annually in arrears on 2 December. The maturity date of the CB II is the third anniversary of the date of issue of the CB II (the "Maturity Date II"). The CB II is convertible into shares at the conversion price of HK$0.376 per share, subject to adjustments, which was adjusted to HK$0.372 per share following the Placing. Unless previously redeemed, converted, purchased or cancelled, the Company shall redeem the outstanding CB II at 100% of the principal amount at the Maturity Date II.

The CB I and CB II have been split into the liability component at its fair value and attributing to the equity component by the residual amount, as follows:

	CBI HK$'000	CBII HK$'000	Total HK$'000
Proceeds from issue of convertible bonds	400,000	300,000	700,000
Fair value of the liability component of convertible bonds at date of issue	(364,973)	(268,474)	(633,447)
Transaction costs attributable to the equity component	(104)	(93)	(197)
Carrying amount of equity component at date of issue	34,923	31,433	66,356

30 CONVERTIBLE BONDS (continued)

Movements of the liability components of the CB I and CB II are as follows:

	CB I HK$'000	CB II HK$'000	Total HK$'000
Fair value of the liability components at date of issue	364,973	268,474	633,447
Transaction costs attributable to the liability component	(1,080)	(795)	(1,875)
Liability component at date of issue	363,893	267,679	631,572
Interest expense (note 8)	12,895	2,277	15,172
Accrued interest included in other payables and accruals in current liabilities (note 28)	(8,877)	(1,479)	(10,356)
Carrying amount at 31 December 2015	367,911	268,477	636,388
Interest expense (note 8)	35,519	28,040	63,559
Interest paid during the year	(15,123)	(16,521)	(31,644)
Accrued interest included in other payables and accruals in current liabilities (note 28)	(8,877)	(1,479)	(10,356)
Carrying amount at 31 December 2016	379,430	278,517	657,947

The liability components of the convertible bonds are carried at amortised cost. The effective interest rate adopted is 9.58% – 10,35% per annum (2015: 9.58% – 10,35% per annum).

At the end of the reporting period, no convertible bonds was converted into new shares of the Company and the convertible bonds with the aggregate principal amounts of HK$700,000,000 (2015: HK$700,000,000) remained outstanding as at that date.

31 PROMISSORY NOTES PAYABLE

	2016 HK$'000	2015 HK$'000
At 1 January	48,638	59,188
Interest expenses charged (note 8)	3,177	2,500
Interest paid	–	(208)
Early redemption of a promissory note (note a)	–	(6,638)
Other redemption during the year (note b)	(3,100)	(6,202)
Exchange realignment	–	(2)
At 31 December	48,715	48,638
Analysed for reporting purposes as:		
Current liabilities	48,715	3,100
Non-current liabilities	–	45,538
	48,715	48,638

31 PROMISSORY NOTES PAYABLE (continued)

(a) On 18 December 2014, the Company issued to an independent third party, Wise Perfection Limited, an unsecured promissory note with the principal amount of HK$60,000,000 ("PN 1") as partial consideration for the acquisition of 100% equity interest in Earning Power Inc. PN 1 bears no interest and is repayable in one lump sum on 18 December 2017 (the "Maturity Date"). The Company may at its sole discretion elect to repay all or any part of the amount outstanding under PN 1 at any time prior to the Maturity Date. PN 1 is not transferable or assignable to any third party unless with the consent of the Company. At the issue date, the fair value of PN 1 was estimated to be approximately HK$49,168,000, using an effective interest rate of 6.86% per annum.

On 31 December 2015, the Company has early redeemed part of the PN 1 at the principal amount of HK$8,000,000 and the Group has recognised a loss on early redemption of PN 1 of approximately HK$1,362,000 (note 9).

No part of the PN 1 was repaid by the Company during the current year and the PN 1 with the principal amount of HK$52,000,000 (2015: HK$52,000,000) remained outstanding at the end of the reporting period.

(b) On 7 August 2014 (prior to becoming a subsidiary of the Group), M&L Leasing Services Inc. ("M&L Leasing"), a wholly-owned subsidiary of the Group, issued a secured promissory note ("PN 2") with the principal amount of US$1,200,000 as partial consideration for the acquisition of certain property, plant and equipment and, termination of rights and interests in the working interest of the 6 wells to be drilled by or on behalf of M&L Leasing, including its subsidiaries. PN 2 bears interest at 4% per annum and was repayable on 31 July 2015. During the year ended 31 December 2015, US$800,000 of PN 2 (equivalent to approximately HK$6,202,000) was repaid. During the year, the PN 2 with the remaining principal amount of US$400,000 (equivalent to approximately HK$3,100,000) was repaid by M&L Leasing.

32 ASSETS RETIREMENT OBLIGATIONS

	2016 **HK$'000**	2015 HK$'000
At 1 January	**12,183**	1,384
Utilised for the year	**(859)**	(2,046)
Accretion expenses recognised	**733**	698
Provision for the year (note 21)	**–**	12,150
Exchange realignment	**6**	(3)
At 31 December	**12,063**	12,183

The obligations represent the present value of the estimated future expenditure, including abandonment costs, in relation to the oil properties of the Group upon their retirements. The assets retirement obligations are estimated at the end of each of the reporting period, the discount rate applied to assets retirement obligations is 5.25% (2015: 5.25%).

33 DEFERRED TAX LIABILITIES

Movements of the deferred tax liabilities during the year are as follows:

	Fair value adjustments arising from business combination HK$'000	Capitalised interest HK$'000	Book value in excess of tax base of prepaid land lease payments HK$'000	Book value in excess of tax base of property, plant and equipment HK$'000	Others HK$'000	Total HK$'000
At 1 January 2015	94,287	3,007	3,816	10,100	5,616	116,826
Deferred tax credit to profit or loss (note 12)	(25,766)	–	–	(3,386)	–	(29,152)
Exchange realignment	(31)	(135)	(171)	(3)	(252)	(592)
At 31 December 2015 and 1 January 2016	**68,490**	**2,872**	**3,645**	**6,711**	**5,364**	**87,082**
Acquisition of subsidiaries (note 37(a))	**4,556**	**–**	**–**	**–**	**–**	**4,556**
Deferred tax credit to profit or loss (note 12)	**(2,227)**	**–**	**–**	**121**	**–**	**(2,106)**
Exchange realignment	**(163)**	**(185)**	**(234)**	**3**	**(344)**	**(923)**
At 31 December 2016	**70,656**	**2,687**	**3,411**	**6,835**	**5,020**	**88,609**

The Group has unused tax losses arising in Hong Kong of approximately HK$22,920,000 (2015: HK$9,116,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement has become effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

At 31 December 2016, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC as there were no unremitted earnings in these subsidiaries (2015: Nil).

