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Grand Ocean Advanced Resources Company Limited
弘 海 高 新 資 源 有 限 公 司

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

ANNUAL REPORT 2017

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CORPORATE PROFILE

Board of Directors

Executive Directors

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

Independent Non-Executive Directors

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

Compliance Officer

Mr. NG Ying Kit

Company Secretary

Ms. WAN Shui Wah

Authorised Representatives

Mr. ZHANG Fusheng
Mr. NG Ying Kit

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Registered Office

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

Corporate Website

www.grandocean65.com

Head Office and Principal Place of Business in Hong Kong

Suite 3103
Sino Plaza
255-257 Gloucester Road
Hong Kong

Principal Share Registrar and Transfer Office

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road, P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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

Principal Banker

Hang Seng Bank Limited

Independent Auditor

BDO Limited
Certified Public Accountants

Legal Advisers

As to Hong Kong Law:
Michael Li & Co.

As to Cayman Islands Law:
Conyers Dill & Pearman

Stock Code

65

DEFINITIONS

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

"2009 Scheme"	a share option scheme adopted at an extraordinary general meeting of the Company held on 20 August 2009;
"2016 AGM"	an annual general meeting held by the Company on 23 June 2017;
"2017 EGM"	an extraordinary general meeting held by the Company on 10 July 2017;
"Amended and Restated Memorandum and Articles"	the memorandum and the articles of association of the Company adopted in an extraordinary general meeting held on 14 December 2016, and "Article" shall mean an article of the Articles of Association;
"Audit Committee"	the audit committee of the Company;
"Bags Business"	the manufacture and sale of plastic woven bags, paper bags and plastic barrels business;
"Board"	the board of Directors of the Company;
"CG Code"	the Corporate Governance Code set out in Appendix 14 to the Listing Rules;
"Coal Mining Business"	production and sale of coal;
"Coal Upgrading Business"	provision of low-rank coal upgrading services;
"Company"	Grand Ocean Advanced Resources Company Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed and traded on the Main Board of the Stock Exchange (Stock Code: 65);
"Director(s)"	the directors of the Company from time to time;
"Group"	the Company and all of its subsidiaries from time to time;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"INED(s)"	an independent non-executive Director(s) of the Company;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time;
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules;
"New Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time;

DEFINITIONS

"Nomination Committee"	the nomination committee of the Company;
"PRC" or "China"	the People's Republic of China;
"Remuneration Committee"	the remuneration committee of the Company;
"RMB"	Renminbi, the lawful currency of the PRC;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time;
"Share(s)"	ordinary share(s) with par value of HK$0.01 each in the share capital of the Company;
"Shareholder(s)"	holder(s) of issued Share(s) from time to time;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited; and
"%"	percent.

CHAIRMAN'S STATEMENT

China's gross domestic product grew by 6.9% in the year 2017, it was the first time in seven years the pace of growth has picked up. However, the coal price in China demonstrated a mild decline in the second half of the year 2017 after the rise in the fourth quarter of 2016. The overall business environment of China's coal industry remained challenging last year with the Chinese government's commitment to the supply side reform.

During the year, the Group's coal mining business in the Inner Mongolia region was still being affected by the production restriction policies imposed by the Chinese Government. The Group's coal output in the year 2017 was whittled down before the Group's coal mine could obtain the approval to increase its allowed production capacity. Nevertheless, the Group retains an optimistic view towards the development of China's coal industry as the progress of the industry reform and consolidation have been proceeding at a faster speed than expected.

In view of the technical issue faced by the Group's coal upgrading plant, the management is striving for a solution to resolve the situation and commenced a small scale trial production by end of 2017 in order to keep up the pace to promote our upgraded coal products. It is also the Group's intention to determine a clear roadmap in the coming development of this business segment in 2018, depending materially on the potential economic benefits of this segment and the potential impact to be brought to the Group.

Notwithstanding the impairment provisions related to the Group's Coal Mining Business and the Coal Upgrading Business depressed the Group's bottom-line during the year under review, the Group's financial position was strengthened following stringent cost controls and streamlining of workforce as well as the capital available to the Group during the year. The development in the coal upgrading business sector is expected to relieve the financial impacts brought to the Group in the past few years.

The management realises the limitation of the development of its existing business operations in view of the risks associated with China's coal industry, thus, the Group will continue to identify other business opportunities in higher growth sectors to extend its business reach in order to enhance its profitability.

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

Xu Bin
Chairman

23 March 2018

FINANCIAL HIGHLIGHTS

Financial Highlights

	2017 HK$'000	2016 HK$'000	Change
Operating Results			
From continuing operations			
Revenue	**111,842**	264,392	(57.7)%
Gross profit	**15,723**	139,499	(88.7)%
Other operating expenses	**–**	6,557	(100.0)%
Finance costs	**1,169**	2,180	(46.4)%
Loss for the year attributable to owners of the Company	**143,240**	123,414	16.1%
Loss per share from continuing operations – Basic	**HK12.44 cents**	HK13.74 cents (restated)	(9.5)%
Financial Position			
Total assets	**403,171**	472,367	(14.6)%
Total liabilities	**243,584**	269,479	(9.6)%
Bank and cash balances	**105,286**	93,238	12.9%
Equity attributable to owners of the Company	**128,123**	157,629	(18.7)%
Financial Ratios			
Current ratio	**0.88**	0.60	46.7%
Gearing ratio	**24.6%**	30.3%	(18.8)%

Five-Year Financial Summary

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

Results

	Year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Represented)	(Represented)	(Represented)
Revenue					
From continuing operations	**111,842**	264,392	240,128	245,817	83,134
From discontinued operation	**–**	–	5,710	97,126	203,015
	111,842	264,392	245,838	342,943	286,149
Loss/(profit) from operations	**(156,225)**	(93,805)	(110,464)	4,317	(63,955)
Finance costs	**(1,169)**	(2,180)	(4,451)	(11,385)	(4,680)
Loss before tax	**(157,394)**	(95,985)	(114,915)	(7,068)	(68,635)
Income tax expense	**(2,415)**	(32,726)	(4,878)	(17,866)	(17,647)
Loss for the year from continuing operations	**(159,809)**	(128,711)	(119,793)	(24,934)	(86,282)
Profit/(loss) for the year from discontinued operation	**–**	3,136	(83,796)	(85,040)	18,079
Loss for the year	**(159,809)**	(125,575)	(203,589)	(109,974)	(68,203)
Attributable to:					
Owners of the Company	**(143,240)**	(120,278)	(170,849)	(113,109)	(35,114)
Non-controlling interests	**(16,569)**	(5,297)	(32,740)	3,135	(33,089)
	(159,809)	(125,575)	(203,589)	(109,974)	(68,203)

Five-Year Financial Summary (Continued)

Assets, Liabilities and Equity

	As at 31 December				
	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000
Non-current assets	**248,277**	347,776	577,695	700,810	796,487
Current assets	**154,894**	124,591	146,190	205,929	221,024
TOTAL ASSETS	**403,171**	472,367	723,885	906,739	1,017,511
Non-current liabilities	**68,435**	60,159	85,670	104,167	214,383
Current liabilities	**175,149**	209,320	274,131	254,117	247,560
TOTAL LIABILITIES	**243,584**	269,479	359,801	358,284	461,943
NET ASSETS	**159,587**	202,888	364,084	548,455	555,568
Attributable to:					
Owners of the Company	**128,123**	157,629	311,079	458,868	467,737
Non-controlling interests	**31,464**	45,259	53,005	89,587	87,831
TOTAL EQUITY	**159,587**	202,888	364,084	548,455	555,568

Notes:

The results of the Group for the years ended 31 December 2016, 2015, 2014 and 2013 and of the assets, liabilities and equity of the Group as at these dates have been extracted from audited financial statements of the Company for the respective years and represented as appropriate.

The results of the Group for the year ended 31 December 2013 to 2015 have been represented as a results of the reclassification of the Bags Business to discontinued operation in 2016.

The results of the Group for the year ended 31 December 2017 and of the assets, liabilities and equity of the Group as at 31 December 2017 are those set out on pages 67 to 70 of the audited financial statements respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

The Group recorded total revenue of approximately HK$111,842,000 for the year ended 31 December 2017, representing a decrease of approximately HK$152,550,000 or approximately 57.7% as compared to the revenue for the year ended 31 December 2016 of approximately HK$264,392,000. The loss attributable to the owners of the Company from continuing operations for the year ended 31 December 2017 amounted to approximately HK$143,240,000 as compared to the corresponding period in 2016 of approximately HK$123,414,000. The Group reported its annual results for the year ended 31 December 2017 in two segments, namely: (i) the Coal Mining Business; and (ii) the Coal Upgrading Business. The Bags Business was reclassified to discontinued operation following the completion of disposal during the year ended 31 December 2016.

The Coal Mining Business

Over the past few years, there were changes in the policies of the PRC coal industry regarding the country's coal supply reform in resolving excess coal production capacities of the PRC. In year 2016, there were two major policies released which affected the production capacities of coal production enterprises in the PRC. On 3 May 2016, the Coal Industrial Bureau (煤炭工業局) of the PRC released the notice "Nei Mei Ju Zi (2016) No. 63" in relation to the reduction of the annual working days of the coal production enterprises from 330 days to 276 days with effect from 1 May 2016, resulting in a decrease of approximately 16% in the production capacities of coal production enterprise (the "**First Notice**"). Thereafter, on 21 November 2016, the Inner Mongolia Autonomous Region Economic and Information Technology Commission (內蒙古自治區經濟和信息化委員會) released the notice "Nei Jing Xin Ban Zi (2016) No. 409", allowing the annual working days of the coal production enterprises to be temporarily resumed to 330 days during the period from 21 November 2016 to 30 May 2017 (the "**Second Notice**").

Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited ("**Inner Mongolia Jinyuanli**"), an indirect non-wholly owned subsidiary of the Company, operates the Group's coal mine of the Inner Mongolia Mine 958 ("**Inner Mongolia Mine 958**") in Inner Mongolia region with an authorised annual production capacity of 1.2 million tonnes. The Board is delighted to announce that, during the year ended 31 December 2017, Inner Mongolia Jinyuanli has successfully renewed its: (i) safety production license (安全生產許可證) being approved by the State Administration of Coal Mine Safely of Inner Mongolia; and (ii) coal mining license (採礦許可證) being approved by the Land and Resources Bureau of Huolinguole City, both of which were approved to extend for a term of three years. The renewed safety production license will expire on 24 September 2020 and the coal mining license will expire on 26 October 2020.

In view of the increasing productivity of Inner Mongolia Mine 958, which produced approximately 1.66 million tonnes and 2.20 million tonnes of coals in years 2014 and 2015 respectively, the management of Inner Mongolia Jinyuanli applied to the Land and Resources Bureau of Huolinguole City (霍林郭勒市國土資源局) for increasing the allowed annual production capacity of Inner Mongolia Mine 958 from 1.2 million tonnes to 1.8 million tonnes in year 2015 (the "**Application**"). However, based on the understanding of the management of Inner Mongolia Jinyuanli, the Land and Resources Bureau of Huolinguole City is reluctant to grant the approval of the Application due to the tightening PRC coal industry policies. The Group will continue to pursue such approval and will update the shareholders of the Company the status of the Application as and when appropriate.

In view of the Application had been pended for over 2 years and to ensure the compliance with the relevant PRC coal industry policies, the management of Inner Mongolia Jinyuanli decided to lower the coal production output to approximately 1.18 million tonnes (i.e. within the allowed annual production capacity of 1.2 million tonnes) during the year ended 31 December 2017 (2016: approximately 1.94 million tonnes), and approximately 0.93 million tonnes of coals were sold during the period (2016: 2.01 million tonnes) respectively. Such decrease in production output led to the decrease in revenue by approximately HK$152,550,000 or 57.7% as compared to the corresponding period in 2016 of approximately HK$264,392,000 for the Coal Mining Business. The segment loss of the Coal Mining Business for the year ended 31 December 2017 was approximately HK$34,074,000 as compared to approximately HK$6,243,000 for 2016, which was resulted from, in addition to the abovementioned decrease in production output, the additional costs incurred for the change of mining location within the coal mining license, during the year ended 31 December 2017.

Besides, contingent liabilities in the amount of RMB2 million (approximately HK$2,402,000) was reported in the Group's consolidated financial statements for the years ended 31 December 2016 and 2017 on a prudent basis, which represented the maximum amount of penalty as a result of over-production in the year 2016. As at the date of this report, Inner Mongolia Jinyuanli has not received any indication or formal notice of warning or penalty regarding prior years' over-production.

The Coal Upgrading Business

The construction of the first phase with designed annual production capacity of 500,000 tonnes of the Group's coal upgrading plant located at Xilinhaote City, Inner Mongolia, the PRC (the "**Coal Upgrading Plant**") by Xilinhaote City Guochuan Energy Technology Development Co. Ltd ("**Xilinhaote Guochuan**"), an indirect wholly-owned subsidiary of the Company, were substantially completed in 2015 and intended to commence commercial production in the third quarter of 2017 as disclosed in the Company's 2016 annual report. During the preparation of the commercial production in the third quarter of 2017, the Coal Upgrading Plant encountered a technical issue with the autoclaves in relation to the obstruction of the valves during the process of high-pressured steaming. During the process of high-pressurised steaming, the raw coal as the raw materials encountered a change in its density after applying high pressure, high temperature and the process of dehydration and leaded to the failure to the emission through the valves inside the autoclaves (the "**Technical Issue**"). The technicians of the Coal Upgrading Plant had proposed to install a spiral device at the valves to enhance the emission of the steamed raw coals to resolve the Technical Issue. It is expected to take around 3 months to design, build and install the spiral device, and an additional 1-month period to conduct necessary examinations and testing. In view of this, the management of the Coal Upgrading Plant is currently working with a research institution to assess the additional costs and time required to resolve the Technical Issue before the Coal Upgrading Plant can commerce its commercial production with an economy of scale, which is tentatively scheduled to 2019.

The management of the Coal Upgrading Plant is currently in discussion with the technical engineers of East China Engineering Science and Technology Co., Ltd ("**ECEC**") (http://www.chinaecec.com/eN/about.htm) for the solution to the Technical Issue. ECEC is an international engineering company with fifty years of engineering experience, completed more than 2,000 projects covering a wide variety of chemical factories, waste water treatment and power plants.

The Coal Upgrading Plant has previously engaged ECEC's engineers as its technical advisers in building the plant, accordingly, ECEC's engineers continue to offer their technical services to resolve the Technical Issue. Currently, they are discussing with the management of the Coal Upgrading Plant in designing an eligible device. The Coal Upgrading Plant will enter into a technical service contract to build the device when their designs are proved to be feasible and possible to resolve the Technical Issue.

Despite the postponement of the commercial production, the Group has made progress in promoting the upgraded coal products. The Coal Upgrading Plant has employed provisional autoclaves for a small scale of trial production to preclude temporarily such Technical Issue in the fourth quarter of 2017. By the end of the year 2017, approximately 1,200 tonnes of upgraded coals of around 4,800 cal/kg were produced with lower calorific value level as a result of using the provisional autoclaves, of which 1,190 tonnes were sold at a unit price of RMB450 per tonne (VAT inclusive) to a local power plant with total proceeds of approximately RMB536,000 (approximately of HK$620,000).

As disclosed in the Company's 2016 annual report, the existing approval granted to the development of the Coal Upgrading Plant (the "**Development Approval**") had expired in June 2016 and the management of Coal Upgrading Plant has applied to the relevant government authorities for further extension of the Development Approval. In addition, the Group has yet to obtain the title of the land at which the Coal Upgrading Plant is located and the outstanding land premium to be paid is HK$18.9 million. Notwithstanding the various issues the Coal Upgrading Plant are facing, the management of the Coal Upgrading Plant will continue to focus on resolving the Technical Issue and perfecting its project approvals including the land title. In addition, the Coal Upgrading Plant will continue to identify potential customers and enhance its marketing plan with its trial upgraded coal products produced using the provisional autoclaves. The Board believes that the feedbacks from the customers will provide sufficient data and references to the management to determine the future plans.

Since 2016, the Board has been very prudent in applying capital to operate this business segment given the difficulties the Group faced to raise funding in the past few years, due to the capital intensive nature and relative long payback period for this business. The Board currently intends to invest additional capital to perfect the project approvals, including the land title, such investments will be made with reference to financial forecasts upon the commercial production in order to ensure that the Coal Upgrading Plant can generate efficient revenue for its future working capital.

Prior to the commencement of commercial production of the Coal Upgrading Plant, the Coal Upgrading Business segment did not record any revenue for the year ended 31 December 2017. This segment reported a loss of approximately HK$110,302,000 as compared to a loss in the corresponding period of HK$67,851,000. The increase in loss for the year mainly attributable to impairment on the property, plant and equipment of approximately HK$107,847,000.

In accordance with relevant accounting standards, the net small scale production expenses for the trial production in 2017 of approximately HK$749,000 were capitalised as part of the construction costs based on the current status of the Coal Upgrading Plant.

Impairment of property, plant and equipment and intangible assets from continuing operations

In accordance with the Group's accounting policies, each assets or cash-generating unit ("**CGU**") will be evaluated at the end of each reporting period. In assessing whether an impairment is required, the CGU will be compared with its recoverable amount. The recoverable amount is the higher of the CGU's fair value less cost of disposal and value in use ("**VIU**").

The Group recorded total impairment losses on property, plant and equipment and intangible assets from continuing operations of approximately HK$120,894,000 for the year ended 31 December 2017, such impairment losses were mainly attributable to:

(i) The Coal Mining Business

The management of the Company has performed an impairment assessment review on all of the carrying amounts of the Group's property, plant and equipment and intangible assets including those non-current assets related to the Coal Mining Business cash generating unit (the **"Coal Mining CGU"**). The recoverable amounts of the assets under the Coal Mining CGU were estimated based on their VIU, determined by discounting the future cash flows to be generated from the continuing use of these assets. The key assumptions of the cash flow projections were made based on the current business and financial conditions of Inner Mongolia Jinyuanli and an independent valuer has been engaged by the Company to review the reasonableness and fairness of the assumptions applied in the cash flow projections.

The Group recorded total impairment losses of approximately HK$13,047,000 on the assets under the Coal Mining CGU for the year ended 31 December 2017. Further impairment losses of: (i) approximately HK$10,570,000 on the property, plant and equipment; and (ii) approximately HK$2,477,000 on the intangible assets were recognised for the year ended 31 December 2017 due to the reduction in projected annual coal production output following the change in coal production plan of Inner Mongolia Jinyuanli in the year 2017. The key assumptions and parameters in the cash flow projections of the Coal Mining CGU as at 31 December 2017, 30 June 2017 and 31 December 2016 are set out below:

Key assumptions	31 December 2016	30 June 2017	31 December 2017
Projected annual coal production output for the period until the expiry date of the business license (Note 1)	1,200,000 tonnes	1,200,000 tonnes	**1,003,600 tonnes**
Average unit coal selling price per tonne (including value-added tax) (Note 2)	2017-2019: RMB110 2020-2022: RMB115 2023 onwards: RMB120	2017-2019: RMB110 2020-2022: RMB115 2023 onwards: RMB120	**2018: RMB135** **2019: RMB140** **2020 onwards: increase with inflation rate**
Inflation rate	2.0%	2.0%	**2.5%**

Notes:

(1) Due to the pending status of the Application and the recent PRC coal industry policies of the compression of production capacity in the PRC, as well as the change the projected annual coal production output from 1,200,000 tonnes to 1,003,600 tonnes of Inner Mongolia Jinyuanli in the year 2017's cash flow projections.

(2) The estimated unit coal price per tonne (average selling price) was determined by referencing to: (i) the average unit selling price of coal for the year ended 31 December 2017 of Inner Mongolia Jinyuanli; (ii) the prevailing market price of coal in the Inner Mongolia Region; (iii) fluctuation of market price of coal in the PRC; and (iv) the historical average unit selling price of coal over past few years of Inner Mongolia Jinyuanli.

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

Following to the reduction in production output and measures taken as discussed in previous section, during year 2017, the issues identified by the former auditor of the Company have been resolved. In view of the effect on the opening effect on the carrying amount of property, plant and equipment of the Coal Mining CGU, the current auditor of the Company issued a modified audit opinion as shown in the section "Independent auditor's report" on pages 62 to 66 of this annual report.

(ii) The Coal Upgrading Business

The management of the Company has performed impairment assessment on all of the carrying amounts of the Group's property, plant and equipment and deposits under non-current assets including those non-current assets related to the Coal Upgrading Business (the "**Coal Upgrading CGU**"). The recoverable amounts of the Coal Upgrading CGU are estimated based on the their VIU determined by discounting the future cash flows to be generated from the continuing use of these assets. The other key assumptions of the cash flow projections were made based on the current business and financial conditions of the Coal Upgrading Plant and an independent valuer has been engaged to review the reasonableness and fairness of the assumptions used in the cash flow projections. Subsequent to the Group's recorded total impairment losses of approximately of HK$52,763,000 for goodwill, property, plant and equipment and deposits under non-current assets for the year ended 31 December 2016, further impairment losses of approximately of HK$107,847,000 has been made on the property, plant and equipment for the year ended 31 December 2017 due to further postponement in commencing the commercial production of the Coal Upgrading Plant.

The key assumptions and parameters applied in the cash flow projections of the Coal Upgrading CGU as at 31 December 2016, 30 June 2017 and 31 December 2017 are set out below:

Key assumptions	31 December 2016	30 June 2017	31 December 2017
Projected annual coal production output (Note 1)	2017: 250,000 tonnes 2018: 500,000 tonnes 2019: 1 million tonnes 2020: 1 million tonnes 2021: 2 million tonnes	2017: 250,000 tonnes 2018: 500,000 tonnes 2019: 1 million tonnes 2020: 1 million tonnes 2021: 2 million tonnes	**2018: 12,000 tonnes** **2019: 500,000 tonnes** **2020: 500,000 tonnes** **2021: 500,000 tonnes** **2022: 500,000 tonnes**
Average unit upgraded coal selling price per tonne (including value-added tax) (Note 2)	2017-2021: 5,000kcal/kg of RMB300	2017-2021: 5,000kcal/kg of RMB300	**2018: 4,800kcal/kg of RMB450** **2019: 5,000kcal/kg of RMB475** **2020 onwards: increase with inflation rate**
Inflation rate	2.0%	2.0%	**2.5%**

Notes:

1. The management of the Coal Upgrading Plant has considered the lack of funding of the Group to support the future capital expenditures for Phase 2 and Phase 3 development. As such, the Coal Upgrading Plant will maintain an annual production output of upgraded coal at 500,000 tonnes during the period from 2019 to 2022.

   The management of the Coal Upgrading Plant is currently focusing on the small scale production to assess the market and its profitability. The Coal Upgrading Plant has 5 large scale autoclaves, each of the autoclave has a designed annual production capacity of 100,000 tons of upgraded coal output. The management of the Coal Upgrading Plant aims to overcome the Technical Issue with the autoclaves during the year 2018 and perfect the land use rights and relevant permit and licenses in due course. The commencement of commercial production is then further postponed to 2019 upon resolving the above issues.

2. The average unit selling price is based on the prevailing market price of coal in the Inner Mongolia region of similar calorific value with a reasonable profit margin, and referenced to the selling price of the 1,200 tonnes of upgraded coal sold in December 2017. The pricing of the Coal Upgrading Plant's upgraded coal products will depend on: (i) the characteristics and specifications of the upgraded coal products and their applications, applications other than electricity production would possibly improve the profit margins significantly; (ii) the costs of low rank coals as raw materials, with a productivity ratio of 2 (upgraded coal output): 3 (low rank coal input); and (iii) PRC's coal market sentiment. While the Coal Upgrading Plant is yet to commence its commercial production, the other assumptions made in the valuation was referenced to the latest information available to the management of the Coal Upgrading Plant.

3. The assumptions applied in the cash flow projections of the Coal Upgrading CGU had been reviewed by the independent valuer (the "**Valuer**") as well as the auditors of the Company (the "**Auditors**"). The Valuer relied on the business plan and data (e.g. production timetable and selling price of upgraded coals sold in 2017 etc) provided by the management of the Company, the corresponding discount rate was computed by the Valuer with reference to a universe of comparable companies which they considered relevant and reasonable.

   However, the Auditors considered that there were not sufficient evidence to support the commencement of the commercial production in 2019 mainly due to the uncertainty on the timing of resolving the Technical Issue. Due to the design of an eligible device is still in the process at present, which will be further subject to the results of examinations and testing, accordingly, no technical report is made available to the Auditors at the moment.

Selling and distribution expenses

The selling and distribution expenses of the Group for the year ended 31 December 2017 from continuing operations was 100% attributed to the Coal Mining Business of approximately HK$5,608,000, representing a decrease of approximately HK$5,210,000 as compared to the corresponding period in 2016 of approximately HK$10,818,000. The significant decrease in selling and distribution expenses was mainly due to lower logistic costs of coal delivery generally in line with the decrease in the quantity of sale of coals as a result of the reduction of coal production output during the year 2017.

Administrative expenses

The administrative expenses of the Group for the year ended 31 December 2017 from continuing operations amounted to approximately HK$51,496,000, representing a decrease of approximately HK$15,967,000 from approximately HK$67,463,000 in the corresponding period in year 2016. The decrease in administrative expenses was mainly attributable to the decrease in staff costs as a result of the cost-saving measures implemented on both the Coal Mining Business and the Coal Upgrading Business and lower depreciation charges due to the impairment of property, plant and equipment made last year which led to a lower depreciable amount of property, plant and equipment.

Finance costs

The finance costs of the Group from continuing operations represented mainly the interest expenses on the loans from a director and loans from third parties. The decrease in finance costs was mainly due to the repayment of certain loans from a director and third parties during the year.

Loss for the year

Net loss attributable to the owners of the Company from continuing operations for the year ended 31 December 2017 increased to HK$143,240,000 as compared to the corresponding period in year 2016 of approximately HK$123,414,000. It was attributable to the (i) operating loss of the Coal Mining Business due to the decrease in the revenue as a result of reduction in coal production output; (ii) operating loss and additional costs for small scale production of the Coal Upgrading Business; and (iii) impairment losses made on certain property, plant and equipment and intangible assets of the Group.

Proposed plan to address the qualified opinion

(1) In view of the audit qualifications regarding the Company's assessments in making any impairment loss on the property, plant and equipment, goodwill and deposits under non-current assets for the Coal Upgrading Business for the years ended 31 December 2015, 2016 and 2017, after the discussion with the audit committee, the Board and the management of the Coal Upgrading Plant have taken the following measures to resolve the issues giving rise to the disclaimer of opinion expressed by the Auditors.

a. The management of the Coal Upgrading Plant had produced 1,200 tonnes of the commencement of commercial production and upgraded coal in December 2017 to make progress with the marketing plan of the upgraded coal products;

b. The management of the Coal Upgrading Plant has revised the timetable of the development of Phase 2 and Phase 3;

c. The Company raised net proceeds of approximately HK$106.8 million from the Placing in July 2017, which enables the Group to have sufficient fundings to commence commercial production and perfecting the land title of the Coal Upgrading Plan; and

d. An independent valuer was engaged to review the reasonableness and fairness of the assumptions made in the cash flow projection for the impairment assessment performed during the audit for the financial year ended 31 December 2017.

The commencement of the commercial production of the Coal Upgrading Plant in 2019 will be subject to: (i) the Technical Issue being possibly resolved in 2018; (ii) the grant of extension to the Development Approvals; and (iii) sufficient and profitable sales contracts that will be entered into between the Coal Upgrading Plant and potential customers.

In deciding the proposed action plan and timetable, the Board had reviewed the potential solutions proposed by the technical consultant as well as the timetable to resolve the Technical Issue, which has also been agreed by the management of the Coal Upgrading Plant. Regarding the Development Approvals, management of the Coal Upgrading Plant maintains timely communications with relevant government entities and reported to the Board that the extension of the Development Approval will be granted upon payment of land premium based on government officials' verbal replies. On this basis, it is the current estimation of the Board for the Coal Upgrading Plant to commence its commercial production in 2019 in view of also the marketing activities conducted and current financial position of the Group.

The Audit Committee concurred with the Board's view on the above and agreed on the proposed action plans of the Coal Upgrading Plant and the estimated timetable.

The Audit Committee is well aware of the existing development of the Coal Upgrading Plant and is of the view that the estimated timetable to commence commercial production in 2019 was reasonable given that the Coal Upgrading Plant will take more time to resolve the Technical Issue, perfect the land title and the Development Approvals, which were targeted to be accomplished in 2018. In the meantime, the Company will continue to identify potential customers and enhance its marketing plan so as to secure sales contracts for the commencement of the commercial production.

Nevertheless, the Board will continue to be very prudent in applying capital to the Coal Upgrading Plant in order to ensure the sufficiency of working capital of the Group.

Based on further discussions with the Auditors, the Auditors consider that the audit qualifications would possibly be removed when sufficient audit evidence could be provided by the Coal Upgrading Plant upon the Technical Issue resolved in order to commence the commercial production.

The Company will also liaise with the Auditors in a timely manner to updating them the latest developments of the Coal Upgrading Plant in order to resolve the audit issues as soon as possible.

(2) In view of the disagreement of the measurement of the land use right raised from Auditors, the management of the Company were of the view that, in respect of the land occupied by the Coal Upgrading CGU (the "**Land**"), the Group did not have sufficient funding to pay the land use right premium during past few years to perfect the Land title, therefore, it was considered that the Land was yet to become legally owned by Xilinhaote Guochuan. Furthermore, although a trial production was commenced in the fourth quarter of 2017, the Coal Upgrading Plant has yet to be granted the Development Approvals and did not commence its commercial production as at the date of this annual report. So, it is also considered that the assets above the Land is also not in use.

In preparing the financial results of the Group for the year ended 31 December 2017, the Company and the Audit Committee shared the same view and bases on the measurement of the land use right which was arrived after consideration of the lack of funding to pay land premium to obtain land use right certificate, the uncertainties in the development of the Coal Upgrading Plant in the past few years as well as the consistency of prior years' presentation of the Group's financial statements.

The Audit Committee and the management of the Company had further discussions and reviews on the basis of Auditors' view on the measurement of the land use rights, the financial impact of such adjustment(s) as well as the proposed action plan of the Coal Upgrading Plant in 2018. The Audit Committee has expedited the management to have timely discussions with the Auditors to resolve such audit issue, including the adoption of Auditors' view in the financial statements for the financial year to be ended 31 December 2018 and also to factor in the latest development of the Coal Upgrading Plant during the year, in order to resolve the disagreement on the measurement of the Land Use Right and other qualifications in respect of the Coal Upgrading Plant.

The Board accepted the Audit Committee's views above and will take corresponding actions in preparing the financial statements for the financial year to be ended 31 December 2018 in accordance with HKFRS and the latest developments of the Coal Upgrading Plant.

The Company would like to highlight that, in performing the impairment assessment of the assets of the Coal Upgrading CGU, the recoverable amounts of the Coal Upgrading CGU had already accounted for the unpaid land premium and reflected in the consolidated financial statements of the Company at each year end. In addition, such unpaid land premiums had been fully recognised as capital commitment of Group. As such, the Board considered that the financial statement of the Group reflected a true and clear view on the overall financial position of the Coal Upgrading CGU based on the existing status and business plan of the Coal Upgrading CGU, which has been fully disclosed in this annual report.

Loans from a director

On 2 January 2014, the Company as the borrower, entered into a loan agreement with Mr. Xu Bin ("**Mr. Xu**"), the chairman, an executive Director and a substantial shareholder (as defined under the Listing Rules) of the Company, as lender, pursuant to which Mr. Xu agreed to grant to the Company an unsecured loan of HK$4 million at an interest rate of 5% per annum. This loan has been applied as general working capital of the Company. Certain part of the loan of approximately HK$1 million has been repaid in year 2017 and the remaining loan of HK$3 million will be due on or before 31 December 2019.

On 24 March 2014, Beijing Guochuan New Energy Development Co., Ltd ("**Beijing Guochuan**"), an indirect wholly-owned subsidiary of the Company, as borrower, entered into a loan agreement with Mr. Xu, as lender, pursuant to which Mr. Xu agreed to grant to Beijing Guochuan an unsecured and interest-free loan of RMB20 million (approximately of HK$24 million) as general working capital of the Group (the "**Original Loan Amount**"). First part of the Original Loan Amount in the book of Beijing Guochuan amounted to RMB8 million was repaid in year 2016 and the second part of the Original Loan Amount in the amount of RMB12 million (approximately of HK$14 million) has been assumed by Shanghai Wealthy Ocean International Trading Co., Ltd ("**Shanghai Wealthy Ocean**"), an indirect wholly-owned subsidiary of the Company, as part of the consideration of intra group transfer of 37.5% equity interests in Xilinhaote Guochuan held by Beijing Guochuan to Shanghai Wealthy Ocean, being part of the Group's restructuring and Xilinhaote Guochuan remained as an indirectly wholly-owned subsidiary of the Company after such intra group transfer. The remaining of the Original Loan Amount of RMB12 million (approximately of HK$14 million) in the book of Shanghai Wealthy Ocean is unsecured, interest-free and repayable on or before 31 December 2019.

On 7 May 2014, the Company, as borrower, entered into a loan agreement with Mr. Xu, as lender, pursuant to which Mr. Xu agreed to grant to the Company an unsecured loan of HK$3 million at an interest rate of 5% per annum. The loan, which has been applied as general working capital of the Company, was originally due on 31 March 2016. The repayment deadline of this loan had been extended to 31 December 2019.

Capital structure, liquidity and financial resources

Capital reduction and subdivision

In November 2016, the Company proposed a reduction in the issued share capital to reduce the par value of each issued share of the Company from HK$0.50 to HK$0.01 by cancelling the paid up share capital of each issued share by an amount of HK$0.49 so that each issued share shall be treated as one fully paid up share of par value of HK$0.01 each in the share capital of the Company (the "**Capital Reduction**") and each authorised but unissued share of the Company of par value of HK$0.50 each be subdivided into 50 shares of HK$0.01 par value each immediately following the Capital Reduction (the "**Subdivision**"), which were duly passed in the extraordinary general meeting held by the Company on 14 December 2016 and obtained the approval by the Grand Court of the Cayman Islands on 17 March 2017, and the completion of the registration by the Registrar of Companies of the Cayman Islands took place on 22 March 2017. Following the fulfillment of all the conditions precedent for the implementation of the Capital Reduction and the Subdivision, the Capital Reduction and Subdivision become effective after 4:00 p.m. on 22 March 2017 and before 9:00 a.m. on 23 March 2017 in Hong Kong due to time difference between Hong Kong and the Cayman Islands.

Fundraising activity

On 12 May 2017, the Company entered into a placing agreement with Grand Cartel Securities Co., Ltd. (the "**Placing Agent**") pursuant to which the Company has conditionally agreed to place, through the Placing Agent, on a best-effort basis, a maximum of 1,000,000,000 ordinary Shares of the Company under the specific mandate to be granted by the shareholders of the Company to not less than six places who and whose ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons as defined in the Listing Rules at the placing price of HK$0.110 per share (the "**Placing**"). All the conditions set out in the Placing agreement had been fulfilled subsequently and the Placing was completed on 31 July 2017 in accordance with the terms and conditions of the placing agreement. The gross and net proceeds raised from the Placing were approximately HK$110.0 million and HK$106.8 million respectively, which were intended to be applied for (i) repayment of overdue construction payables; (ii) development of the Coal Upgrading Business; (iii) repayment of the loan due to a non-controlling shareholder; and (iv) the general working capital of the Company. As at 31 December 2017, the net proceeds from Placing were utilised by approximately of HK$27.4 million comprised of (i) repayment of overdue construction payables approximately HK$14.7 million; (ii) development of Coal Upgrading Business approximately HK$4.4 million; and (iii) the general working capital of the company approximately HK$8.3 million.