34 SHARE CAPITAL

	2016 HK$'000	2015 HK$'000
Authorised:		
200,000,000,000 ordinary shares of HK$0.01 each	**2,000,000**	2,000,000
Issued and fully paid:		
4,309,877,370 (2015: 3,429,222,370) ordinary shares of HK$0.01 each	**43,099**	34,292

The movements in the issued share capital and share premium of the Company were as follows:

	Number of shares '000	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2015	2,859,223	28,592	913,334	941,926
New shares issued as consideration for the acquisition of Kai Sum (note 18(ii))	500,000	5,000	515,000	520,000
New shares issued as consideration for the acquisition of Hai Hui (note 37(b))	70,000	700	49,700	50,400
Reduction of share premium (note 36(d))	–	–	(913,334)	(913,334)
At 31 December 2015 and 1 January 2016	3,429,223	34,292	564,700	598,992
New shares issued as consideration for the acquisition of Pride Logic (note 18(i))	562,500	5,625	376,875	382,500
New shares issued upon placing (note below)	318,165	3,182	143,174	146,356
Share issue expenses	–	–	(2,240)	(2,240)
At 31 December 2016	4,309,888	43,099	1,082,509	1,125,608

Note: On 19 October 2016, the Company entered into a placing agreement with a placing agent (a third party), under which 318,165,000 new shares of the Company were issued at a price of HK$0.46 per share on 1 November 2016, giving rise to a proceed of HK$146,356,000 (before expense).

35 SHARE OPTION SCHEME

On 25 June 2007 (the “Adoption Date”), the Company adopted a share option scheme (the “Scheme”) for the purpose of providing incentives to Participants (as defined in the Scheme) to contribute to the Group and/or to enable the Group to recruit high-calibre employees and attract resources that are valuable to the Group and the shareholders of the Company as a whole. Participants include the directors and any employees of the Group, supplier of goods or services of the Group, any person provides professional advice, consultancy service or technical support to the Group and any shareholders of any member of the Group. Unless otherwise terminated or amended, the Scheme will remain in force for 10 years from the Adoption Date. The principal terms of the Scheme are summarised as follows:

(a) The maximum number of shares in respect of which share options may be granted under the Scheme must not exceed 10% of the number of shares of the Company in issue as at the Adoption Date. Subject to prior shareholders’ approval, the Company may, at any time thereafter, refresh the scheme mandate limit to the extent not exceeding 10% of the shares in issue as at the date of the shareholders’ approval. The shareholders approved the refreshment of the scheme limit at a special general meeting held on 15 October 2010. Following the refreshment, the maximum number of shares in respect of which options may be granted under the Scheme is 182,509,081 shares, representing 10% of the total number of shares in issue as at the date of refreshment of the scheme limit on 15 October 2010 and representing approximately 4.23% of the issued share capital of the Company as at 31 December 2016 and the date of this annual report. The maximum number of shares to be issued under the share options granted to each Participant in the Scheme within any 12-month period is limited to 1% of the number of shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

(b) Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associated, in excess of 0.1% of the number of shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company’s shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

(c) The offer of a grant of share options may be accepted within 14 days from the date of offer, upon payment of a consideration of HK$10.00 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on the expiry of six months after the date of grant and ends on a date which is not later than the expiry date of the Scheme.

(d) The exercise price of the share options is determinable by the directors, but shall not be less than the highest of (i) the closing price of the Company’s shares stated in the Stock Exchange’s daily quotation sheets on the date of grant; and (ii) the average closing price of the Company’s shares stated in the Stock Exchange’s daily quotations sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share.

35 SHARE OPTION SCHEME (continued)

The movements in the share options of the Company during the year were set out as follows:

Name or category of participants	Number of shares under options granted: At 1 January 2015	Lapsed during the year	At 31 December 2015 and 31 December 2016	Exercise period of the outstanding share options	Exercise price per share HK$
Directors					
Ng Tze For	3,942,457	–	3,942,457	From 9 January 2010 to 24 June 2017	0.6517
Li Xiao Long	271,894	(271,894)	–		
Sub-total	4,214,351	(271,894)	3,942,457		
Other employees (in aggregate)	271,894	–	271,894	From 9 January 2010 to 24 June 2017	0.6517
Total	4,486,245	(271,894)	4,214,351		

Notes:

1. These share options were granted on 9 July 2009 at an exercise price of HK$0.886 per share. As a result of completion of the open offer by the Company in July 2009, the exercise price of the share options was adjusted from HK$0.886 to HK$0.782 per share and the number of share options was adjusted accordingly.

   Upon the completion of the bonus issue on 29 June 2012, the exercise price of the share options was further adjusted from HK$0.782 per share to HK$0.6517 per share and the number of outstanding share options was further adjusted.

2. During the years ended 31 December 2016 and 31 December 2015, except as stated above, no share options were granted, exercised, lapsed or cancelled.

At the end of the reporting period and at the date of approval of these consolidated financial statements, the Company had 4,214,351 share options outstanding under the Scheme, exercisable at a price of HK$0.6517 per share, which represented approximately 0.10% of the Company's shares in issue as at the end of the reporting period. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 4,214,351 additional ordinary shares of the Company and additional share capital of approximately HK$42,000 and share premium of approximately HK$2,704,000 (before issue expenses).

36 RESERVES

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity on page 57 of the consolidated financial statements.

(a) Share option reserve

	2016 HK$'000	2015 HK$'000
Share option reserve attributable to		
– the Company	**1,439**	1.439
– associates	**2,719**	502
	4,158	1,941

Details of the share options granted by the Company are set out in note 35.