Liquidity and financial resources

As at 31 December 2017,

(a) the aggregate amount of the Group's (i) restricted bank deposits; and (ii) bank and cash balances was approximately HK$116,023,000 (as at 31 December 2016: approximately HK$100,372,000);

(b) the Group's total borrowings comprised (i) loan from a non-controlling shareholder; (ii) loans from a director; and (iii) other loans, totalling to approximately HK$39,270,000 (as at 31 December 2016: approximately HK$61,482,000);

(c) the Group's total gearing ratio was approximately 24.6% (as at 31 December 2016: 30.3%). The gearing ratio was calculated as the Group's total borrowings divided by total equity; and

(d) the current ratio of the Group was approximately 0.88 (as at 31 December 2016: approximately 0.60).

Following the completion of the Placing, the Group's financial position has been strengthened and the Board will continue to closely monitor the financial position of the Group to maintain its financial capacity for future operations and developments.

Pledge of assets

As at 31 December 2017, the Group had no pledge of assets (as at 31 December 2016: HK$Nil).

Foreign currency risk

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

Significant investments

The Group did not purchase, sell or hold any significant investments during the year ended 31 December 2017.

Acquisition and disposal of material subsidiaries and associates

The Group did not acquire or dispose of any material subsidiaries and associates during the year ended 31 December 2017.

Contingent liabilities

As at 31 December 2017, contingent liabilities in the amount of RMB2 million (approximately HK$2,402,000) which represents the maximum amount of penalty may arise as a result of over-production of the Coal Mining Business in the year 2016.

Capital commitment

As at 31 December 2017, the Group had capital commitment relating to the construction agreements and prepaid land lease payments contracted for but not yet incurred in the amount of approximately HK$43,683,000 (as at 31 December 2016: approximately HK$48,578,000).

Employees

The Group employed 572 full-time employees as at 31 December 2017 (as at 31 December 2016: 613) in Hong Kong and the PRC. Remuneration of the staff comprised monthly salaries, provident fund contributions medical benefits, training programs, housing allowances, discretionary bonus and discretionary, options based on their contributions to the Group. Staff costs (including Directors' emoluments) for the year ended 31 December 2017 were HK$69,928,000 (year ended 31 December 2016: HK$80,432,000).

Prospects

The Chinese government's coal industry reform on the supply side in the past few years has continued to affect the coal production enterprises in the PRC on their production capacities, while such industry reform has contributed to the stabilization of coal prices in the PRC in last two years.

Due to the recent changes in policies of the PRC coal industry, Inner Mongolia Jinyuanli has yet to obtain the approval to increase its annual production capacity. Nevertheless, it is still the intention of the management to pursue such approval in due course when the industry policies become less tightening. The Group's coal output in 2017 is significantly lower than that in 2016 as result of reduction of coal production output in order to comply with relevant rules and regulations. With an aim to improve the financial performance of the Group, the Group will strive to implement adequate cost saving measures and better sales strategies to enhance the operation efficiency of the Coal Mining Business.

The Board noticed the adverse impacts brought by the prolonged development of the Coal Upgrading Business in the past few years. In view of the material issues facing by the Coal Upgrading Plant, it's the intention of the Board to conduct through assessment on the future plan of the Coal Upgrading Business, taking into account the results of the marketing of the trial upgraded coal products in 2018, with a view to rationalise the future business plan and enhance the long term growth potential of the Company.

The Board considers that the exiting business portfolio of the Group is highly focused and exposed to the risk of the PRC's coal industry policy changes. The Company will continue to explore options for widening the Group's business scope and extending its resources into sectors offering more stable and higher return in order to broaden the Group's revenue base and diversify its business exposure.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Xu Bin, *Chairman*

Aged 52, was appointed as an executive Director of the Company in August 2009 and re-designated as the Chairman of the Company in February 2015. Mr. Xu was appointed as a member of each of the Remuneration Committee and Nomination Committee on 1 March 2016. Mr. Xu pursued his studies at the Faculty of Finance in Jilin University, the PRC and has over 15 years of experience in financial management and extensive experience in corporate operation and management. As the Chairman of the Company, Mr. Xu leads and takes primary responsibility in setting the Company's growth strategy in the PRC and its continued development direction. He heads strategic initiatives and contributes to the Company's strategic decision making process. Mr. Xu has held directorships in various subsidiary companies of the Group.

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

Mr. Zhang Fusheng, *Chief Executive Officer*

Aged 45, was appointed as an executive Director and the chief executive officer of the Company in June 2013. He holds a Master's degree of Nanyang Executive MBA from the Nangyang Technological University in Singapore and has extensive working experience in management and leadership role. Mr. Zhang is responsible for overseeing the operations of the Group and holds directorships in various subsidiary companies of the Group.

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

Mr. Ng Ying Kit

Aged 40, joined the Company as the vice president of the business development and corporate finance division in June 2014, and was appointed as an executive Director and the compliance officer of the Company in February 2015. He is mainly responsible for business development and corporate finance function of the Group and holds directorships in various subsidiary companies of the Group. Mr. Ng has more than 10 years of experience in corporate finance and investment banking and has considerable experience in mergers and acquisitions, debt and equity financing and corporate strategic planning. Prior to joining the Company, he held senior management position in a Hong Kong listed company overseeing corporate finance function. Mr. Ng graduated from the University of Hong Kong with a Bachelor's degree in Electrical and Electronic Engineering.

Ms. Huo Lijie

Aged 53, joined the Company as the financial director of the Group's indirect wholly owned subsidiary, Xilinhaote City Guochuan Energy Technology Development Co. Ltd in August 2012, and was appointed as an executive Director of the Company on 11 January 2016 and holds directorships in various subsidiary companies of the Group. She obtained a Bachelor's degree of Economics (Finance) from Nankai University in Tianjin, the PRC in 1988. Ms. Huo had worked as an accountant at Agricultural Bank of China (Changchun City branch) in the PRC from July 1988 to August 1989. Ms. Huo later served as an accountant, the settlement officer and the business manager at the foreign exchange department of Agricultural Bank of China (Jilin Province branch) in the PRC from September 1990 to November 2003.

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

Independent Non-executive Directors

Mr. Kwok Chi Shing

Aged 56, has been appointed as an independent non-executive Director of the Company since January 2006. He is the chairman of the Audit Committee. Mr. Kwok graduated from the University of Aberdeen, England in 1986 and obtained a Master of Arts in Accountancy with Economics with Honours, and is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Kwok has extensive experience in corporate and financial management work especially for international cross border transactions, real estate development and property management industries and he was the president of the Hong Kong Association of Financial Advisors. In addition, he has extensive experience in public sector work both in Hong Kong and the PRC.

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

Mr. Huang Shao Ru

Aged 45, was appointed as an independent non-executive Director of the Company in April 2013. He is a member of the Audit Committee and was re-designated as the chairman of the Nomination Committee and the Remuneration Committee on 1 March 2016. Mr. Huang graduated from the school of Distance Education of Beijing Jiaotong University, majoring in business and administration and has over 22 years of managerial and international trade experience.

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

Mr. Chang Xuejun

Aged 47, was appointed as independent non-executive Director of the Company and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee on 17 March 2016. Mr. Chang is a qualified lawyer in the PRC. He graduated from Northwest University of Political Science and Law in Xi'an City, the PRC in 1993. Mr. Chang has more than 20 years' legal experience. He had been working as a secretary and assistant judge at the Intermediate People's Court in Lanzhou City, Gansu Province, the PRC from August 1993 to May 1999. He has joined LI & PARTNERS Attorneys at Law in Shenzhen, the PRC as a lawyer since May 1999. Mr. Chang is currently the partner of LI & PARTNERS Attorneys at Law in Shenzhen, the PRC.

Senior Management

Ms. Wan Shui Wah
Aged 38, the group financial controller and company secretary of the Company. She joined the Company and was appointed to the position in February 2015. Ms. Wan received a Bachelor's degree in Accounting from the Hong Kong Polytechnic University and is a fellow member of the Hong Kong Institute of Certified Public Accountants. She has extensive experience in the auditing, accounting and finance fields.

Mr. Sun Jing Hui
Aged 55, the general manager of Xilinhaote City Guochuan Energy Technology Development Company Limited, the Group's indirect wholly owned subsidiary. Mr. Sun graduated from East China Institute of Technology (formerly known as East China Geological Institute) in the PRC in 1984. Prior to joining the Group in May 2012, Mr. Sun served as the Manager in Northeast China Bureau of geology and chemical based company and has more than 20 years of experience in production, operation and management.

Mr. Zhang Xiaolai
Aged 54, the general manager of Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited, the Group's indirect non-wholly owned subsidiary. Mr. Zhang joined the Group in June 2011 and promoted as the deputy general manager and general manager in December 2013 and June 2016 respectively. Mr. Zhang graduated from Heilongjiang University in the PRC in 1995 with major in business administration. Prior to joining the Group in June 2011, Mr. Zhang served as general manager in technology and mining companies and has more than 20 years of experiences in production, operation and management.

Mr. Wang Yun Lung
Aged 54, the financial director of Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited, the Group's indirect non-wholly owned subsidiary. Mr. Wang graduated from the Jilin Radio and TV University in the PRC in 1989 with major in financial accounting. Prior to joining the Group in August 2007, Mr. Wang served as financial controller in construction and technology development companies and has more than 25 years of experience in financial management.

CORPORATE GOVERNANCE REPORT

Corporate Governance

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

The Company has complied with the applicable code provisions as set out in the CG Code throughout 2017 except for the following deviations:

Under the code provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. Mr. Xu Bin, the chairman (the "**Chairman**") of the Board, attended the 2016 AGM by telephone conference call. He was well informed by the Company in advance of the date and time of the 2016 AGM and was available to answer questions raised at the 2016 AGM by telephone. Mr. Zhang Fusheng, the chief executive officer of the Company, was elected as the chairman of the 2016 AGM.

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

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as the required standard governing securities transactions by the Directors. The Company made specific enquires of all the Directors and all Directors have confirmed that they had complied with the required standards set out in the Model Code during 2017.

Board of Directors and Board Meetings

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

Board Members

As at 31 December 2017, the Board comprised seven Directors, including four executive Directors and three INEDs.

Executive Directors

Mr. Xu Bin *(Chairman)*
Mr. Zhang Fusheng *(Chief Executive Officer)*
Mr. Ng Ying Kit
Ms. Huo Lijie

Independent Non-Executive Directors

Mr. Kwok Chi Shing
Mr. Huang Shao Ru
Mr. Chang Xuejun

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

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

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

During 2017, the Company had INEDs who have appropriate and sufficient experience and qualifications to carry out their duties so as to protect the interests of the Shareholders. The Company has received an annual confirmation from each of the INEDs as at 31 December 2017 on their respective independence pursuant to Rule 3.13 of the Listing Rules and the Company considered each of them to be independent. Mr. Kwok Chi Shing, Mr. Huang Shao Ru and Mr. Chang Xuejun are currently the INEDs.

Board Members (Continued)

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

Directors	Number of regular board meeting attended/ held	Regular board meeting attendance percentage	2016 AGM Attended/ held	2016 AGM Attendance percentage	2017 EGM Attended/ held	2017 EGM Attendance percentage
Mr. Xu Bin (1)	3/4	75%	1/1	100%	1/1	100%
Mr. Zhang Fusheng	4/4	100%	1/1	100%	1/1	100%
Mr. Ng Ying Kit	4/4	100%	1/1	100%	1/1	100%
Ms. Huo Lijie	4/4	100%	1/1	100%	1/1	100%
Mr. Kwok Chi Shing (2)	4/4	100%	1/1	100%	1/1	100%
Mr. Huang Shao Ru (3)	4/4	100%	0/1	0%	1/1	100%
Mr. Chang Xuejun (2)	4/4	100%	1/1	100%	0/1	0%

Notes:

(1) Mr. Xu Bin attended the 2016 AGM and the 2017 EGM by telephone conference call.

(2) Mr. Kwok Chi Shing and Mr. Chang Xuejun attended the 2016 AGM by telephone conference call.

(3) Mr. Huang Shao Ru attended the 2017 EGM by telephone conference call.

(4) The 2016 AGM and the 2017 EGM were held on 23 June 2017 and 10 July 2017 respectively.

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

Corporate Governance Functions

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

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

Remuneration Committee

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

As at 31 December 2017, the Remuneration Committee comprised two INEDs, namely Mr. Huang Shao Ru (the chairman) and Mr. Chang Xuejun, and one executive Director, Mr. Xu Bin.

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

During 2017, one meeting was held by the Remuneration Committee to review the Company's remuneration policy, determine the remuneration packages for executive Directors, make recommendations of the remuneration of non-executive Directors to the Board and approve the terms of the service agreements for executive Directors. The attendance record of each member of the Remuneration Committee is as follows:

	Number of the Remuneration Committee meeting attended/held	**Attendance percentage**
Mr. Huang Shao Ru	1/1	100%
Mr. Xu Bin	1/1	100%
Mr. Chang Xuejun	1/1	100%

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

Nomination Committee

The Company established the Nomination Committee in September 2005.

As at 31 December 2017, the Nomination Committee comprised two INEDs, namely Mr. Huang Shao Ru (the chairman) and Mr. Chang Xuejun, and one executive Director, Mr. Xu Bin.

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

During 2017, one meeting was held by the Nomination Committee to review the structure, size and composition of the Board and make recommendations to the Board on appointment of Directors. The attendance record of each member of the Nomination Committee is as follows:

	Number of the Nomination Committee meeting attended/held	Attendance percentage
Mr. Huang Shao Ru	1/1	100%
Mr. Xu Bin	1/1	100%
Mr. Chang Xuejun	1/1	100%

Audit Committee

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

As at 31 December 2017, the Audit Committee comprised three INEDs, namely Mr. Kwok Chi Shing (the chairman), Mr. Huang Shao Ru and Mr. Chang Xuejun. Among them, Mr. Kwok Chi Shing possesses appropriate professional accounting and related financial management expertise in compliance with the requirements set out in Rules 3.10(2) of the Listing Rules.

Audit Committee (Continued)

The Audit Committee held three meetings during 2017 to review interim and annual financial results and reports, significant issues on the financial reporting and compliance procedures, internal control and risk management systems, the effectiveness of the Group's internal audit function and scope of work and appointment of external auditors. Details of the attendance of the Audit Committee meetings are as follows:

	Number of the Audit Committee meeting attended/ held	Attendance percentage
Mr. Kwok Chi Shing	3/3	100%
Mr. Huang Shao Ru	3/3	100%
Mr. Chang Xuejun	3/3	100%

During 2017, the Group's unaudited interim results for the six months ended 30 June 2017 and annual audited results for 2017 had been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure had been made.

Directors' Training

Pursuant to A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. From time to time, the Directors are provided with written materials to develop and refresh their professional skills. The Directors had fulfilled the relevant requirements under A.6.5 of the CG Code during 2017.

Company Secretary's Training

Pursuant to Rule 3.29 of the Listing Rules, the company secretary of the Company (the "**Company Secretary**") must take no less than 15 hours of relevant professional training in each financial year. The Company Secretary, Ms. Wan Shui Wah, provided her training records to the Company, indicating that she has taken no less than 15 hours of relevant professional training by means of attending seminars and reading relevant guideline materials during 2017.

Independent Auditor's Remuneration

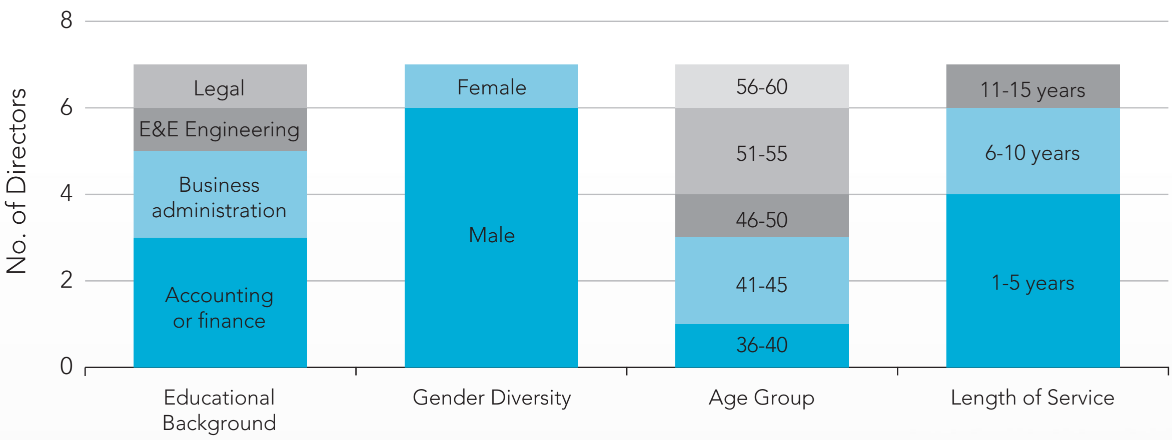
The Audit Committee is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. The fees received and receivable by the independent auditor of the Company in respect of audit services and non-audit services for 2017 amounted to approximately HK$1,000,000 (2016: HK$1,000,000) and HK$80,000 (including review the disclosure of 2017 interim report according to the agreed-upon procedures and continuing connected transactions of the Group for 2017) (2016: HK$23,000, including review of continuing connected transactions of the Group for 2016) respectively.

Board Diversity Policy

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

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

As at the date of this annual report, the current Board composition under diversified perspectives is set out as follows:



Remuneration of Directors and Senior Management

Particulars of the Directors' remuneration for 2017 are set out in Note 14 to the consolidated financial statements.

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of the senior management (other than the Directors) whose particulars are contained in the section headed "Profiles of Directors and Senior Management" in this annual report for 2017 by band is set out below:

Remuneration band	**Number of individuals**
Nil – HK$1,000,000	1
HK$1,000,001 – HK$1,500,000	2
HK$1,500,001 – HK$2,000,000	–
HK$2,000,001 – HK$2,500,000	1
	4

Directors' and Independent Auditor's Responsibilities for Financial Statements

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Group for 2017.