(b) Capital reserve

Capital reserve is analysed as follows:

	2016 HK$'000	2015 HK$'000
Statutory surplus reserve (note i)	**102,489**	102,489
Waiver of increased consideration for acquisition of a subsidiary (note ii)	**280,000**	280,000
Acquisition of additional equity interest in a subsidiary (note iii)	**306,080**	306,080
	688,569	688,569

(i) Statutory surplus reserve ("SSR")

Pursuant to the relevant PRC laws and regulations for Sino-foreign joint venture enterprises, the profits of the Group's PRC subsidiary are available for distribution, in the form of cash dividends to each of the joint venture partners: (1) satisfies all tax liabilities; (2) provides for losses in previous years; and (3) makes appropriate to the three statutory reserves. These appropriations include the individual entity's reserve fund, expansion fund and funds for staff bonuses and welfare benefits.

All Sino-foreign enterprises are generally required to appropriate not less than 10% of their net profit after tax to the SSR as determined in the PRC subsidiary's statutory audited accounts prepared in accordance with Chinese Accounting Standards, until the balance of the fund reaches 50% of the registered capital. Appropriations of the expansion fund and funds for staff bonuses and welfare benefits are determined at the sole discretion of the board of directors.

Subject to certain restrictions set out in the Company law of the PRC, part of the SSR may be converted to increase paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

36 RESERVES (continued)

(b) Capital reserve (continued)

(ii) Waiver of the increased consideration for the acquisition of 50.1% equity interest in Shanxi Loudong

Pursuant to the sale and purchase agreement dated 8 December 2007, as supplemented by supplemental agreements, entered into between GNR and Buddies Power Enterprises Limited, a subsidiary of the Company, the consideration for the acquisition of 50.1% equity interest in Shanxi Loudong-General Nice Coking & Gas Co., Ltd. ("Shanxi Loudong") shall be increased by HK$280 million in the event that the aggregate audited attributable net profits of 50.1% equity interest in Shanxi Loudong for the financial years ended 31 December 2008 and 2009 exceeds HK$230 million, such increased amount is to be satisfied by way of Buddies Power Enterprises Limited procuring the Company to issue a promissory note in the principal amount of the increased consideration of HK$280 million to GNR. The targeted profits for the above-mentioned financial years were made. The increased consideration was included in the consolidated financial statements for the year ended 31 December 2009 as goodwill and amount due to GNR of HK$280 million.

On 26 August 2010, GNR, Buddies Power Enterprises Limited and the Company entered into a deed of waiver, pursuant to which, GNR agreed to waive the liability due from the Group under the agreements. Accordingly, the Group had classified the amount due to GNR as capital reserve with no adjustment to the goodwill previously recorded.

(iii) Capital reserve in respect of acquisition of the equity interest of the PRC subsidiary

During the year ended 31 December 2010, the Group had acquired further 39.9% equity interest in Shanxi Loudong from Hing Lou Resources Limited, a non-controlling equity holder of Shanxi Loudong and a shareholder of the Company. Pursuant to the acquisition of the 39.9% equity interest in Shanxi Loudong, an excess of the net assets acquired over the consideration amounting to approximately HK$224,238,000 was recorded. In accordance with HKFRS 3 Business Combination, the excess should be accounted for as equity movement as being acquisition of the non-controlling interests and included in the capital reserve of the Group.

During the year ended 31 December 2010, apart from the acquisition of the 39.9% equity interest in Shanxi Loudong, only the Group had further contributed to Shanxi Loudong. Accordingly, there was a deemed acquisition of the equity interest in Shanxi Loudong. In accordance with HKFRS 3, such deemed acquisition should be accounted for as equity movement and included in the capital reserve of the Group.

(c) Contributed surplus

Pursuant to a special resolution passed at the special general meeting on 15 October 2010, the share premium of the Company of HK$2,269,538,000 as at 30 June 2010 had been cancelled and eliminated against the accumulated losses of the Company of HK$475,986,000 as at 30 June 2010 and the then remaining balance of HK$1,793,552,000 was transferred to the contributed surplus account of the Company. In the year ended 31 December 2015, portion of the contributed surplus amounted to HK$969,436,000 was applied to set off against the accumulated losses of the Company as detailed in note c below.

(d) Reduction of share premium and contributed surplus

Pursuant to a special resolution passed at the special general meeting on 18 June 2015, the amount of approximately HK$969,436,000 standing to the credit of the contributed surplus account of the Company as at 31 December 2014 had been applied towards offsetting part of the accumulated losses of the Company as at 31 December 2014 in the amount of approximately HK$969,436,000 (the "Contributed Surplus Reduction").

In addition, pursuant to the special resolution, the share premium of the Company to the extent of approximately HK$913,334,000 as at 31 December 2014 had been reduced and the credit arising therefrom had been applied towards offsetting the remaining balance of the accumulated losses of the Company at that date in the sum of approximately HK$913,334,000 (the "Share Premium Reduction"). Upon the completion of the Contributed Surplus Reduction and the Share Premium Reduction, the accumulated losses of the Company as at 31 December 2014 had been reduced by approximately HK$1,882,770,000.

37 BUSINESS COMBINATION

(a) Acquisition of subsidiaries during the year ended 31 December 2016

On 8 April 2016, a wholly-owned subsidiary of the Company entered into an agreement with an independent third party, pursuant to which the Group acquired 100% equity interest in Tianjin Ruiqi Enterprise Management Company Limited, which in turn holds 70% interest in Tianjin Property Qian'an Logistics Company Limited ("Qian'an Logistics"), for an aggregate consideration of RMB200,000,000 (equivalent to approximately HK$240,402,000), which was paid in cash. Tianjin Ruiqi Group were principally engaged in investment holding, trading of commodities and provision of logistics and warehousing services in the PRC. The acquisition, which enabled the Group's expansion of its business of trading of commodities and logistics and warehouse services, was completed on 20 June 2016.

Acqusition-related costs are insignificant which have been included in administrative expenses presented in the consolidated statement of profit or loss and other comprehensive income.

Assets and liabilities of Tianjin Ruiqi Group recognised at the date of acquisition are as follows:

	HK$'000
Property, plant and equipment	143,877
Prepaid land lease payment	51,117
Investment in an associate	22,583
Trade and bills receivables	290,610
Prepayments, deposits and other receivables	200,076
Cash and cash equivalents	38
Trade and bills payables	(398,512)
Other payables and accruals	(14,244)
Bank borrowings	(105,035)
Deferred tax liabilities	(4,556)
	185,954

37 BUSINESS COMBINATION (continued)

(a) Acquisition of subsidiaries during the year ended 31 December 2016 (continued)

The receivables acquired comprised trade receivables and other receivables with the fair values of HK$290,610,000 and HK$200,076,000 respectively. The gross contractual amounts of trade receivables and other receivables at the date of acquisition are HK$290,610,000 and HK$200,076,000 respectively. No contractual cash flows from these trade receivables and other receivables are expected to be uncollectible.

Goodwill arising on acquisition

	HK$'000
Consideration transferred	240,402
Plus: non-controlling interests	55,786
Less: fair value of identifiable net assets acquired	(185,954)
Goodwill arising on acquisition	110,234

Goodwill arose in the acquisition of Tianjin Ruiqi Group because of the Group's benefits from expected synergies, diversity in business and income base.

Net cash outflow on acquisition of subsidiaries:

	HK$'000
Consideration paid in cash	240,402
Cash and cash equivalents acquired	(38)
Net cash outflow from the acquisition	240,364

Since the completion of the acquisition, Tianjin Ruiqi Group contributed approximately HK$2,221,841,000 to the Group's revenue and contributed profit of approximately HK$34,303,000 to the consolidated results for the year ended 31 December 2016.

Had the business combination taken place at the beginning of the year ended 31 December 2016, the Group's revenue and loss for the year ended 31 December 2016 would have been approximately HK$3,629,120,000 and approximately HK$701,351,000 respectively.

37 BUSINESS COMBINATION (continued)

(b) Acquisition of subsidiaries during the year ended 31 December 2015

On 11 August 2015, the Group entered into an agreement with certain independent third parties, pursuant to which the Group acquired 100% equity interest in Hai Hui for the aggregate consideration of HK$70,000,000, which was satisfied by the way of allotment and issue of 70,000,000 new ordinary shares of the Company of HK$0.01 each, credited as fully paid, at an issue price of HK$1.00 per share. Hai Hui principally engaged in provision of logistics and warehousing services in the PRC. The acquisition, which enabled the Group's expansion of its business of logistics and warehousing services, was completed on 7 September 2015. The fair value of the shares of the Company issued for the acquisition at the date of completion is HK$0.72 per share, being the closing market price of the Company's ordinary share as at that date.

Acquisition-related costs are insignificant which were included in administration expenses of the prior year presented in the consolidated statement of profit or loss and other comprehensive income. Assets and liabilities of Hai Hui recognised at the date of acquisition are as follows:

	HK$'000
Property, plant and equipment	22,020
Trade and bills receivables	23,384
Prepayments, deposits and other receivables	2,549
Cash and cash equivalents	100
Amounts due from related companies	38,519
Trade and bills payables	(38,469)
Other payables and accruals	(7,548)
Amounts due to related companies	(35,437)
Income tax payable	(5,677)
	(559)

37 BUSINESS COMBINATION (continued)

(b) Acquisition of subsidiaries during the year ended 31 December 2015 (continued)

The receivables acquired comprised trade receivables and other receivables with the fair values of HK$23,384,000 and HK$2,462,000 respectively. The gross contractual amounts of trade receivables and other receivables at the date of acquisition are HK$57,559,000 and HK$5,086,000 respectively, of which approximately HK$34,175,000 (note 23) and HK$2,624,000 respectively are not expected to be collectible.

Goodwill arising from acquisition

	HK$'000
Consideration transferred	50,400
Add: fair value of identifiable net liabilities acquired	559
Goodwill arising from acquisition	50,959

Goodwill arose from the acquisition of Hai Hui because of the Group's benefits from expected synergies, diversity in business and income base.

Cash inflow on acquisition of subsidiaries:

	HK$'000
Cash and cash equivalents acquired	100
Cash inflow from the acquisition	100

Since the completion of the acquisition, Hai Hui contributed approximately HK$2,169,000 to the Group's revenue and contributed profit of approximately HK$1,007,000 to the consolidated results for the prior year ended 31 December 2015.

Had the business combination taken place at the beginning of the year ended 31 December 2015, the Group's revenue and loss for the year ended 31 December 2015 would have been approximately HK$1,596,206,000 and approximately HK$1,374,131,000 respectively.

38 OPERATING LEASE ARRANGEMENTS

(a) As lessor

At the end of the reporting period, the Group had total future minimum lease receivable in respect of its investment property under non-cancellable operating lease falling due as follows:

	2016 HK$'000	2015 HK$'000
Within one year	–	123
In the second to fifth years, inclusive	–	339
	–	462

(b) As lessee

The Group leases certain land and pier, office premise and staff quarter under operating lease arrangements. Lease for the land and pier is negotiated for a term of 30 years and leases for office premise and staff quarter are negotiated for terms of two to three years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 HK$'000	2015 HK$'000
Within one year	**2,048**	999
In the second to fifth years, inclusive	**5,482**	5,288
After five years	**23,243**	21,545
	30,773	27,832

39 CAPITAL COMMITMENTS

	2016 HK$'000	2015 HK$'000
Contracted, but not provided for, in respect of acquisition of subsidiaries	**56,028**	640,000
	56,028	640,000

Notes:

(a) Details of the acquisition of a subsidiary outstanding as at 31 December 2016 are set out in Note 44(a).

(b) As at 31 December 2015, the Group had commitment amounted to HK$640,000,000 for the acquisition of 100% equity interest in Pride Logic. Completion of this acquisition took place during the current year as detailed in note 18(a).