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

In addition, BDO Limited has stated in the independent auditor's report its reporting responsibilities on the Company's consolidated financial statements for the year ended 31 December 2017.

Risk Management and Internal Controls

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

The Company has not established an internal audit department and the Directors are of the view that given the size, nature and complexity of the business of the Group, it would be more cost effective to appoint external independent professional firms to perform the internal audit function for the Group in order to meet its needs.

The Board conducted a review and assessment of the effectiveness of the Group's risk management and internal control systems and procedures in 2017 through the discussions with all the business segments heads, the management of the Group and members of the Audit Committee. The review covered financial, operational and compliance controls, which include fixed assets management, purchasing and payment cycle, inventory management, credit risk management and payroll handling, to ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting functions. The management of each business segment was responsible for its daily operations and operational risks and implementation of mitigation measures. The Board considers that the risk management and internal control systems are effective and adequate and that the Company has complied with the code provisions relating to risk management and internal control of the CG Code.

The Company is aware of its obligation under the SFO, the Listing Rules and the overriding principle that inside information should be announced on a timely manner and conducts its affairs in strict compliance with the applicable laws and regulations prevailing in Hong Kong. The Company has established disclosure mechanism regarding the procedures of identifying inside information and preserving its confidentiality until proper dissemination with the Board's approval through the electronic publication systems operated by the Stock Exchange and the Company.

Constitutional Documents

There were no changes in the constitutional documents of the Company during 2017.

Shareholders' Rights

Convening of EGM and putting forward proposals

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

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

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

Investors' Relations

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. Introduction

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

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

2. Reporting Framework

The report follows the ESG reporting Guide, as set out in Appendix 27 to the Listing Rules.

3. Reporting Scope

The Group's PRC operation represents the majority of the Group's environmental and social impacts, and the impacts from its headquarter office in Hong Kong is minimal; its emission information will not be disclosed. Thus, this ESG report content is focused solely on the mining site of Coal Mining Business in Inner Mongolia, the PRC, unless stated otherwise.

The reporting period of this report is from 1 January 2017 to 31 December 2017 (referred to as the "Reporting Period" or the "Year 2017").

4. Stakeholder Engagement

The Group believes that understanding the views of its stakeholders lays a solid foundation to the long-term growth and success of the Group. The Group has developed multiple channels to a broad spectrum of stakeholders in order to understand their views on its sustainability performance and future strategies. The information collected through different communication processes serves as an underlying basis for the structure of this ESG Report.

Stakeholders	Engagement channels	Possible concerned issue
Investors	Annual report, annual general meetings, corporate website	Business strategies and financial performance, corporate governance, business sustainability
Customers	Direct communication and emails, opinion boxes	Service quality, timely service, customers security, privacy protection
Employees	Interviews, trainings, internal memos	Rights and benefits, employee compensation, training and development, work hours, occupational health and safety
Suppliers and business partners	Business meetings, tender	Fulfillment of promises, payment schedule
Government	Tax return	Compliance to the law and regulations, fulfillment of tax obligation
Local community	Developing community activities, employee voluntary activities, donations and sponsorships	Business ethics, fair employment opportunities, collaborative development, environmental protection

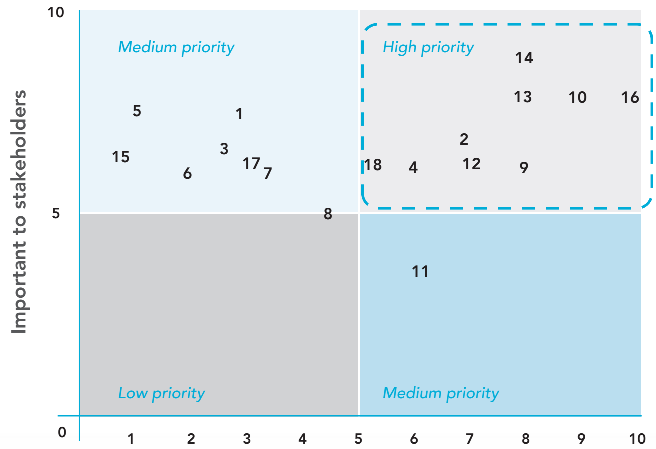
5. Materiality Assessment

ESG aspects as set out in ESG Guide				Material ESG issues for the Group	
A.	**Environmental**	A1	Emissions	1. 2. 3.	Air Emission Greenhouse Gas Emission Waste Management
		A2	Use of Resources	4. 5. 6.	Energy Consumption Water Consumption Paper Consumption
		A3	The Environment and Natural Resources	7.	Environmental Risk Management
B.	**Social**	B1	Employment	8. 9.	Human Resources Practices Equal Opportunity
		B2	Health and Safety	10.	Employees' Health and Workplace Safety
		B3	Development and Training	11.	Employee Development
		B4	Labor Standards	12.	Anti-child and Forced Labor
		B5	Supply Chain Management	13.	Supplier Practices
		B6	Product Responsibility	14. 15. 16.	Product Quality Customers Satisfaction Protection of Customers Privacy
		B7	Anti-corruption	17.	Anti-corruption and Money Laundering
		B8	Community Investment	18.	Community Care

Based on the information collected from the Group's stakeholders and assessments of their importance on business, the Group has identified the areas being concerned most by both our stakeholders and us as follows:

Based on the assessment, the following topics have the highest materiality impact to both our business and to stakeholders.

Materiality Matrix



Number	Topics
2	Greenhouse Gas Emission
4	Energy Consumption
9	Equal Opportunity
10	Employees' Health and Workplace Safety
11	Employee Development
12	Anti-Child and Forced Labor
13	Supplier Practices
14	Product Quality
16	Protection of Customers Privacy

These areas will become the leading priorities in our ESG strategy. We believe that they will contribute significantly to our sustainable development in the long term basis.

Our Corporate Social Responsibility

We have integrated various aspects of environmental and social topics, applicable to the Group and its subsidiaries with objectives as follows:

- To uphold economic, environmental and social aspects beyond legal obligation in our long-term business strategies.
- To embed environmental stewardship into our business culture, consider the full scope of our impact on the natural environment and communities.
- To look into social-economic aspects, develop global strategies that have local relevance to help to build a sustainable and profitable future for all.
- To increase informative channels to enhance our stakeholders' knowledge in environmental friendly practices that could lead to enhanced operational efficiencies and cost savings.

Area A: Environmental Responsibility

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

The Group understands that all coal mining processes generate wastes for the environment and, if not treated responsibly, more pollution would be generated in the future. Thus, the Group is fully devoted to the implementation of all kind of measures and policies to better control the adverse impact of the business on the ecological environment. The Group is committed to fulfill sustainable development and promote preservation of resources with its environmental responsibility. We strictly comply with all appropriate laws and regulations of the Ministry of Environmental Protection of the PRC.

The Group strictly follows respective laws and regulations of the central and local governments, and carried out environmental impact assessment reports, and water conservation plan. The Group has implemented environmental management systems and programs relevant to our environmental risk to prevent, reduce or mitigate impacts at all stages of our operation, with an aim to reserve a better environment for our future generation.

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

Environmental Management

The implementation of environmental management could result in having higher resources recovery efficiency, more clean coal and improving the operating industrial efficiency, profitability, company reputation and competitiveness.

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

The Group's environmental management team is responsible for the implementation and monitoring of environmental management plans and programs. The team identifies and addresses possible measures to reduce the adverse impacts of its operation on the environment. The Group's environmental management team is also responsible for ensuring timely execution and submission of environmental plans and reports to related authorities, and obtaining the requisite licenses and permissions.

The environmental management team works to ensure that we have complied with the relevant environmental legislation, including but not limited to:

- The Coal Law of the PRC
- Mineral Resources Law of the PRC
- The Protection of the Geologic Environment of Mines Regulation
- Regulations on Land Reclamation

Aspect A1: Emission

The Group took practicable and possible measure to comply with the relevant laws and regulations relating to environment protection.

A1.1 Air Emission

The Group strives to improve the air quality at the roadside and improve traffic flow problem. The Group encourages its employees to use public transportation to replace many separate emission-producing vehicles with few transit vehicles that generally emit less pollution on a per person basis.

During the Reporting Period, the Group has established assessment on whether air monitoring results meet with the requirement of the "Ambient Air Quality Standards" in the PRC.

Emission data from gaseous fuel consumption

The air emission generated from the Group's use of internal combustion engines is 4,922 kg of Sulphur Oxides (SOx) and 989,322 kg of Nitrogen Oxide (NOx).

Emission data from vehicles

The air emission generated from the Group's use of vehicles is 7.85 kg of Sulphur Oxides (SOx), 8,875.05 kg of Nitrogen Oxide (NOx) and 647.64 kg of Particulate Matter (PM).

A1.2 Greenhouse Gases Emissions

The Group generates material amounts of greenhouse gas mainly from direct emissions from purchased electricity. The Group recognise that protecting its environment from pollution and exhaustion is vital to the sustainable development; the Group has worked to minimise the emissions and its environmental hazard.

The information of the Group's business carbon footprint is shown as follows:

(i) Greenhouse Gas Emission from 1 January 2017 to 31 December 2017

Emission Sources	**Year 2017 CO_2e Emission (tonnes)**	**Total Emission (in percentage)**
Scope 1		
Direct Emission		
Gaseous Fuel Consumption	16.14	0.11%
Company Vehicles	1,299.60	8.51%
Sub total	1,315.74	8.62%
Scope 2		
Indirect Emission		
Purchased Electricity	13,710.82	89.78%
Scope 3		
Other Indirect Emission		
Paper Waste disposed at landfills	1.10	0.01%
Emission from		
Fresh water processing	75.58	0.49%
Sewage treatment	23.08	0.15%
Solid waste processing	145.50	0.95%
Sub total	245.26	1.60%
Total	15,126.33	100%

During the Reporting Period, there were 15,126.33 tonnes of carbon dioxide equivalent greenhouse gases emitted from the production. With the production volume of 1.18 million tonnes of coal, the annual emission intensity was 0.01 tCO2e per tonnes of coal produced.

Hazardous Waste

The waste forms spoil tip that has potential hazards to the communities, which means the waste sites could become hazardous if an event such as a storm or a structural failure caused a leakage. Thus, dust and air quality are significant issues for its neighboring communities, and minimising the effects of these impacts from our operation will remain a key focus for us.

During the Group's mining operations, waste disposal is minimal since most materials mined are either stockpiled as low grade or hauled or drying areas for eventual shipment. General solid waste is buried or burnt at the designated rubbish disposal area permitted by the local authorities which is far away from water systems and human traffic. General liquid waste is delivered to the sewage treatment plant in the local province center.

Waste created by repairs of machinery and equipment (grease oil and antifreeze), absorbent materials, towels, oil filters containing technical oil and grease, soil contaminated by fuel, grease and technical oil, liquid waste created and disposed by the waste disposal department.

In addition, the Group has prepared training materials to educate employees on waste segregation and general waste management practices. Special waste disposal areas were identified and built within the site. The Group's environmental management team also conducted internal control in accordance with its waste management and occupational safety system as well as the relevant laws and regulations relating to garbage and industrial waste management with an aim to ensure that the Group has improved and developed the controllable management continuously.

Non-hazardous Waste

The Group has signed an agreement with the local waste disposal and collection institution. The Group has clearly stipulated the disposal and management of the engineering waste and equipped with a separator to detect the waste discharged from the mining process. After treatment in the separator, the waste water will enter the sewage treatment tank and be treated by a qualified processing unit when it reaches a certain amount.

During the Reporting Period, the Group has generated 97 tonnes of non-hazardous waste in the production process.

Aspect A2: Use of Resources

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

Energy Use Efficiency

To minimise the impact of its business operation on the environment, the Group's energy management team has implemented delegation of responsibilities to the operation control system for power supply, and has implemented measures to achieve additional energy savings and reduce gas emissions. Regular inspections by senior management are also carried out to ensure smooth operating procedures.

The Group's energy management team responsibilities including but not limited to:

- Investigate corporate policies with respect to energy savings;
- Data acquisitions, examine the efficiencies of energy supply, and the cost/benefits of upgraded equipment;
- Set energy target and objective for promotion of corrective and prevent actions; and
- Regularly educate relevant departments of the Group on energy conservation.

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

During the Reporting Period, the Group has consumed 15.50 million kWh of electricity, and its intensity was 13.14 kWh per tonnes of coal produced.

Water Efficiency Initiative

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

During the Reporting Period, the Group implemented the following policies on the effective use of natural resources:

- *Incorporated geotextile filters in the drainage system*
  It retains and prevents fine grains of soil from passing into and clogging the drain;
- *Installed sewage treatment plants*
  Wastewater is discharged after it meets the discharge standards according to the "Integrated Wastewater Discharge Standard" stipulated by the Ministry of Environmental Protection of the PRC;
- *A rational use of drainage time*
  Sewage pumping station handles peak flow conditions by combining the drainage time and electricity peak period together which allows us to achieve the goal of efficient use of resources; and
- *Reuse of treated wastewater*
  After wastewater is being treated, it will be reused in the water spraying system to minimise the usage of water while controlling dust in the air.

During the Reporting Period, the Group has consumed 188,000 tonnes of water, and its intensity was 0.16 tonnes of water per tonnes of coal production.

Aspect A3: The Environment and Natural Resources

Dust Control

During the Reporting Period, the Group has continued to take appropriate measures to reduce the amount of dust generated in the vicinity of the mine site and the coal haul road in accordance with the environmental management team's dust generation management plan. The Group's dust prevention measures including but not limited to:

I. *Construction of environmental facilities*
Built a storage facility that holds the non-combustible ingredients of coal, the ash trapped by equipment that is designed to reduce air pollution;

II. *The construction methodology of mine haulage roads*
Roads are enhanced in particular using carefully selected dust suppressing materials to reduce propensity for dust generation;

III. *Water sprinkler system*
Regularly spray treated waste water during various stages of the coal handling process and on the haulage mine roads;

IV. *Building and maintenance of dedicated facilities for dust reduction*
Special wire fence surrounds the coal stockpile is built to reduce wind speed and dust dispersion in the area;

V. *Transport coal in covered trucks*
Always apply temporary covers to control dust moving from the site to the area outside; and

VI. *Speed limits enforcement*
Speed limits are set for heavy machinery and light trucks during transpiration of coals.

Noise Control

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

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

Area B: Social Responsibility

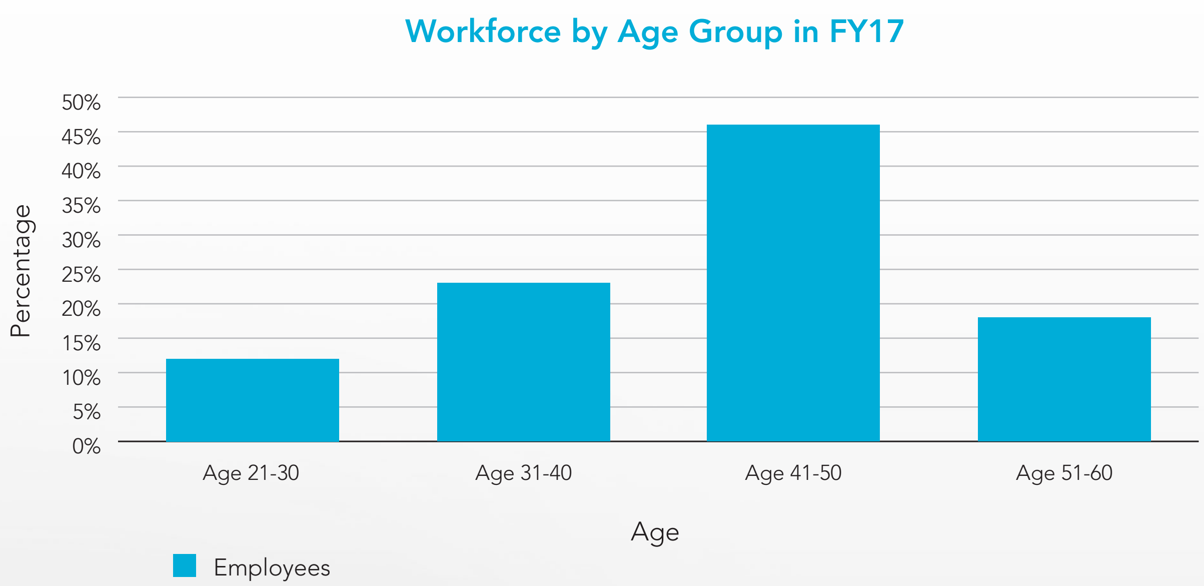
The Group believes building strong and lasting relationship with its employees and suppliers is essential to its on-going commitment as a socially responsible miner. Besides, maintaining an honest and authentic dialogue is indispensable to be a responsible organisation and partner to its stakeholders.

Aspect B1: Employment

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

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

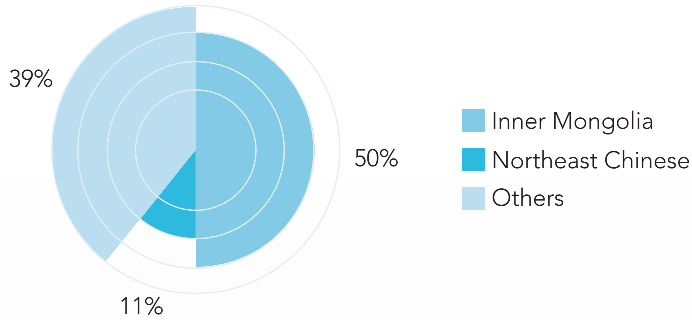
The Group's workforce by age group is shown as follows:



The chart represents the distribution of the workforce population for four different age groups. In Year 2017, the total number of employees at the middle age group is the largest age group of workforce, ranging from age 41 – 50 made up of 46 percent of the total workforce; while the youngest and oldest age groups, age 21 – 30 and 51 – 60 accounted for 12 percent and 19 percent of the population respectively. Besides, the middle working-age groups are ages 31 to 40 represents 24 percent of the workforce.