40 RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

In addition to the transactions detailed elsewhere in these consolidated financial statements, the Group had the following transactions with related parties during the year:

	2016 HK$'000	2015 HK$'000
Related company:		
Public relation fee	**614**	95

Note: The public relation fee was paid to China Times Corporate Advisory Limited, of which one of the Company's directors is a shareholder.

(b) Outstanding balances with related parties

The balances with related companies are unsecured, interest-free and have no fixed terms of repayment. These balances represented cash advances to or from those related companies were non-trade in nature.

The detailed breakdown of amounts with related parties and shareholders is as follows:

Outstanding balances with related parties:

Current portion

	At 31 December 2016 HK$'000	Maximum amount outstanding during the year HK$'000	31 December 2015 and 1 January 2016 HK$'000
Amounts due from related companies:			
General Nice (Tianjin) Industry Company Limited	**29,564**	**29,564**	29,564
山西平型關鐵礦有限公司 (literally translated as "Shanxi Ping Xing Guan Iron Ore Company Limited") (note (iv))	**500**	**535**	535
山西新海峰能源有限公司 (literally translated as "Shanxi Xin Energy Company Limited") (note (iii))	**5,334**	**5,700**	5,700
深圳市新海能投資有限公司 (literally translated as "Shenzhen Xin Hai Neng Investment Company Limited") (note (iii))	**10,907**	**11,656**	11,656
	46,305		47,455

40 RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties (continued)

Current portion (continued)

	2016 HK$'000	2015 HK$'000
Amounts due to related companies:		
Hing Lou Resources Limited (note (iii))	**17**	17
繁峙縣平型關鐵礦有限公司 (literally translated as "Fan Zhi Xian Ping Xing Guan Iron Ore Company Limited") (note (iv))	**16,736**	17,885
	16,753	17,902

Non-current portion

	2016 HK$'000	2015 HK$'000
Loans from related companies:		
General Nice Resources (Hong Kong) Limited ("GNR") (note (i))	**817**	873
	817	873

Notes:

(i) GNR directly held the Company's equity interest of 7.75% as at 31 December 2016.

(ii) The English names of these companies are directly translated from their Chinese names as no English names have been registered.

(iii) A director of the Company is also the director of the related companies.

(iv) These related companies are controlled by the companies, in which, a director of the Company is also a director.

(c) Compensation of key management personnel of the Group

	2016 HK$'000	2015 HK$'000
Short term employee benefits	**4,089**	4,942
Post-employment benefits	**72**	90
Total compensation to key management personnel	**4,161**	5,032

41 FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets at 31 December 2016

	Financial assets at fair value through profit or loss – held for trading HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	–	–	7,063	7,063
Trade and bills receivables	–	1,430,867	–	1,430,867
Financial assets included in prepayments, deposits and other receivables	–	1,530,145	–	1,530,145
Equity investments at fair value through profit or loss	558	–	–	558
Amounts due from related companies	–	46,305	–	46,305
Pledged bank deposits	–	19,307	–	19,307
Cash and cash equivalents	–	77,828	–	77,828
	558	3,104,452	7,063	3,112,073

Financial assets at 31 December 2015

	Financial assets at fair value through profit or loss – held for trading HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	–	–	7,548	7,548
Trade and bills receivables	–	890,209	–	890,209
Financial assets included in prepayments, deposits and other receivables	–	1,360,124	–	1,360,124
Equity investments at fair value through profit or loss	597	–	–	597
Amounts due from related companies	–	47,455	–	47,455
Pledged bank deposits	–	35,199	–	35,199
Cash and cash equivalents	–	457,123	–	457,123
	597	2,790,110	7,548	2,798,255

41 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities at 31 December 2016

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	**659,838**
Financial liabilities included in other payables and accruals	**442,163**
Bank and other borrowings	**1,876,609**
Amounts due to related companies	**16,753**
Loans from related companies	**817**
Promissory notes payable	**48,715**
Convertible bonds	**657,947**
	3,702,842

Financial liabilities at 31 December 2015

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	339,422
Financial liabilities included in other payables and accruals	192,165
Bank and other borrowings	1,904,009
Amounts due to related companies	17,902
Loans from related companies	873
Promissory notes payable	48,638
Convertible bonds	636,388
	3,139,397

42 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

(a) Financial assets measured at fair value

	Fair value measurement using			
	Quoted prices in active markets (level 1) HK$'000	Significant observable inputs (level 2) HK$'000	Significant unobservable inputs (level 3) HK$'000	HK$'000
Equity investments at fair value through profit or loss				
31 December 2016	**558**	**–**	**–**	**558**
31 December 2015	597	–	–	597

(b) Fair value of financial assets and financial liabilities that are not measured at fair value

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values. The fair values are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant input being the discount rate that reflects the credit risk of counterparties.

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial instruments include promissory notes payable, bank and other borrowings and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

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

Interest rate risk

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Group's loss before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in interest rate %	(Increase)/ decrease in loss before tax HK$'000
2016		
Renminbi	**1%**	**(8,704)**
	(1%)	**8,704**
Hong Kong Dollar	**1%**	**(505)**
	(1%)	**505**
2015		
Renminbi	1%	(7,994)
	(1%)	7,994
Hong Kong Dollar	1%	(80)
	(1%)	80

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures as the sales and purchases of the Group were mainly transacted in Renminbi ("RMB") and United States Dollars ("USD"). The Group manages its transactional currency exposures by matching as far as possible, its receipts and payments in each individual currency. The Group monitors the foreign currency exchange rates closely so as to minimise any potential material adverse effects from these exposure in a timely manner.

The following table demonstrates the sensitivity at the respective reporting dates to a reasonable possible change in the exchange rate of RMB and USD with all other variables held constant, of Group's loss before tax.

	Increase/ (decrease) in exchange rate %	(Increase)/ decrease in loss before tax HK$'000
31 December 2016		
If HK$ weakens against RMB	**5%**	**7**
If HK$ strengthens against RMB	**(5%)**	**(7)**
If HK$ weakens against USD	**0.5%**	**91**
If HK$ strengthens against USD	**(0.5%)**	**(91)**
31 December 2015		
If HK$ weakens against RMB	5%	16
If HK$ strengthens against RMB	(5%)	(16)
If HK$ weakens against USD	0.5%	608
If HK$ strengthens against USD	(0.5%)	(608)

Credit risk

The Group trades only with recognised third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis and the Group's exposure to bad debts is significant.

The credit risk of the Group's financial assets, which comprise pledged bank deposits, cash and bank balances, trade and other receivables, and amounts due from related companies arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Concentrations of credit risk are managed by customer, by geographical region and by industry sector. At the end of the reporting period, the Group had certain concentration of credit risk as 14% (2015: 10%) and 39% (2015: 39%) of the Group's trade receivables, before impairment, were due from the Group's largest trade debtors and the five largest trade debtors, respectively.

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and other source of funding.

As referred to in note 2, management of the Company has made several measures and arrangements to enable the Group to have sufficient cash resources to operate as a going concern.

Liquidity tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are based on floating rate, the undiscounted amount is calculated by interest rate curve.

In addition, the following tables detail the Group's expected maturity for its non-derivative financial assets. The tables have been drawn up based on undiscounted contractual cash flows of the financial assets including interest that will be earned on those assets. The inclusion of information on these no-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

The amount included below for variable interest rate instruments for the non-derivative financial assets and liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

	On demand or within one year HK$'000	2 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 December 2016 HK$'000
As at 31 December 2016				
Non-derivative assets				
Trade and bills receivables	1,430,867	–	1,430,867	1,430,867
Financial assets included in prepayments, deposits and receivables	1,530,145	–	1,530,145	1,530,145
Amounts due from related companies	46,305	–	46,305	46,305
Pledged bank deposits	19,307	–	19,307	19,307
Cash and cash equivalents	77,828	–	77,828	77,828
	3,104,452	–	3,104,452	3,104,452

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	On demand or within one year HK$'000	2 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 December 2016 HK$'000
As at 31 December 2016				
Non-derivative financial liabilities				
Trade and bills payables	659,838	–	659,838	659,838
Financial liabilities included in other payables and accruals	442,163	–	442,163	442,163
Bank and other borrowings	1,986,786	–	1,986,786	1,876,609
Amounts due to related companies	16,753	–	16,753	16,753
Loans from related companies	–	817	817	817
Promissory notes payable	52,000	–	52,000	48,715
Convertible bonds (note below)	42,000	731,644	773,644	657,947
	3,199,540	732,461	3,932,001	3,702,842

Note: This is categorized based on contractual terms of redemption at maturity on the assumption that there were no redemption or the conversion of convertibles bonds outstanding at 31 December 2016 before the maturity dates.

	On demand or within one year HK$'000	2 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 December 2015 HK$'000
As at 31 December 2015				
Non-derivative assets				
Trade and bills receivables	890,209	–	890,209	890,209
Financial assets included in prepayments, deposits and other receivables	1,360,124	–	1,360,124	1,360,124
Amounts due from related companies	47,455	–	47,455	47,455
Pledged bank deposits	35,199	–	35,199	35,199
Cash and cash equivalents	457,123	–	457,123	457,123
	2,790,110	–	2,790,110	2,790,110

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	On demand or within one year HK$'000	2 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 December 2015 HK$'000
As at 31 December 2015				
Non-derivative liabilities				
Trade and bills payables	339,422	–	339,422	339,422
Financial liabilities included in other payables and accruals	192,165	–	192,165	192,165
Bank and other borrowings	1,105,663	798,346	1,904,009	1,904,009
Amounts due to related companies	17,902	–	17,902	17,902
Loans from related companies	–	873	873	873
Promissory notes payable	3,100	52,000	55,100	48,638
Convertible bonds (note below)	42,000	773,644	815,644	636,388
	1,700,252	1,624,863	3,325,115	3,139,397

Note: This is categorized based on contractual term of redemption at maturity on the assumption that there were no redemption or conversion of the convertible bonds outstanding at 31 December 2015 before the maturity dates.

Oil price risk

Since the Group makes reference to international oil prices to determine the product price in the oil segment, the Group is exposed to commodity price risk related to price volatility of oil. The Group actively monitors and manages the oil price risk.

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity plus net debt. Net debt includes bank and other borrowings, promissory notes payable and the non-current portion of the loans from related companies and convertible bonds, less cash and cash equivalents. Total capital includes total equity attributable to owners of the Company and net debt. The gearing ratios as at the ends of reporting periods were as follows:

	2016 **HK$'000**	2015 HK$'000
Bank and other borrowings	**1,876,609**	1,904,009
Loans from related companies	**817**	873
Promissory notes payable	**48,715**	48,638
Convertible bonds, the liability component	**657,947**	636,388
Less: Cash and bank balances	**(77,828)**	(457,123)
Net debt	**2,506,260**	2,132,785
Equity attributable to owners of the Company	**203,474**	332,717
Total equity and net debt	**2,709,734**	2,465,502
Gearing ratio	**92%**	87%

44 EVENTS AFTER REPORTING PERIOD

In addition to those disclosed in other notes to the consolidated financial statements, the following events took place subsequent to 31 December 2016:

(a) On 13 December 2016, the Company entered into an equity transfer agreement with a third party to acquire 80% equity interest in Tianjin Wealthy Faith International Trading Limited. The consideration for acquisition amounted to RMB66,700,000, of which a deposit amounted to RMB16,675,000 was paid up to the end of the reporting period with the remaining balance of RMB50,025,000 (equivalent to HK$56,028,000 payable at the date of completion of acquisition. On 12 April 2017, the long stop period of the acquisition lapsed and the acquisition was terminated, details of which are disclosed in the announcements of the Company dated 10 February 2017 and 12 April 2017.

(b) On 5 May 2017, the Company entered into a loan agreement with an independent third party under which a loan facility of HK$900,000,000 was granted to the Company. The loan, which is unsecured, carries interest at 13% per annum and is due for repayment immediately after two years from the date of the first drawdown of any amount of the loan. Up to the date of approval of these consolidated financial statements, this loan facility was not utilized by the Company.

(c) Trading of shares of the Company on the Stock Exchange was suspended on 3 April 2017 and has not been resumed up to the date of approval of these consolidated financial statements.