As a responsible corporate citizen, the Group actively searches for opportunities to improve its relationship with the local citizens. The Group has continued its efforts to retain its employees, train and hire local people whenever possible during the reporting period. The Group has created job opportunities for the local community and has provided different level of job positions from miner to management level. Employees from Inner Mongolia and the northeast provinces accounted for approximately 39% and 50% of the workforce respectively while employees from other provinces in the PRC accounted for 11% of the workforce.

Employee Distribution by Region in FY17



Aspect B2: Health and Safety

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

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

During the Reporting Period, the Group had 9 lost days due to work injury, and 0 work-related fatality.

Workplace Safety Management

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

During the Reporting Period, the Group was not aware of any case of violations of laws and regulation in relation to the health and safety of the workplace. The Group has complied with relevant laws and regulations in relation to provide employees with a safe working environment and protect them from occupational hazards, the relevant production safety laws and regulations, including but not limited to, the Safety Production Law of the PRC, and The Mining Safety Law of the PRC.

Aspect B3: Development and Training

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

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

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

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

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

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

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

Aspect B4: Labor Standards

All of staff employed by the Group is located in the PRC. The Group has established and implemented a staff handbook which contains the policies relating to relevant labor laws, regulations and industry practices, covering areas such as compensation and dismissal, promotion, working hours, rest periods and other benefits and welfare. With the aim of ensuring fair and equal protection for all employees, the prohibition of child labor, forced labor and anti-corruption practices are also set in accordance with all relevant laws and regulations that applied in the PRC. The Group has strictly complied with the all rules throughout the Year 2017 and did not aware of any significant violation of human resources-related laws and regulations.

Aspect B5: Supply Chain Management

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

Fair and Open Competition

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

Public Interest and Accountability

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

Aspect B6: Product Responsibility

The Group adopts cleaner and responsible coal production as a preventive approach to environmental management; the Group encompasses eco-efficiency and pollution prevention concepts with risk reduction to human and the environment. Thus, in order to minimise environmental harm at every stage of its mining operation, the Group is in conformity with all the relevant PRC standards and regulation, and fully devoted to regularly monitor and measure its activities to ensure they are acceptable according to national standards. During the Reporting Period, the Group was not aware of any coal production related policies and regulation; its production volume is approximately 1.18 million tonnes and sales was 0.93 million tonnes marketed locally in Year 2017.

Aspect B7: Anti-corruption

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

Aspect B8: Community Investment

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

As a responsible corporate citizen, the Group actively searches for opportunities to improve its relationship with the local citizens. The Group has continued its efforts to retain its employees, train and hire local people whenever possible during the Reporting Period. The Group has created job opportunities for the local community and has provided different level of job positions from miner to management level.

Furthermore, the Group has started replanting and rebuilding the land that they have caused damage, and worked in accordance with the Ministry of Land and Resources of the PRC through watering the soil with treated wastewater sprinkler and direct seeding around its mining sites in hopes of restoration of vegetation.

6. Sustainability

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

DIRECTORS' REPORT

The Directors are pleased to present their report and the audited consolidated financial statements of the Group for the financial year ended 31 December 2017.

Principal Activities

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

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

Business Review

A fair review of the business of the Group as well as discussion and analysis of the Group's performance during 2017 and the material factors underlying its financial performance are set out in the section headed "Management Discussion and Analysis" on pages 9 to 20 of this annual report.

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

Results and Dividend

The results of the Group for 2017 are set out in the consolidated statement of profit or loss and consolidated statement of profit and loss and other comprehensive income on pages 67 to 68.

The Directors do not recommend the payment of a final dividend for 2017 (2016: Nil).

Share Capital

Details of the movements in the share capital of the Company are set out in Note 33 to the consolidated financial statements.

Reserves

Details of the movements in the reserves of the Group and the Company during 2017 are set out in consolidated statement of changes in equity and Note 36 to the consolidated financial statements respectively.

Distributable Reserves

As at 31 December 2017, the Company had reserves available for distribution, calculated in accordance with the provisions of the Cayman Islands Companies Law, amounting to approximately HK$135,282,000. The share premium account of the Company of approximately HK$96,935,000 as at 31 December 2017 is distributable to the Shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

Property, Plant and Equipment

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

Directors

The Directors during 2017 and up to the date of this annual report were:

Executive Directors

Mr. Xu Bin
Mr. Zhang Fusheng
Mr. Ng Ying Kit
Ms. Huo Lijie

INEDs

Mr. Kwok Chi Shing
Mr. Huang Shao Ru
Mr. Chang Xuejun

In accordance with articles 84(1) and 84(2) of the Amended and Restated Memorandum and Articles, Ms. Huo Lijie, Mr. Chang Xuejun and Mr. Kwok Chi Shing will retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Pursuant to code provision A.4.3 of the CG Code (Appendix 14 to the Listing Rules), any further appointment of independent non-executive director serving more than nine years should be subject to a separate resolution to be approved by shareholders. Mr. Kwok Chi Shing is an INED serving the Company for more than nine years. The Board considered that Mr. Kwok Chi Shing continues to be independent as he has satisfied all the criteria for independence set out in Rule 3.13 of the Listing Rules. During his tenure as an INED, he has made positive contributions to the Company's strategies and policies with independent judgement from his areas of expertise. The Board considered that his continued tenure with the Company will continue to bring wide range of valuable insights and expertises to the Board. A separate resolution will be proposed for his re-election at the forthcoming annual general meeting of the Company.

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

Directors' Service Contracts

Executive Directors

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

INEDs

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

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

Confirmation of Independence of INEDs

The Company has received from each of the INEDs, who acted in such capacities during 2017, an annual confirmation of independence. The Company considered that each of its INEDs as at the date of this annual report to be independent pursuant to the criteria set out in the Listing Rules.

Biographical Details of Directors and Senior Management

The profiles of the Directors and senior management are set out on pages 21 to 23 of this annual report.

Five-Year Financial Summary

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

Directors' Material Interests in Transactions, Arrangements or Contracts

Save as disclosed in the paragraph headed "Connected transactions and continuing connected transactions" below, no other transactions, arrangements or contracts of significance to which the Company or its subsidiaries was a party subsisted at the end of 2017 or at any time during 2017 in which any Director, whether directly or indirectly, had a material interest.

Directors' Interest in Competing Business

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

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

As at 31 December 2017, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

	Capacity and nature of interest in Shares			Capacity and nature of interest in underlying Shares pursuant to share options				
Name	Personal Interests	Corporate Interests	Total Interests	Personal Interests	Family Interests	Total Interests	Aggregate Interests	Approximate percentage of total issued share capital of the Company as at 31 December 2017
Mr. Xu Bin	24,365,629	131,788,686 (Note 1)	156,154,315	4,500,000	–	4,500,000	160,654,315	10.69%
Mr. Ng Ying Kit	–	–	–	2,250,000	–	2,250,000	2,250,000	0.15%
Ms. Huo Lijie	–	–	–	2,250,000	–	2,250,000	2,250,000	0.15%
Mr. Kwok Chi Shing	–	–	–	225,000	–	225,000	225,000	0.01%
Mr. Huang Shao Ru	–	–	–	225,000	–	225,000	225,000	0.01%

Notes:

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

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

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

Save as disclosed above, as at 31 December 2017, none of the Directors and the chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Substantial Shareholders

As at 31 December 2017, so far as is known to the Directors or the chief executive of the Company based on the register maintained by the Company pursuant to Section 336 of the SFO, the following persons (other than the Directors or the chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Name	Capacity/ Nature of interest	Number of Shares or underlying Shares	Approximate percentage of the total issued share capital of the Company as at 31 December 2017
HK Hang Kei	Beneficial owner	131,788,686 (Note 1)	8.77%
Ms. Shao Ze Yun	Interest of spouse	160,654,315 (Note 2)	10.69%

Notes:

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

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

Save as disclosed above, as at 31 December 2017, the Directors and the chief executive of the Company were not aware of any other person (other than Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

Share Option Scheme

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

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

On 30 April 2015 (the "**First Date of Grant**"), the Company granted certain share options comprising 14,400,000 underlying Shares, which represented approximately 3.14% of the total issued share capital of the Company as at that date, to certain Directors, employees and other Eligible Participants. Such share options were vested immediately and exercisable for a ten-year period from 30 April 2015 to 29 April 2025 (both days inclusive). The exercise price of the share options granted was HK$0.710 per Share, which was higher than the highest of (i) closing price of HK$0.700 per Share on the First Date of Grant; (ii) the average closing price of HK$0.708 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the First Date of Grant; and (iii) the nominal value of HK$0.500 per Share as at the First Date of Grant.

On 28 July 2015 (the "**Second Date of Grant**"), the Company granted certain share options comprising 11,250,000 underlying Shares, which represented approximately 2.23% of the total issued share capital of the Company as at that date, to certain Directors and employees. Such share options were vested immediately and exercisable for a ten-year period from 28 July 2015 to 27 July 2025 (both days inclusive). The exercise price of the share options granted HK$0.530 per Share, which was the highest of (i) the closing price of HK$0.465 per Share on the Second Date of Grant; (ii) the average closing price of HK$0.530 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the Second Date of Grant; and (iii) the nominal value of HK$0.500 per Share as at the Second Date of Grant.

Share Option Scheme (Continued)

Particulars of the share options under the 2009 Scheme outstanding during 2017 were as follows:

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

Name of Directors	Date of Grant	Exercisable Period	Number of underlying Shares comprised in share options Balance as at 1 January 2017	Granted During 2017	Exercised During 2017	Cancelled/ Lapsed During 2017	Balance as at 31 December 2017	Exercise Price Per Share (HK$)
Executive Directors								
Mr. Xu Bin	28 July 2015	28 July 2015 to 27 July 2025	4,500,000	–	–	–	4,500,000	0.530
Mr. Ng Ying Kit	30 April 2015	30 April 2015 to 29 April 2025	2,250,000	–	–	–	2,250,000	0.710
Ms. Huo Lijie	28 July 2015	28 July 2015 to 27 July 2025	2,250,000	–	–	–	2,250,000	0.530
			9,000,000	–	–	–	9,000,000	
Independent Non-Executive Directors								
Mr. Kwok Chi Shing	30 April 2015	30 April 2015 to 29 April 2025	225,000	–	–	–	225,000	0.710
Mr. Huang Shao Ru	30 April 2015	30 April 2015 to 29 April 2025	225,000	–	–	–	225,000	0.710
			450,000	–	–	–	450,000	
Total			9,450,000	–	–	–	9,450,000	

Share Option Scheme (Continued)

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

	Date of Grant	Exercisable Period	Number of underlying Shares comprised in share options Balance as at 1 January 2017	Granted During 2017	Exercised During 2017	Cancelled/ Lapsed During 2017	Balance as at 31 December 2017	Exercise Price Per Share (HK$)
Employees and Eligible Participants	30 April 2015	30 April 2015 to 29 April 2025	3,825,000	–	–	(3,375,000)	450,000	0.710
			3,825,000	–	–	(3,375,000)	450,000	

The maximum number of Shares to be issued upon exercise of all share options to be granted under the 2009 Scheme was refreshed to 50,347,716 shares (the "**Scheme Mandate**") on 15 June 2015, being 10% of the total issued share capital of the Company as at the date of passing of an ordinary resolution by the Shareholders to approve the refreshment of the Scheme Mandate. As at 31 December 2017, the number of Shares to be issued upon the exercise of the outstanding options under the 2009 Scheme was 9,900,000 Shares, representing 0.66% of the total issued share capital of the Company as at 31 December 2017.

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

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

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

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

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

Connected Transactions and Continuing Connected Transactions

During 2017, the Group had the following connected transactions, details of which have been disclosed in compliance with the requirements in accordance with the Listing Rules:

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

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

Pursuant to the License Agreement, Mr. Xu, as the licensor of the Proprietary Technology, shall grant the Group a non-exclusive right to use the Proprietary Technology in the PRC to produce up to 500,000 tonnes of upgraded coal for each calendar year during the terms of the License Agreement and the Company shall pay a nominal license fee of HK$1.00 to Mr. Xu. The MOU does not constitute any legally-binding commitment in respect of the Potential Acquisition. Unless terminated earlier, the License Agreement shall be valid until 31 December 2016 (the "**License Agreement Expiry Date**") and Mr. Xu, Gouden Kolen and the Company have mutually agreed in writing to extend the Expiry Date of the License Agreement to 31 December 2017. On 29 December 2017, the License Agreement Expiry Date was further extended to 31 December 2018, or such later date as may be agreed by Mr. Xu, Gouden Kolen and the Company.

As the relevant applicable percentage ratios set out in Rule 14.07 of the Listing Rules (the "**Percentage Ratios**") in respect of the transactions contemplated under the License Agreement are less than 5% and the annual consideration is less than HK$3,000,000, the License Agreement and the transactions contemplated thereunder constitute a de minimis continuing connected transaction for the Company, which are exempted from the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Please refer to the announcements of the Company dated 1 December 2015, 30 December 2016 and 29 December 2017 for details.

Connected Transactions and Continuing Connected Transactions (Continued)

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

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

The 2017 annual cap for the (1) leasing of a station platform, and (2) provision of coal loading and unloading services at the designated station platform under the Logistics Agreement for the year was RMB13,000,000 (approximately HK$15,610,000) and there was no amount paid by Inner Mongolia Jinyuanli during 2017.

The related party transactions set out in Note 41 to the consolidated financial statements constitute connected transactions of the Company under Chapter 14A of the Listing Rules but are exempted from the reporting, announcement and independent Shareholders' approval requirements.

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

* *For identification purpose only*

Connected Transactions and Continuing Connected Transactions (Continued)

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

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

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

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during 2017.

Equity-linked Agreements

Saved for the share option scheme described above, the Group has not entered into any equity-linked agreements during 2017.

Convertible Securities, Options, Warrants or Other Similar Rights

Apart from the share options described above, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2017. There had been no exercise of any convertible securities, options, warrants or other similar rights during 2017.

Capital Reduction and Subdivision

In November 2016, the Company proposed to implement a reduction of the issued share capital by reducing the par value of each issued share of the Company from HK$0.50 to HK$0.01 by cancelling the paid up share capital to the extent of HK$0.49 on each issued share so that each issued share shall be treated as one fully paid up share of par value of HK$0.01 each in the share capital of the Company (the "**Capital Reduction**") and each authorised but unissued share of the Company of par value of HK$0.50 each be subdivided into 50 shares of HK$0.01 par value each immediately following the Capital Reduction (the "**Subdivision**"), which were duly passed in the extraordinary general meeting held by the Company on 14 December 2016 and obtained the approval by the Grand Court of the Cayman Islands on 17 March 2017, and the completion of the registration by the Registrar of Companies of the Cayman Islands took place on 22 March 2017. Following the fulfillment of all the conditions precedent for the implementation of the Capital Reduction and the Subdivision, the Capital Reduction and Subdivision became effective after 4:00 p.m. on 22 March 2017 and before 9:00 a.m. on 23 March 2017 in Hong Kong due to time difference between Hong Kong and the Cayman Islands.

Fundraising Activities

On 12 May 2017, the Company entered into a placing agreement with Grand Cartel Securities Co., Ltd. (the "**Placing Agent**") pursuant to which the Company has conditionally agreed to place, through the Placing Agent, on a best-effort basis, a maximum of 1,000,000,000 ordinary Shares of the Company under the specific mandate to be granted by the Shareholders to not less than six placees who and whose ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons as defined in the Listing Rules at a placing price of HK$0.110 per share (the "**Placing**"). All the conditions set out in the placing agreement had been fulfilled subsequently and the Placing was completed on 31 July 2017 in accordance with the terms and conditions of the placing agreement. The gross and net proceeds raised from the Placing were approximately HK$110.0 million and HK$106.8 million respectively, which were intended to be applied for (i) repayment of the overdue construction payables; (ii) development of the Coal Upgrading Business; (iii) repayment of the loan due to a non-controlling shareholder and (iv) the general working capital of the Company.

Use of Net Proceeds from the Placing

The total net proceeds raised from the Placing had been used as follows:

		Net Proceeds HK$ million	**Used Proceeds** HK$ million	**Unused Amount** HK$ million
(i)	Repayment of the overdue construction payables	45.0	(14.7)	30.3
(ii)	Development of the Coal Upgrading Business	25.0	(4.4)	20.6
(iii)	Repayment of the loan due to a non-controlling shareholder	8.0	–	8.0
(iv)	General working capital of the Company	28.8	(8.3)	20.5
		106.8	(27.4)	79.4

Major Customers and Suppliers

Information in respect of the Group's sales attributable to the major customers and suppliers respectively during 2017 are as follows:

	Percentage of the Group's total
	Sales 2017
The largest customer	26%
Five largest customers in aggregate	61%

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

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

Pre-emptive Rights

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

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

During 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Permitted Indemnity Provision

Pursuant to the Amended and Restated Memorandum and Articles, every Director or other officers of the Company shall be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto, and no Director or other officers shall be liable for any loss, damages or misfortune which may happen to be incurred by the Company in the execution of the duties of his/her office or in relation thereto provided that the indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the said persons. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during 2017.

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

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors since the date of the Company's 2017 interim report are set out below:

A one-off performance bonus of HK$360,000 was approved to be given to Mr. Ng Ying Kit on February 2018.

Employees and Retirement Schemes

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

Relationships with Employees, Customers and Suppliers

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

Environmental Policies and Performance

As a responsible corporation, the Company is committed to protecting the environment in the areas where we operate. To ensure our business development and sustainability, the Company endeavors to comply with the laws and regulations regarding environmental protection and to adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. Details of the Group's environmental policies and performance are set out in the section headed "Environmental, Social and Governance Report" on pages 33 to 47 of this annual report.