45 COMPARATIVE FIGURES

Certain comparative figures have been restated to conform with the current year's presentation.

46 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	–	–
Investments in subsidiaries	–	–
Amounts due from subsidiaries	992,214	419,714
Total non-current assets	992,214	419,714
CURRENT ASSETS		
Prepayments, deposits and other receivables	19,341	351
Amounts due from a related company	29,564	29,564
Amounts due from subsidiaries	385,550	115,000
Cash and cash equivalents	52,478	430,463
Total current assets	486,933	575,378
CURRENT LIABILITIES		
Other payables and accruals	32,813	15,413
Promissory notes payable	48,715	–
Amounts due to subsidiaries	2,141	1,740
Total current liabilities	83,669	17,153
NET CURRENT ASSETS	403,264	558,225
TOTAL ASSETS LESS CURRENT LIABILITIES	1,395,478	977,939
NON-CURRENT LIABILITIES		
Promissory notes payable	–	45,538
Convertible bonds	657,947	636,388
	657,947	681,926
Net assets	737,531	296,013
EQUITY		
Share capital	43,099	34,292
Reserves	694,432	261,721
TOTAL EQUITY	737,531	296,013

The statement of financial position of the Company was approved and authorised for issue by the board of directors on 8 May 2017 and is signed on its behalf by:

Zhao Cheng Shu
Director

Ng Tze For
Director

46 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

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

	Share premium account HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Equity component of convertible bonds HK$'000	Accumulated losses HK$'000 (Note (i))	Total HK$'000 (Note 36)
At 1 January 2015	913,334	160,670	1,742,526	1,534	–	(1,882,772)	935,292
Loss for the year and total comprehensive income for the year	–	–	–	–	–	(1,304,627)	(1,304,627)
Reduction in contributed surplus and share premium (note 36(c))	(913,334)	–	(969,436)	–	–	1,882,770	–
Shares issued consideration for the acquisition of subsidiaries	564,700	–	–	–	–	–	564,700
Transfer of share option reserve upon lapsing of share options	–	–	–	(95)	–	95	–
Issue of convertible bonds, net of transaction costs	–	–	–	–	66,356	–	66,356
At 31 December 2015 and at 1 January 2016	**564,700**	**160,670**	**773,090**	**1,439**	**66,356**	**(1,304,534)**	**261,721**
Loss for the year and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(85,098)**	**(85,098)**
Shares issued as consideration for the acquisition of associates	**376,875**	**–**	**–**	**–**	**–**	**–**	**376,875**
Issue of shares upon share placing	**143,174**	**–**	**–**	**–**	**–**	**–**	**143,174**
Share issue expenses	**(2,240)**	**–**	**–**	**–**	**–**	**–**	**(2,240)**
At 31 December 2016	**1,082,509**	**160,670**	**773,090**	**1,439**	**66,356**	**(1,389,632)**	**694,432**

47 SUBSIDIARIES

Information about subsidiaries

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation and business	Issued/ paid up capital	Percentage of equity interest attributable to the Company Direct 2016	Indirect 2016	Direct 2015	Indirect 2015	Principal activities
Kingfund Corporation Limited	Hong Kong	HK$1	–	100%	–	100%	Property investment
Abterra Coal & Coke Limited	Hong Kong	HK$10,000	–	100%	–	100%	Investment holding
Shanxi Loudong#	PRC	RMB446,000,000	–	94.48%	–	94.48%	Coke processing and manufacture of relevant chemicals
Super Energy Limited	Hong Kong	HK$1	100%	–	100%	–	Administrative function
Earning Power Inc.	British Virgin Islands ("BVI")	US$2	–	100%	–	100%	Investment holding
City Joint Investments Limited	BVI	US$1	100%	–	100%	–	Investment holding
Metro Winner Trading Limited	Hong Kong	HK$1	–	100%	–	100%	Trading of commodities
Northern Lynx Exploration	USA	US$300,000	–	100%	–	100%	Investment holding
Mega Oil Inc.	USA	US$1,000	–	100%	–	100%	Extraction and sales of oil
Sheen Day Limited	Hong Kong	HK$1	–	100%	–	100%	Property holding
Dongguan City Hai Hui Logistics Company Limited^*	PRC	RMB30,500,000	–	100%	–	100%	Provision of logistics and warehousing services
Kai Sum International Limited	BVI	US$2	–	100%	–	100%	Investment holding
Wealth Delight International Holdings Limited	BVI	US$1	–	100%	–	100%	Investment holding
Qian'an Logistics@	PRC	RMB100,000,000	–	70%	–	–	Trading of commodities and provision of logistics and warehousing services

\# The subsidiary is registered as a Sino-foreign investment enterprise under the PRC law.
^ The subsidiary is registered as a limited liability enterprise under the PRC law.
@ These entities were newly acquired during the year ended 31 December 2016.
* The English names of these companies are directly translated from their Chinese names as no English names have been registered.

47 SUBSIDIARIES (continued)

Information about subsidiaries (continued)

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

Details of non-wholly owned subsidiaries that have material non-controlling interests

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

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2016	2015	2016	2015	2016	2015
		%	%	HK$'000	HK$'000	HK$'000	HK$'000
Qian'an Logistics	PRC	30	–	10,332	–	63,272	–
Shanxi Loudong	PRC	5.52	5.52	(34,100)	(45,873)	(61,865)	(31,213)
				(23,768)	(45,873)	1,407	(31,213)

47 SUBSIDIARIES (continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

Summarised financial information in respect of the Company's subsidiaries at 31 December 2016 that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Qian'an Logistics

	In respect of the year ended 31 December 2016 HK$'000
Current assets	1,004,740
Non-current assets	212,725
Current liabilities	(1,002,397)
Non-current liabilities	(4,316)
Equity attributable to owners of the Company	147,480
Non-controlling interests	63,272
Revenue	2,221,841
Expenses	(2,187,538)
Profit for the year	34,303
Profit attributable to owners of the Company	23,971
Profit attributable to non-controlling interests	10,332
Profit for the year	34,303
Total comprehensive income attributable to owners of the Company	20,158
Total comprehensive income attributable to non-controlling interests	7,486
Total comprehensive income for the year	27,644
Net cash inflow from operating activities	21,627
Net cash outflow from investing activities	(7,308)
Net cash inflow from financing activities	2,665
Net cash inflow	16,984

47 SUBSIDIARIES (continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

Shanxi Loudong

	In respect of the year ended 31 December 2016 HK$'000	2015 HK$'000
Current assets	**1,861,178**	2,308,807
Non-current assets	**130,805**	231,375
Current liabilities	**(2,736,232)**	(1,904,941)
Non-current liabilities	**(376,493)**	(1,200,685)
Equity attributable to owners of the Company	**(1,058,877)**	(534,231)
Non-controlling interests	**(61,865)**	(31,213)
Revenue	**764,911**	1,238,648
Expenses	**(1,382,666)**	(2,086,919)
Loss for the year	**(617,755)**	(848,271)
Loss attributable to owners of the Company	**(583,655)**	(802,398)
Loss attributable to non-controlling interests	**(34,100)**	(45,873)
Loss for the year	**(617,755)**	(848,271)
Total comprehensive income attributable to owners of the Company	**(524,645)**	(802,008)
Total comprehensive income attributable to non-controlling interests	**(30,652)**	(45,042)
Total comprehensive income for the year	**(555,297)**	(847,050)
Net cash outflow from operating activities	**(4,915)**	(253,904)
Net cash inflow from investing activities	**17,964**	216,664
Net cash (outflow)/inflow from financing activities	**(14,821)**	39,372
Net cash (outflow)/inflow	**(1,772)**	2,132

Supplemental Information on Oil Exploring and Producing Activities (Unaudited)

31 December 2016

On 18 December 2014, the Company completed to acquire a group engaged in exploration and production of oil as well as provision of well services in the States of Illinois and Indiana in the USA at a consideration of HK$295,000,000. The Group's estimated net oil reserves for the year ended 31 December 2016 and 2015 are shown in the following table.

Proved oil reserves are those quantities of oil, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulation – prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project with a reasonable time.

Probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered. Net reserves exclude royalties and interests owned by others.

Reserve summary

Location	**2016 Light and Medium Oil MSTB**	2015 Light and Medium Oil MSTB
In the State of Illinois		
Proved	**699**	708
Probable	**1,080**	1,080
	1,779	1,788
In the State of Indiana		
Prove	**79**	79
Probable	**439**	439
	518	518
Total proved and probable	**2,297**	2,306

MSTB represents thousand of stock tank barrels of oil.

Particulars of Properties

31 December 2016

Location	Intend use	Site area (sq m)	Lease term
Unit 601 together with its roof, Phase 1, Levels 6 and 7, Block 2, Court No. 4, Greenwich Garden, Yaojiayuan East Lane, Chaoyang District, Beijing City, the PRC	Lease	254.14	Long lease

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Revenue	**3,326,156**	1,569,903	5,825,864	3,105,949	2,233,316
Cost of sales and services	**(3,170,257)**	(1,495,216)	(5,186,775)	(2,457,945)	(1,786,160)
Gross profit	**155,899**	74,687	639,089	648,004	447,156
Other income and gains	**54,235**	29,620	65,874	99,691	33,156
Selling and distribution expenses	**(40,631)**	(118,887)	(170,015)	(69,827)	(69,279)
Administrative expenses	**(72,663)**	(85,818)	(70,155)	(193,394)	(129,108)
Other operating expenses	**–**	(4,185)	(39,965)	(10,444)	(20,521)
Impairment of property, plant and equipment	**(30,931)**	–	–	(1,956,745)	–
Impairment of investment in an associate and amount due from an associate	**–**	(354,488)	–	(75,731)	–
Impairment of goodwill	**(29,238)**	–	(56,400)	(330,083)	–
Impairment of oil properties	**(13,614)**	(72,145)	–	–	–
Impairment of trade receivables	**(355,866)**	(351,211)	(167,046)	(116,907)	–
Impairment of prepayments, deposits and other receivables	**(113,931)**	(39,825)	(177,336)	(299,714)	–
Share of losses of associates	**(1,452)**	(1,195)	–	–	–
Finance costs	**(193,086)**	(191,572)	(88,411)	(87,377)	(67,736)
(LOSS)/PROFIT BEFORE TAX	**(641,278)**	(1,115,019)	(64,365)	(2,392,527)	193,668
Income tax expense	**(61,497)**	(222,844)	(332,478)	(320,034)	(46,260)
(LOSS)/PROFIT FOR THE YEAR	**(702,775)**	(1,337,863)	(396,843)	(2,712,561)	147,408

Five Year Financial Summary

	Year ended 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
(LOSS)/PROFIT FOR THE YEAR	**(702,775)**	(1,337,863)	(396,843)	(2,712,561)	147,408
OTHER COMPREHENSIVE INCOME					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of foreign operations	**21,533**	14,970	(26,179)	(108,859)	32,605
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**21,533**	14,970	(26,179)	(108,859)	32,605
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(681,242)**	(1,322,893)	(423,022)	(2,821,420)	180,013
(Loss)/profit attributable to:					
Owners of the Company	**(679,007)**	(1,291,990)	(376,988)	(2,581,507)	138,478
Non-controlling interests	**(23,768)**	(45,873)	(19,855)	(131,054)	8,930
	(702,775)	(1,337,863)	(396,843)	(2,712,561)	147,408
Total comprehensive income attributable to:					
Owners of the Company	**(658,076)**	(1,277,851)	(402,412)	(2,682,584)	168,562
Non-controlling interests	**(23,166)**	(45,042)	(20,610)	(138,836)	11,451
	(681,242)	(1,322,893)	(423,022)	(2,821,420)	180,013
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**5,091,549**	4,049,987	4,341,782	4,148,376	6,603,433
TOTAL LIABILITIES	**(4,886,668)**	(3,748,483)	(3,354,643)	(3,029,615)	(2,663,252)
NON-CONTROLLING INTERESTS	**(1,407)**	31,213	(13,829)	(34,439)	(173,275)
	203,474	332,717	973,310	1,084,322	3,766,906