Sufficiency of Public Float

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

Independent Auditor

RSM Hong Kong resigned as the independent auditor of the Company with effect from 27 September 2017. BDO Limited was appointed as the independent auditor of the Company on 27 September 2017 to fill the casual vacancy following the resignation of RSM Hong Kong as the independent auditor of the Company and to hold office until the conclusion of the forthcoming annual general meeting of the Company. Save as disclosed above, there were no other changes in the independent auditor of the Company in the preceding three years.

The consolidated financial statements for the year ended 31 December 2017 have been audited by BDO Limited who will retire and being eligible, will offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of BDO Limited as the independent auditor of the Company will be proposed as the forthcoming annual general meeting of the Company.

By order of the Board

Xu Bin
Chairman

Hong Kong, 23 March 2018

INDEPENDENT AUDITOR'S REPORT

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

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of Grand Ocean Advanced Resources Company Limited (the "**Company**") and its subsidiaries (together the "**Group**") set out on pages 67 to 136, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Disclaimer of Opinion

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

In the audit of the Group's consolidated financial statements for the year ended 31 December 2016, the predecessor auditor was unable to obtain sufficient appropriate audit evidence in their review of the impairment assessment made by the directors of the Company for the coal cash generating unit ("**Coal CGU**") prepared on the value in use basis. As stated in the predecessor auditor's report in relation to the cash flow forecast, one of the assumptions is the estimated production volume over the forecast period. The cash flow forecast was based on the pre-approved production limit of 1,200,000 tonnes per annum in accordance with the exclusive mining right agreement signed with the owner of coal mine. However, subsequent to the mining agreement the local government imposed a policy to reduce the production limit by around 16%. In preparing the impairment assessment for the year ended 31 December 2016, the directors of the Company considered that the temporarily resumption of production from 21 November 2016 to 30 May 2017 granted by the local government in 2016 will extend further during the forecast period.

Basis for Disclaimer of Opinion (Continued)

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

The predecessor auditor stated in their report that they were unable to obtain sufficient appropriate audit evidence to support the reasonableness of the revenue stated in the forecast. As a result, the predecessor auditor was unable to determine whether the recoverable amount of the Coal CGU has been overstated or any further impairment on the carrying amounts of the Coal CGU assets was required.

Due to the inability to obtain the above information, the predecessor auditor was unable to determine whether it was probable that there would be sufficient taxable profits available against which the deferred tax assets of approximately HK$13,013,000 as at 31 December 2016 can be utilised and therefore whether the carrying amount of the deferred tax assets has been fairly stated at the end of the reporting period.

The aforesaid limitations have not been subsequently resolved during our audit of the consolidated financial statements for the year ended 31 December 2017.

Accordingly, any adjustments to the impairment loss on property, plant and equipment of HK$73,422,000, impairment loss on intangible asset of HK$17,573,000 and tax credit of HK$4,100,000 included in income tax expense reflected in profit or loss for the year ended 31 December 2016 would affect the carrying amount of the property, plant and equipment, intangible assets and deferred tax assets at 31 December 2016.

Our opinion on the consolidated financial statements for the year ended 31 December 2017 is also modified because of the possible effects of these matters on the comparability of the current year's figures and the corresponding figures.

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

Since April 2013, the Group has been in progress to construct a new coal upgrading plant at Xilinhaote City, Inner Mongolia, the People's Republic of China (the "**PRC**") with a maximum annual capacity of two million tonnes of upgraded coal output. The first phase of coal upgrading facilities with annual output of 500,000 tonnes had been substantially completed by the end of December 2015. During the preparation of the trial run in the third quarter of 2017, the coal upgrading plant encountered a technical issue with the autoclaves in relation to the obstruction of the valves during the process of high-pressured steaming. The Group has then employed provisional autoclaves for a small scale of trial production to preclude temporarily such technical issue in the fourth quarter of 2017. By the end of year 2017, approximately 1,200 tonnes of upgraded coals were produced. As at 31 December 2017, the carrying amounts of the Group's property, plant and equipment included plant and machinery and construction in progress of approximately HK$1,904,000 and HK$43,320,000 respectively, and deposits under non-current assets of approximately HK$918,000 belonged to the coal upgrading cash-generating unit (the "**Coal Upgrading CGU**").

Basis for Disclaimer of Opinion (Continued)

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

As described in Note 18(c) to the consolidated financial statements for impairment assessment, the directors of the Company estimated the recoverable amount of the Coal Upgrading CGU at 31 December 2017, by using value in use basis. Based on the impairment assessment, impairment loss of HK$107,847,000 has been recognised in profit or loss in respect of the property, plant and equipment of the Coal Upgrading CGU. The directors of the Company prepared cash flow forecast based on the assumptions that the Coal Upgrading CGU will implement the business plan to commence coal upgrading annual production of 500,000 tonnes in January 2019.

We were unable to assess whether the technical issue mentioned above could be resolved by the end of 2018 so that the coal production of 500,000 tonnes per annum could be achieved in 2019 as no technical report could be obtained.

As a result, we were unable to determine whether the recoverable amount of the Coal Upgrading CGU has been properly determined following the Group's accounting policies as disclosed in Note 4(w) to the consolidated financial statements. There were no other alternative audit procedures that we could perform to satisfy ourselves as to the recoverable amounts of the plant and machinery and construction in progress and deposits under non-current assets approximately of HK$1,904,000, HK$43,320,000 and HK$918,000 respectively as at 31 December 2017 and whether the impairment losses on property, plant and equipment of HK$107,847,000 attributable to the Coal Upgrading CGU and the corresponding movements in the consolidated statement of cash flows were properly stated. Any adjustments to these figures would have consequential effect on the Group's net assets as at 31 December 2017 and its performance and cash flows for the year then ended.

In the audit of the Group's consolidated financial statements for the year ended 31 December 2016, the predecessor auditor stated in their report that, among other limitations, they were unable to obtain sufficient appropriate audit evidence on whether the production line was capable of processing low-rank coal to upgraded coal at stable quality by July 2017. As a result, the predecessor auditor was unable to determine whether the recoverable amount of the Coal Upgrading CGU has been materially overstated or any further impairment on the carrying amounts of the property, plant and equipment of the Coal Upgrading CGU was required and they did not express opinion on the 2016 figures.

Basis for Disclaimer of Opinion (Continued)

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

Accordingly, any adjustments to the impairment loss on goodwill of HK$2,907,000, and impairment loss on property, plant and equipment of HK$49,532,000 reflected in profit or loss for the year ended 31 December 2016 would affect the carrying amount of the property, plant and equipment and goodwill at 31 December 2016.

Our opinion on the consolidated financial statements for the year ended 31 December 2017 is also modified because of the possible effects of these matters on the comparability of the current year's figures and the corresponding figures.

Disagreement on the Measurement of Land Use Right

As further explained in Note 18(b) to the consolidated financial statements, the Group entered into a contract with local anthority in 2013 to acquire the piece of land occupied by the Coal Upgrading CGU and no prepaid land lease payment has been recorded as at 31 December 2017.

Given these circumstances, the directors of the Company have not recognised any amortisation of the above land in the consolidated financial statements which, in our opinion, is not in accordance with Hong Kong Financial Reporting Standards. Based on the straight-line method of amortisation over the useful lives of the land use rights, the loss of the year should be increased by approximately HK$364,000, prepaid lease payments should be increased by approximately HK$17.2 million in 2017 and HK$16.4 million in 2016, other payables should be increased by approximately HK$18.9 million in 2017 and HK$17.7 million in 2016, and the accumulated losses should be increased by approximately HK$1.6 million in 2017 and HK$1.2 million in 2016.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Group incurred a loss attributable to the Group of approximately HK$143,240,000 for the year ended 31 December 2017 and as at 31 December 2017 the Group had net current liabilities of approximately HK$20,255,000. As stated in Note 2, these conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Directors' Responsibilities for the Consolidated Financial Statements

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

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. This report is made solely to you, as a body, in accordance with the terms of our 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.

However, because of the matter described in the "Basis for Disclaimer of Opinion" section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

BDO Limited
Certified Public Accountants
Choi Man On
Practising Certificate no. P02410

Hong Kong, 23 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Continuing operations			
Revenue	7	**111,842**	264,392
Cost of sales		**(96,119)**	(124,893)
Gross profit		**15,723**	139,499
Other income	8	**6,050**	461
Selling and distribution expenses		**(5,608)**	(10,818)
Administrative expenses		**(51,496)**	(67,463)
Impairment loss on property, plant and equipment	18(c)&(d)	**(118,417)**	(122,954)
Impairment loss on goodwill	20	**–**	(2,907)
Impairment loss on intangible asset	21	**(2,477)**	(17,573)
Impairment loss on trade and other receivables		**–**	(5,493)
Other operating expenses		**–**	(6,557)
Loss from operations		**(156,225)**	(93,805)
Finance costs	10	**(1,169)**	(2,180)
Loss before tax		**(157,394)**	(95,985)
Income tax expense	11	**(2,415)**	(32,726)
Loss for the year from continuing operations		**(159,809)**	(128,711)
Discontinued operation			
Profit for the year from discontinued operation	15	**–**	3,136
Loss for the year	12	**(159,809)**	(125,575)
Attributable to:			
Owners of the Company			
Loss from continuing operations		**(143,240)**	(123,414)
Profit from discontinued operation		**–**	3,136
Loss attributable to owners of the Company		**(143,240)**	(120,278)
Non-controlling interests		**(16,569)**	(5,297)
		(159,809)	(125,575)
		HK cents	HK cents (Restated)
Loss per share			
From continuing and discontinued operations			
– basic	17(a)	**(12.44)**	(13.39)
– diluted	17(a)	**N/A**	N/A
From continuing operations			
– basic	17(b)	**(12.44)**	(13.74)
– diluted	17(b)	**N/A**	N/A

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Loss for the year		**(159,809)**	(125,575)
Other comprehensive income after tax:			
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**9,573**	(8,880)
Exchange differences reclassified to profit or loss on disposal of foreign operations	37(a)	**–**	(26,741)
Other comprehensive income for the year, net of tax		**9,573**	(35,621)
Total comprehensive income for the year		**(150,236)**	(161,196)
Attributable to:			
Owners of the Company		**(136,441)**	(153,450)
Non-controlling interests		**(13,795)**	(7,746)
		(150,236)	(161,196)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	18	**196,344**	296,991
Intangible asset	21	**35,217**	36,918
Deferred tax assets	32	**12,175**	13,013
Prepayments		**3,623**	–
Deposits		**918**	854
Total non-current assets		**248,277**	347,776
Current assets			
Inventories	22	**24,855**	7,391
Trade and bill receivables	23	**2,850**	7,655
Deposits, prepayments and other receivables		**11,166**	9,173
Restricted bank deposits	24	**10,737**	7,134
Bank and cash balances	25	**105,286**	93,238
Total current assets		**154,894**	124,591
Current liabilities			
Accrued charges and other payables	26	**167,756**	177,218
Due to non-controlling shareholders	27	**7,393**	6,874
Other loans	28	**–**	25,228
Total current liabilities		**175,149**	209,320
Net current liabilities		**(20,255)**	(84,729)
Total assets less current liabilities		**228,022**	263,047

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Due to a director	29	**20,883**	20,230
Other loans	28	**10,994**	9,150
Provision	30	**5,245**	–
Deferred revenue	31	**–**	2,233
Deferred tax liabilities	32	**31,313**	28,546
Total non-current liabilities		**68,435**	60,159
NET ASSETS		**159,587**	202,888
Capital and reserves			
Share capital	33	**15,035**	251,739
Other reserves	36	**113,088**	(94,110)
Equity attributable to owners of the Company		**128,123**	157,629
Non-controlling interests		**31,464**	45,259
TOTAL EQUITY		**159,587**	202,888

Approved by the Board of Directors on 23 March 2018 and are signed on its behalf by:

Xu Bin
Director

Zhang Fusheng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

		Attributable to owners of the Company											
	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Distributable reserve HK$'000	Future development fund HK$'000	Safety fund HK$'000	Foreign currency translation reserve HK$'000	Share-based payment reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2016		251,739	293,461	(1,628)	–	20,162	43,379	38,499	8,509	(343,042)	311,079	53,005	364,084
Total comprehensive income for the year		–	–	–	–	–	–	(33,172)	–	(120,278)	(153,450)	(7,746)	(161,196)
Share options lapsed	34	–	–	–	–	–	–	–	(4,204)	4,204	–	–	–
Cancellation of share premium		–	(293,461)	–	–	–	–	–	–	293,461	–	–	–
Net appropriations		–	–	–	–	3,059	13,632	–	–	(16,691)	–	–	–
Changes in equity for the year		–	(293,461)	–	–	3,059	13,632	(33,172)	(4,204)	160,696	(153,450)	(7,746)	(161,196)
At 31 December 2016		251,739	–	(1,628)	–	23,221	57,011	5,327	4,305	(182,346)	157,629	45,259	202,888
At 1 January 2017		**251,739**	**-**	**(1,628)**	**-**	**23,221**	**57,011**	**5,327**	**4,305**	**(182,346)**	**157,629**	**45,259**	**202,888**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**6,799**	**-**	**(143,240)**	**(136,441)**	**(13,795)**	**(150,236)**
Share options lapsed	34	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,232)**	**1,232**	**-**	**-**	**-**
Capital reduction	33 (i)	**(246,704)**	**-**	**-**	**135,282**	**-**	**-**	**-**	**-**	**111,422**	**-**	**-**	**-**
Issue of shares	33(ii)	**10,000**	**96,935**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**106,935**	**-**	**106,935**
Net appropriations		**-**	**-**	**-**	**-**	**2,412**	**13,987**	**-**	**-**	**(16,399)**	**-**	**-**	**-**
Changes in equity for the year		**(236,704)**	**96,935**	**-**	**135,282**	**2,412**	**13,987**	**6,799**	**(1,232)**	**(46,985)**	**(29,506)**	**(13,795)**	**(43,301)**
At 31 December 2017		**15,035**	**96,935**	**(1,628)**	**135,282**	**25,633**	**70,998**	**12,126**	**3,073**	**(229,331)**	**128,123**	**31,464**	**159,587**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax		
Continuing operations	**(157,394)**	(95,985)
Discontinued operation (note 15)	**–**	(45,595)
	(157,394)	(141,580)
Adjustments for:		
Finance costs	**1,169**	2,180
Interest income	**(53)**	(429)
Depreciation and amortisation	**22,766**	31,467
Allowance for inventories	**–**	6,568
Fair value losses on initial recognition of financial liabilities	**–**	194
Gain on disposals of property, plant and equipment	**(653)**	(5)
Impairment loss on goodwill	**–**	2,907
Impairment loss on intangible asset	**2,477**	17,573
Impairment loss on property, plant and equipment	**118,417**	161,656
Impairment loss on trade and other receivables	**–**	5,493
Income from waiving of interest expense	**(3,011)**	–
Provision for the year (note 30)	**5,054**	–
Operating (loss)/profit before working capital changes	**(11,228)**	86,024
(Increase)/decrease in inventories	**(17,464)**	4,807
Decrease in trade and bill receivables	**5,188**	51,876
(Increase)/decrease in deposits, prepayments and other receivables	**(5,239)**	4,187
Decrease in amount due to a director	**–**	(130)
Decrease in amounts due to non-controlling shareholders	**–**	(12,624)
Decrease in trade payables	**–**	(2,017)
Decrease in accrued charges and other payables	**(21,186)**	(47,224)
Increase in deferred revenue	**–**	2,233
Cash (used in)/generated from operations	**(49,929)**	87,132
Withholding tax paid	**–**	(277)
Net cash (used in)/generated from operating activities	**(49,929)**	86,855
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**53**	429
Purchase of property, plant and equipment	**(21,231)**	(23,166)
Proceeds from disposals of property, plant and equipment	**1,083**	34
Disposal of subsidiaries (note 37(a))	**–**	22,732
(Increase)/decrease in restricted bank deposits	**(3,603)**	359
Net cash (used in)/generated from investing activities	**(23,698)**	388

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES (note 37(c))		
Repayment of loans from non-controlling shareholders	–	(8,750)
Repayment of loans from a director	(1,000)	(19,596)
Repayment of other loans	(26,302)	(24,297)
Other loans raised	1,904	9,687
Proceeds from issue of shares	106,935	–
Net cash generated from/(used in) financing activities	81,537	(42,956)
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,910	44,287
Effect of foreign exchange rate changes	4,138	762
CASH AND CASH EQUIVALENTS AT 1 JANUARY	93,238	48,189
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	105,286	93,238
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	105,286	93,238

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. General Information

Grand Ocean Advanced Resources Company Limited (the "**Company**") was incorporated in the Cayman Islands on 7 April 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its business office is Suite 3103, Sino Plaza, 255-257 Gloucester Road, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company is an investment holding company. The principal activities of its subsidiaries are the production and sale of coal (the "**Coal Mining Business**") and provision of low-rank coal upgrading services (the "**Coal Upgrading Business**"). In November 2016, the Group disposed of and discontinued its business in the manufacture and sale of plastic woven bags, paper bags and plastic barrels business (the "**Bags Business**").

2. Basis of Preparation

(a) Statement of compliance

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

(b) Basis of measurement and going concern assumption

The financial statements have been prepared under the historical cost basis.

During the year, the Group has incurred a loss attributable to the owner of the Company from continuing operations of approximately HK$143,240,000 (2016: HK$120,278,000) and at the end of reporting period, its current liabilities exceeded its current assets by HK$20,255,000 (2016: HK$84,729,000). This situation indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

2. Basis of Preparation (Continued)

(b) Basis of measurement and going concern assumption (Continued)

In preparing the consolidated financial statements, the directors have carefully considered to the current and anticipated future liquidity of the Group and the ability of the Group to attain profitable and positive cash flows from operations in immediate and long terms. The directors have prepared cash flow forecasts for the period up to June 2019 after taking into account of the measures below. In order to strengthen the Group's capital base and liquidity in foreseeable future, the directors of the Company have taken the following measures:

– The directors have implemented some cost saving measures along with the reduction in production capacity of Coal Mining Business.

– The directors have adopted a prudent approach in applying the Group's cash onto the capital expenditure in relation to the development and commencement of the commercial production of the Coal Upgrading Business.

The substantial shareholder has further provided an undertaking for an unsecured financial facility with maximum amount of HK$100 million to the Company for the period from 7 March 2018 to 31 December 2019, in the event of a shortage in working capital of the Company or its subsidiaries and at request of the Company. Up to the date of this report, no such facility has yet been used by the Group.

Based on the Group's cash flow forecasts and the ongoing financial support from the substantial shareholder of the Company, the directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing consolidated financial statements.

(c) Functional and presentation currency

The consolidated financial statements of the Company and its subsidiaries ("**Group**") are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

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

(a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2017. Of these, the following new or revised HKFRSs are relevant to the Company.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 12, Disclosure of Interests in Other Entities

Amendments to HKAS 7 – Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments has led to the additional disclosure presented in the notes to the consolidated statement of cash flows, note 37(c). Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year.

Amendments to HKAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

Annual Improvements to HKFRSs 2014-2016 Cycle - Amendments to HKFRS 12, Disclosure of Interests in Other Entities

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 12, Disclosure of Interests in Other Entities, to clarify that the disclosure requirements of HKFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity's interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

The Group has applied these amendment retrospectively. The adoption of the above amendments has not resulted in any material impact on the financial statements of the Group.

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

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

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2017. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 2 Share-based Payment: Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 9 Financial Instruments	1 January 2018
HKFRS 15 Revenue from Contracts with Customers	1 January 2018
Amendments to HKFRS 15: Revenue from Contracts with Customers (Clarifications to HKFRS 15)	1 January 2018
HK(IFRIC) – Int 22: Foreign Currency Transactions and Advance Consideration	1 January 2018
HKFRS 16 Leases	1 January 2019
Amendments to HKFRS 9 Prepayment Features with Negative Compensation	1 January 2019
HK(IFRIC) – Int 23: Uncertainty over Income Tax Treatments	1 January 2019

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

Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

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

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

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at FVTOCI if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at FVTPL.

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

All financial assets and financial liabilities will continue to be measured on the same bases as currently measured under HKAS39.

While the Group has not completed the detailed assessment, the new expected loss impairment model introduced by HKFRS 9 will generally result in earlier recognition of credit losses in relation to the Group's trade receivables measured at amortised costs compared to the current incurred loss model of HKAS39.

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

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

HKFRS 15 Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework 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 and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps 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 each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

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

Based on the assessment undertaken to date, by considering the recent contract terms and applicable laws, the Group expects that the application of HKFRS 15 in the future may result in more disclosures. However, the Group does not expect the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

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

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

HK(IFRIC) – Int 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Group expects the adoption of the interpretation will not have any significant impact on the Group's financial statements.

HKFRS 16 Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

As at 31 December 2017, the Group as lessee has non-cancellable operating lease commitments of HK$2,760,000 as disclosed in note 40. The Group considers that the adoption of the new standard will have some impact on the consolidated financial position of the Group as the related right-of-use assets and lease liabilities will be recognised upon adoption of the new standard in the future. There will also have some impact on the consolidated income statement of the Group as the impact of amortisation of the right-of-use assets and unwinding the discount of the related payable will be different from the operating lease charges that would have been recognised under the current standard.

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

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

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

HK(IFRIC) – Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

4. Significant Accounting Policies

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

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

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

(a) Consolidation

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

4. Significant Accounting Policies (Continued)

(a) Consolidation (Continued)

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

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

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

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

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

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

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

4. Significant Accounting Policies (Continued)

(b) Business combination and goodwill

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

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

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

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

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

4. Significant Accounting Policies (Continued)

(c) Foreign currency translation

(i) Functional and presentation currency

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

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

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

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

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

(iii) Translation on consolidation

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

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

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

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

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

4. Significant Accounting Policies (Continued)

(c) Foreign currency translation (continued)

(iii) Translation on consolidation (continued)

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

(d) Property, plant and equipment

Property, plant and equipment, including buildings, held for use in the production or supply of goods or services, or for administrative purpose, are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

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

Depreciation of property, plant and equipment other than mining structures, is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

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

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

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

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

4. Significant Accounting Policies (Continued)

(e) Operating leases

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

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

(f) Intangible asset

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

(g) Inventories

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

(h) Recognition and derecognition of financial instruments

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

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

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

4. Significant Accounting Policies (Continued)

(i) Financial assets

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

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

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

(j) Trade and other receivables

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

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

(k) Cash and cash equivalents

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

4. Significant Accounting Policies (Continued)

(l) Non-current assets held for sale and discontinued operations

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

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

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

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

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

(m) Financial liabilities and equity instruments

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

(n) Borrowings

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

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

(o) Trade and other payables

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

(p) Equity instruments

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

4. Significant Accounting Policies (Continued)

(q) Revenue recognition

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

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

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

(r) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

(iii) Termination benefits

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

(s) Share-based payments

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

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

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

4. Significant Accounting Policies (Continued)

(t) Borrowing costs

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

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

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

(u) Government grants

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

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

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

(v) Taxation

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

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

4. Significant Accounting Policies (Continued)

(v) Taxation (continued)

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

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

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

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

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

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

(w) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the CGU.

4. Significant Accounting Policies (Continued)

(w) Impairment of non-financial assets (continued)

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

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

(x) Impairment of financial assets

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

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

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

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

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

(y) Provisions and contingent liabilities

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

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

4. Significant Accounting Policies (Continued)

(z) Events after the reporting period

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

5. Critical Judgements and Key Estimates

Critical judgements in applying accounting policies

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

(a) Going concern basis

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

(b) Legal titles of certain buildings

As stated in note 18(a) to the consolidated financial statements, the legal titles of certain buildings were not yet obtained as at 31 December 2017. Despite the fact that the Group has not obtained the relevant legal titles, the directors determine to recognise those buildings as property, plant and equipment on the grounds that they expect the legal titles being obtained in future should have no major difficulties and the Group is in substance controlling those buildings.

5. Critical Judgements and Key Estimates (Continued)

Key sources of estimation uncertainty

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

(a) Property, plant and equipment and depreciation

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

The carrying amount of property, plant and equipment as at 31 December 2017 was approximately HK$196,344,000 (2016: HK$296,991,000). An impairment loss on property, plant and equipment of approximately HK$118,417,000 (2016: HK$161,656,000) was recognised for the year ended 31 December 2017 and details are disclosed in note 18.

(b) Impairment loss on property, plant and equipment

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

Coal cash-generating unit (the "Coal CGU")

As at 31 December 2017, the carrying amount of the Group's property, plant and equipment allocated to the Coal CGU is approximately HK$150,304,000 (2016: HK$165,392,000). An impairment loss of approximately HK$10,570,000 (2016: HK$73,422,000) was recognised for the year ended 31 December 2017. Details of the key assumptions used are disclosed in note 18(d).

The recoverable amount of the assets of the Coal CGU of HK$185,521,000 has been determined and approved by the directors based on the value in use approach by reference to the discounted cash flow forecasts for the period until the expiry date of the business license.

5. Critical Judgements and Key Estimates (Continued)

Key sources of estimation uncertainty (continued)

(b) Impairment loss on property, plant and equipment (continued)

Coal upgrading cash-generating unit (the "Coal Upgrading CGU")

As at 31 December 2017, the carrying amount of the Group's property, plant and equipment includes plant and machinery of approximately HK$1,904,000 (2016: HK$6,632,000) and construction in progress of approximately HK$43,320,000 (2016: HK$123,217,000) which belong to the Coal Upgrading CGU. An impairment loss of approximately HK$107,847,000 (2016: HK$49,532,000) was recognised for the year ended 31 December 2017. Details of the key assumptions used are disclosed in note 18(c).

(c) Deferred tax assets

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

The carrying amount of deferred tax assets as at 31 December 2017 was approximately HK$12,175,000 (2016: HK$13,013,000).

(d) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. During the year, the PRC interest withholding tax was nil (2016: HK$277,000) and deferred tax liabilities of approximately HK$732,000 (2016: HK$28,350,000) was charged to profit or loss based on the estimated assessable income from continuing operations.

5. Critical Judgements and Key Estimates (Continued)

Key sources of estimation uncertainty (continued)

(e) Impairment loss on goodwill

Determining whether goodwill is impaired requires an estimation of recoverable amount of the CGU to which the goodwill has been allocated, by the value in use and fair value less costs of disposal approaches. The Group estimates the future cash flows expected to be generated from the Coal Upgrading CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The goodwill was fully impaired for the year ended 31 December 2016.

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

(f) Impairment loss on intangible asset

Determining whether intangible asset is impaired requires an estimation of the value in use of the CGU to which the intangible asset has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the Coal CGU and a suitable discount rate in order to calculate the present value. Details of the key assumptions that management made when determining the value in use of the Coal CGU as at the end of the period are disclosed in note 18(d) to the consolidated financial statements. The carrying amount of intangible asset at the end of reporting period was approximately HK$35,217,000 (2016: HK$36,918,000). An impairment loss on intangible asset of approximately HK$2,477,000 (2016: HK$17,573,000) was recognised for the year ended 31 December 2017.

(g) Impairment loss on trade receivables

The Group makes impairment loss on trade receivables based on assessment of the recoverability of the trade receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment loss on trade receivables requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade receivables and allowance for trade receivables in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As at 31 December 2017, accumulated impairment loss on trade receivables amounted to approximately HK$2,593,000 (2016: HK$2,411,000) (note 23).

5. Critical Judgements and Key Estimates (Continued)

Key sources of estimation uncertainty (continued)

(h) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance in the period in which such estimate has been changed. No allowance made in the year ended 31 December 2017. Allowance for slow-moving inventories of approximately HK$7,823,000 from continuing operations was made for the year ended 31 December 2016.

6. Financial Risk Management

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

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

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

The Group has no significant concentration of credit risk.

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

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

6. Financial Risk Management (Continued)

(c) Liquidity risk

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

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

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

	2017 Maturity Analysis – Undiscounted cash outflows				
	On demand HK$'000	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total undiscounted cash outflows HK$'000
Due to a director	–	–	21,748	–	21,748
Due to non-controlling shareholders	–	7,393	–	–	7,393
Other loans	–	–	11,350	–	11,350
Accrued charges and other payables	–	129,549	–	–	129,549
	–	136,942	33,098	–	170,040

	2016 Maturity Analysis – Undiscounted cash outflows				
	On demand HK$'000	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total undiscounted cash outflows HK$'000
Due to a director	–	–	22,118	–	22,118
Due to non-controlling shareholders	–	6,874	–	–	6,874
Other loans	–	26,328	10,209	–	36,537
Accrued charges and other payables	–	106,951	–	–	106,951
	–	140,153	32,327	–	172,480

6. Financial Risk Management (Continued)

(d) Interest rate risk

As disclosed in notes 28 and 29 to the consolidated financial statements, certain loans from a director and the other loans of the Group bear interests at fixed interest rates and therefore are subject to fair value interest rate risk.

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

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

(e) Categories of financial instruments at 31 December

	2017 **HK$'000**	2016 HK$'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**118,873**	108,027
Financial liabilities:		
Financial liabilities at amortised cost	**168,818**	168,433

(f) Fair values

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

7. Revenue

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

	2017 **HK$'000**	2016 HK$'000
Sales of coal	**111,842**	264,392
Representing:		
Continuing operations	**111,842**	264,392
Discontinued operations (note 15)	**–**	–
	111,842	264,392

8. Other Income

	2017 HK$'000	2016 HK$'000
Gain on disposals of property, plant and equipment	653	5
Interest income	53	429
Net foreign exchange gains	58	1
Reversal of allowance for inventories (note (a))	–	1,255
Other taxes waived by PRC government	–	220
Waiver of other loan interest payable	3,011	–
Reversal of provision for coal resources tax (note (b))	2,128	–
Sundry income	147	26
	6,050	1,936
Representing:		
Continuing operations	6,050	461
Discontinued operations (note 15)	–	1,475
	6,050	1,936

Notes:

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

(b) The reversal of provision for coal resources tax made in previous years is due to change of government policy.

9. Segment Information

The Group determines its operating segments based on the business from products/services perspective. The Group has two reportable segments as follows:

Coal – Production and sales of coal; and

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

The Group discontinued the Bags Business in 2016.

Segment performance is evaluated based on operating loss and is measured consistently with operating loss in the consolidated financial statements. However, group financing costs are managed on a group basis and are not allocated to the reportable segments.

Segment assets exclude deferred tax assets as these assets are managed on a group basis.

9. Segment Information (Continued)

Segment liabilities exclude deferred tax liabilities as these liabilities are managed on a group basis.

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

The accounting policies of the operating segments are the same as those described in note 4 to the consolidated financial statements. Segment profits or losses do not include corporate income and expense and central administration costs. Segment assets do not include goodwill, corporate assets and deferred tax assets. Segment liabilities do not include corporate liabilities and deferred tax liabilities.

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

	Coal HK$'000	Coal upgrading HK$'000	Total HK$'000
Year ended 31 December 2017			
Revenue from external customers	111,842	–	111,842
Segment loss	(34,074)	(110,302)	(144,376)
Interest revenue	42	–	42
Interest expense	–	(284)	(284)
Income tax expense	(5,140)	–	(5,140)
Depreciation and amortisation	(21,273)	(1,218)	(22,491)
Gain on disposals of property, plant and equipment	–	653	653
Impairment loss on property, plant and equipment	(10,570)	(107,847)	(118,417)
Impairment loss on intangible asset	(2,477)	–	(2,477)
Additions to segment non-current assets	(3,302)	(17,929)	(21,231)
At 31 December 2017			
Segment assets	283,859	50,102	333,961
Segment liabilities	214,199	182,442	396,641

9. Segment Information (Continued)

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

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

9. Segment Information (Continued)

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

	2017 HK$'000	2016 HK$'000
Revenue		
Total revenue of reportable segments	111,842	264,392
Elimination of discontinued operation (note 15)	–	–
Consolidated revenue from continuing operations	111,842	264,392
Profit or loss		
Total loss of reportable segments	(144,376)	(116,446)
Unallocated corporate income	3,082	1,101
Unallocated corporate expenses	(18,515)	(58,961)
Discontinued operation (note 15)	–	45,595
Consolidated loss for the year from continuing operations	(159,809)	(128,711)
Assets		
Total assets of reportable segments	333,961	461,655
Corporate assets	104,316	43,541
Deferred tax assets	12,174	13,013
Elimination of intersegment assets	(47,280)	(45,842)
Consolidated total assets	403,171	472,367
Liabilities		
Total liabilities of reportable segments	396,641	380,979
Corporate liabilities	27,987	50,893
Deferred tax liabilities	30,690	28,546
Elimination of intersegment liabilities	(211,734)	(190,939)
Consolidated total liabilities	243,584	269,479

9. Segment Information (Continued)

Geographical information:

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

	Revenue		Non-current assets	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Hong Kong	**–**	–	**294**	599
The PRC except Hong Kong	**111,842**	264,392	**235,808**	334,164
Consolidated total	**111,842**	264,392	**236,102**	334,763

Revenue from major customers:

	2017 HK$'000	2016 HK$'000
Coal segment		
Customer a	**29,042**	40,173
Customer b	**12,325**	32,405
Customer c	**11,446**	–

10. Finance Costs

	2017 HK$'000	2016 HK$'000
Interest on other loans – wholly repayable within five years	285	641
Interest on loans from a director	316	399
Imputed interest expenses	568	1,443
Total borrowing costs	1,169	2,483
Amount capitalised	–	(303)
	1,169	2,180
Representing:		
Continuing operations	1,169	2,180
Discontinued operation (note 15)	–	–
	1,169	2,180

11. Income Tax Expense

Income tax expense has been recognised in profit or loss as follows:

	2017 HK$'000	2016 HK$'000
Current tax – Overseas		
PRC interest withholding tax	–	277
Deferred tax (note 32)	2,415	32,449
	2,415	32,726
Representing:		
Continuing operations	2,415	32,726
Discontinued operation (note 15)	–	–
	2,415	32,726

(a) No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2017 as the Group did not generate any assessable profits arising in Hong Kong during the year (2016: HK$Nil).

Under the law of the PRC on Enterprise Income Tax (the "**EIT law**") and Implementation Regulation of the EIT law, the tax rate applicable to the PRC subsidiaries is 25% (2016: 25%). No provision for PRC Enterprise Income Tax was made for the financial year ended 31 December 2017 as the PRC subsidiaries did not have any assessable profits during the year.

11. Income Tax Expense (Continued)

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

	2017 HK$'000	2016 HK$'000
Loss before tax		
Continuing operations	(157,394)	(95,985)
Discontinued operation (note 15)	–	(45,595)
	(157,394)	(141,580)
Tax at the PRC Enterprise Income Tax rate of 25% (2016: 25%)	(39,348)	(35,395)
Tax effect of expenses that are not deductible	4,138	24,485
Tax effect of income that are not taxable	(1,297)	–
Tax effect of temporary differences not recognised	24,485	34,476
Tax effect of tax losses not recognised	16,876	29,748
Tax effect of utilisation of tax losses not previously recognised	(3,682)	(22,497)
Reversal of deferred tax on undistributed earnings of a PRC subsidiary	(288)	(294)
Effect of different tax rates	1,531	1,926
PRC interest withholding tax	–	277
Income tax expense	2,415	32,726

12. Loss for the Year

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

	Continuing operations		Discontinued operation		Total	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Auditor's remuneration	**1,080**	1,000	**–**	–	**1,080**	1,000
Allowance for inventories (included in cost of sales)	**–**	7,823	**–**	–	**–**	7,823
Reversal of allowance for inventories	**–**	–	**–**	(1,255)	**–**	(1,255)
Amortisation of mining right (included in cost of sales)	**1,851**	3,510	**–**	–	**1,851**	3,510
Cost of inventories sold	**96,119**	124,893	**–**	–	**96,119**	124,893
Depreciation of property, plant and equipment	**20,915**	24,766	**–**	3,125	**20,915**	27,891
Fair value losses on initial recognition of financial liabilities	**–**	194	**–**	–	**–**	194
Gain on disposals of property, plant and equipment	**653**	5	**–**	–	**653**	5
Impairment loss on property, plant and equipment (note 18)	**118,417**	122,954	**–**	38,702	**118,417**	161,656
Impairment loss on goodwill (note 20)	**–**	2,907	**–**	–	**–**	2,907
Impairment loss on intangible asset (note 21)	**2,477**	17,573	**–**	–	**2,477**	17,573
Impairment loss on receivables						
– trade receivables (note 23)	**–**	2,519	**–**	–	**–**	2,519
– other receivables	**–**	2,974	**–**	–	**–**	2,974
	–	5,493	**–**	–	**–**	5,493
Operating lease charges						
– Land and buildings	**3,004**	2,585	**–**	471	**3,004**	3,056

Cost of inventories sold includes staff costs, allowance for inventories, amortisation of mining right and depreciation of approximately HK$55,042,000 (2016 HK$64,817,000) which are included in the amounts disclosed separately.

13. Employee Benefits Expense (Including Directors' Emoluments)

	2017 HK$'000	2016 HK$'000
Employee benefits expense:		
Salaries, bonuses and allowances	**68,169**	76,467
Retirement benefit scheme contributions	**1,759**	3,965
	69,928	80,432

Five highest paid individuals

The five highest paid individuals in the Group during the year included two (2016: three) directors whose emoluments are reflected in the analysis presented in note 14. The emoluments of the remaining three (2016: two) individuals are set out below:

	2017 HK$'000	2016 HK$'000
Basic salaries and allowances	**4,468**	3,142
Discretionary bonus	**–**	159
	4,468	3,301

The emoluments fell within the following bands:

	Number of individuals	
	2017	2016
HK$1,000,001 - HK$1,500,000	**2**	1
HK$1,500,001 - HK$2,000,000	**–**	1
HK$2,000,001 - HK$2,500,000	**1**	–
	3	2

14. Benefits and Interests of Directors

(a) Directors' emoluments

The emoluments of each director is set out below:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking				
Name of director	Fees HK$'000	Salaries and allowances HK$'000	Discretionary bonus HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
Mr. Xu Bin	**–**	**2,400**	**–**	**18**	**2,418**
Mr. Zhang Fusheng (Chief executive)	**–**	**600**	**–**	**–**	**600**
Mr. Ng Ying Kit	**–**	**1,440**	**360**	**18**	**1,818**
Ms. Huo Lijie (note (i))	**–**	**495**	**–**	**–**	**495**
Mr. Kwok Chi Shing	**240**	**–**	**–**	**–**	**240**
Mr. Huang Shaoru	**120**	**–**	**–**	**–**	**120**
Mr. Chang Xuejun (note (iii))	**240**	**–**	**–**	**–**	**240**
Total for 2017	**600**	**4,935**	**360**	**36**	**5,931**
Mr. Xu Bin	–	2,400	–	18	2,418
Mr. Zhang Fusheng (Chief executive)	–	700	–	2	702
Mr. Ng Ying Kit	–	1,200	800	18	2,018
Ms. Huo Lijie (note (i))	–	529	–	–	529
Mr. Tse Kam Fow (note (ii))	–	400	2,000	3	2,403
Mr. Kwok Chi Shing	240	–	–	–	240
Mr. Huang Shaoru	120	–	–	–	120
Mr. Chang Xuejun (note (iii))	190	–	–	–	190
Mr. Kwok Siu Man (note (ii))	40	–	–	–	40
Total for 2016	590	5,229	2,800	41	8,660

Notes:

(i) Appointed on 11 January 2016

(ii) Resigned on 1 March 2016

(iii) Appointed on 17 March 2016

Neither the chief executive nor any of the directors waived any emoluments during the year (2016: HK$Nil).

14. Benefits And Interests Of Directors (Continued)

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

Pursuant to agreements dated 2 January 2014, 5 May 2014 and 7 May 2015 (collectively refer to as the "**Loan Agreements**") made between the Company and Mr. Xu Bin ("**Mr. Xu**"), the Company agreed to pay interest expense to Mr. Xu for loans granted to the Company in accordance with the terms of the Loan Agreements. Mr. Xu was paid an interest expense of HK$316,000 for the year ended 31 December 2017 (2016: HK$399,000).

Pursuant to an agreement dated 1 December 2015 (the "**License Agreement**") made between the Company and Mr. Xu, The Company agreed to pay license fee to Mr. Xu for the non-exclusive right to use the five registered patents in the PRC in relation to low-rank coal upgrading methodologies and manufacturing of steam digesters in accordance with the terms of the License Agreement. Mr. Xu was paid a nominal license fee of HK$ Nil for the year ended 31 December 2017 (2016: HK$1).

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

Save for contracts amongst group companies and the aforementioned transactions, no other significant transactions, arrangements and contracts to which the Company was a party and in which a director of the Company and other director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

15. Discontinued Operation

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

The profit from the discontinued operation up to the date of disposal is analysed as follows:

	2016 HK$'000
Loss for the year from discontinued operation	(45,595)
Gain on disposal of subsidiaries (note 37(a))	48,731
Profit for the year from discontinued operation attributable to owners of the Company	3,136

15. Discontinued Operation (Continued)

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

	2016 HK$'000
Revenue (note 7)	–
Cost of sales	–
Gross loss	–
Other income (note 8)	1,475
Administrative expenses	(7,219)
Impairment loss on property, plant and equipment	(38,702)
Other operating expenses	(1,149)
Loss from operations	(45,595)
Finance costs (note 10)	–
Loss before tax	(45,595)
Income tax expense (note 11)	–
Loss for the year (note 12)	(45,595)
Cash flows from discontinued operation:	
Net cash outflows from operating activities	(254)
Net cash outflows	(254)

16. Dividends

The directors do not recommend the payment of any final dividend for the year ended 31 December 2017 (2016: HK$Nil).

17. Loss Per Share

(a) From continuing and discontinued operations

Basic loss per share

The calculation of basic losses per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately HK$143,240,000 (2016: HK$120,278,000) and the weighted average number of ordinary shares of 1,151,798,178 (2016: 897,992,115 (restated)) in issue during the year.

The weighted average number of ordinary shares for the purpose of basic loss per share for the year ended 31 December 2016 are restated to reflect the bonus element of the placement of shares in July 2017.

Diluted loss per share

No diluted loss per share is presented as the Company did not have any dilutive potential ordinary shares during the years ended 31 December 2017 and 31 December 2016.

(b) From continuing operations

Basic loss per share

The calculation of basic loss from continuing operations per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company from continuing operations of approximately HK$143,240,000 (2016: HK$123,414,000) and the weighted average number of ordinary shares using the denominators detailed above for basic loss per share from continuing and discontinued operations.

Diluted loss per share

No diluted loss per share is presented as the Company did not have any dilutive potential ordinary shares during the years ended 31 December 2017 and 31 December 2016.

(c) From discontinued operation

No earnings per share from discontinued operations is presented for the year as there is no discontinued operation during the year. Basic earnings per share from the discontinued operations for the year ended 31 December 2016 was HK$0.35 cents per share (restated), which was calculated based on the profit attributable to owners of the Company from discontinued operations of approximately HK$3,136,000 and the weighted average number of ordinary shares using the denominators detailed above for the basic losses per share from continuing and discontinued operations.

No diluted loss per share is presented as the Company did not have any dilutive potential ordinary shares during the year ended 31 December 2016.

18. Property, Plant and Equipment

	Buildings HK$'000	Leasehold improvements HK$'000	Mining structures HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost								
At 1 January 2016	196,556	2,800	134,534	268,829	29,279	10,123	172,452	814,573
Additions	635	–	–	13,431	45	4,376	4,982	23,469
Disposals/write off	–	–	–	–	(9)	(1,286)	(486)	(1,781)
Disposal of subsidiaries (note 37(a))	(80,142)	–	–	(39,097)	–	(837)	–	(120,076)
Exchange differences	(9,350)	(35)	(6,829)	(13,903)	(1,403)	(640)	(8,948)	(41,108)
At 31 December 2016	107,699	2,765	127,705	229,260	27,912	11,736	168,000	675,077
At 1 January 2017	**107,699**	**2,765**	**127,705**	**229,260**	**27,912**	**11,736**	**168,000**	**675,077**
Additions	**1,326**	**–**	**–**	**1,579**	**164**	**787**	**17,375**	**21,231**
Reclassification	**436**	**(650)**	**–**	**–**	**214**	**–**	**–**	**–**
Disposals/write off	**–**	**–**	**–**	**(125)**	**(172)**	**(957)**	**–**	**(1,254)**
Exchange differences	**8,225**	**–**	**9,655**	**17,382**	**1,995**	**845**	**13,359**	**51,461**
At 31 December 2017	**117,686**	**2,115**	**137,360**	**248,096**	**30,113**	**12,411**	**198,734**	**746,515**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

18. Property, Plant and Equipment (Continued)

	Buildings HK$'000	Leasehold improvements HK$'000	Mining structures HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Accumulated depreciation and impairment								
At 1 January 2016	75,868	1,908	47,978	166,714	23,273	5,739	–	321,480
Charge for the year	5,609	302	5,044	13,448	2,036	1,452	–	27,891
Disposals/write off	–	–	–	–	(9)	(859)	–	(868)
Impairment (note (c) to (e))	58,774	–	25,424	27,607	1,257	1,797	46,797	161,656
Disposal of subsidiaries (note 37(a))	(69,436)	–	–	(38,250)	–	(837)	–	(108,523)
Exchange differences	(6,209)	(5)	(3,747)	(9,915)	(1,273)	(387)	(2,014)	(23,550)
At 31 December 2016	64,606	2,205	74,699	159,604	25,284	6,905	44,783	378,086
At 1 January 2017	**64,606**	**2,205**	**74,699**	**159,604**	**25,284**	**6,905**	**44,783**	**378,086**
Charge for the year	**3,834**	**–**	**2,667**	**11,810**	**1,506**	**1,098**	**–**	**20,915**
Reclassification	**63**	**(90)**	**–**	**–**	**27**	**–**	**–**	**–**
Disposals/write off	**–**	**–**	**–**	**(130)**	**(162)**	**(532)**	**–**	**(824)**
Impairment (note (c) to (d))	**2,894**	**–**	**3,555**	**8,234**	**93**	**307**	**103,334**	**118,417**
Exchange differences	**5,143**	**–**	**5,883**	**12,820**	**1,878**	**556**	**7,297**	**33,577**
At 31 December 2017	**76,540**	**2,115**	**86,804**	**192,338**	**28,626**	**8,334**	**155,414**	**550,171**
Carrying amount								
At 31 December 2017	**41,146**	**–**	**50,556**	**55,758**	**1,487**	**4,077**	**43,320**	**196,344**
At 31 December 2016	43,093	560	53,006	69,656	2,628	4,831	123,217	296,991

18. Property, Plant and Equipment (Continued)

Notes:

(a) At 31 December 2017, the carrying amount of certain buildings amounted to approximately HK$26,743,000 (2016: HK$26,385,000) for which relevant legal titles have not yet been obtained. At the date of approval of these consolidated financial statements, the application for obtaining the aforesaid legal titles is still in progress.

(b) At 31 December 2017, the construction in progress of approximately HK$43,320,000 (2016: HK$123,217,000) represents a low-rank coal upgrading plant in Xilinhaota City, Inner Mongolia, the PRC (the "**Coal Upgrading Plant**") under construction by Xilinhaote City Guochuan Energy Technology Development Co., Ltd. (the "**Xilinhaote Guochuan**"), an indirect non wholly-owned subsidiary of the Company. The Coal Upgrading Plant has been constructed on a piece of land under a Grant Contract for State-owned Land Use Right in 2013 ("**Land use right contract**"). The legal land use right title has not been obtained up to the date of this report and the grant of which is subject to the payment of land premium of approximately HK$18.9 million (2016: HK$17.7 million).

(c) Due to the market conditions of the coal industry in the Inner Mongolia region and the technical issue with the production facility of the Coal Upgrading Plant, the management of the Coal Upgrading Plant has postponed the commercial production plan to 2019. The prolonged decline in the commencement of commercial production indicated a potential impairment loss on the assets allocated to the Coal upgrading CGU. As at 31 December 2017, the Group carried out review of the recoverable amount of the assets, including the property, plant and equipment, goodwill (note 20) and deposit paid for the land use right, allocated to the Coal upgrading CGU, an impairment loss on property, plant and equipment under the Coal upgrading CGU of approximately HK$107,847,000 has been recognised in profit or loss regard to the current market conditions of coal-related industries.

The recoverable amount of the assets of the Coal upgrading CGU of HK$46,170,000 has been determined and approved by the directors based on the value in use approach by reference to the discounted cash flow forecasts for the next 5 years approved by the management (level 3 fair value measurements).

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

(i) The Group will fulfil to the conditions of the Land Use Right Contract entered between the Xilinhaote Municipal Land Resources Bureau and the Xilinhaote Guochuan, and will obtain the legal land use rights certificate in 2019 by payment of the land use right premium of approximately HK$18.9 million provided that the Coal Upgrading Plant will commence its commercial production with an annual production capacity of 500,000 tonnes upgraded coal output.

(ii) The first phase of coal upgrading plant with annual capacity of 500,000 tonnes of upgraded coal will commence production in 2019. The Group will commence its trial coal upgrading production in 2018 of 12,000 tonnes per annum and will increase to 500,000 tonnes per annum from 2019 to 2022.

(iii) The technology and equipment of the Coal Upgrading CGU is able to process the low rank coal into upgraded coal with 5,000kcal/kg (the "**Upgraded Coal**"). All the Upgraded Coal will be sold at average selling price with value-added tax of RMB450 per tonne in year 2018 and value-added tax of RMB475 per tonne in year 2019 with an annual growth rate of 2.5% in subsequent years during the 5-year forecast period.

(iv) Inflation rate applied in the 5-Year cash flow forecast is 2.5% p.a. (2016: 3% p.a.). The inflation rate does not exceed the average inflation rate for the relevant market in the PRC.

(v) Pre-tax discount rate of 15.52% is adopted based on the assessment of the discount rate analysis independently performed by an independent valuer engaged by the Company.

18. Property, Plant And Equipment (Continued)

Notes: (Continued)

(d) Given the challenging market conditions in the mining industry and the reduction in coal production output in order to comply with relevant policies of the coal industry in the PRC, the Group tested the assets belonging to the Coal CGU for impairment. As at 31 December 2017, the Group assessed the recoverable amount of the assets, including the property, plant and equipment and the intangible asset (note 21), allocated to the Coal CGU, having regard to the market conditions of coal in the PRC. The review led to the recognition of an impairment loss on property, plant and equipment under the Coal CGU of approximately HK$10,570,000 that has been recognised in profit or loss.

The recoverable amount of the assets of Coal CGU of approximately HK$185,521,000 has been determined by the directors based on the value in use approach by reference to the discounted cash flow forecasts for the period until the expiry date of the business license.

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

(i) Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited ("**Inner Mongolia Jinyuanli**", an indirect non wholly-owned subsidiary of the Company) will continue to operate the coal mine of the Inner Mongolia Mine 958 ("**Inner Mongolia Mine 958**") at annual production capacity of 1.2 million tonnes, and reduced annual production output level of 1,003,600 tonnes for the period until the expiry date of the business license.

(ii) The coal from the Inner Mongolia Mine 958 with 3,500kcal/kg will be sold at the average selling price of RMB148 per tonne (with value-added tax of 17%) for 2018 with an annual growth rate of 2.5% in the subsequent years for the period until the expiry date of the business license.

(iii) Inflation rate of 2.5% p.a. (2016: 2% p.a.) is applied in the cash flow forecast for the period until the expiry date of the business license. The inflation rate does not exceed the average inflation rate for the relevant market in the PRC.

(iv) Pre-tax discount rate of 15.51% (2016: 12.84%) is adopted based on the assessment of the discount rate analysis independently performed by an independent valuer engaged by the Company.

(e) The production plant of Bag CGU had been idle since 2015, therefore management suspended the operation of the bag business and actively sought for potential buyers to realise the assets in the Bag CGU. Considering the lack of marketability, an impairment loss of approximately HK$38,702,000 was recognised on the buildings of Bag CGU on 30 June 2016. On 24 November 2016, the Group completed the disposal of Bag CGU and details are disclosed in Note 37(a) to the consolidated financial statements.

(f) In the fourth quarter of 2017, the Coal upgrading CGU carried out a trial production to test whether the production facilities are functioning properly. The cost of testing, after deducted the net proceeds from selling of the items produced of approximately HK$530,000, was recognised in the construction in progress for the year.

19. Prepaid Land Lease Payments

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

	2017 HK$'000	2016 HK$'000
At 1 January	**–**	2,548
Amortisation for the year	**–**	(66)
Disposal of subsidiaries (note 37(a))	**–**	(2,375)
Exchange differences	**–**	(107)
At 31 December	**–**	–
Current portion	**–**	–
Non-current portion	**–**	–

20. Goodwill

	2017 HK$'000	2016 HK$'000
Cost		
At 1 January and 31 December	**2,907**	2,907
Accumulated impairment losses		
Impairment loss recognised for the year and at 31 December	**(2,907)**	(2,907)
Carrying amount		
At 31 December	**–**	–

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

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

21. Intangible Asset

	Mining right	
	2017	2016
	HK$'000	HK$'000
Cost		
At 1 January	**87,079**	91,736
Exchange differences	**6,583**	(4,657)
At 31 December	**93,662**	87,079
Accumulated amortisation and impairment		
At 1 January	**50,161**	31,590
Amortisation for the year	**1,851**	3,510
Impairment for the year	**2,477**	17,573
Exchange differences	**3,956**	(2,512)
At 31 December	**58,445**	50,161
Carrying amount		
At 31 December	**35,217**	36,918

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

The average remaining amortisation period of the mining right is 19.52 years (2016: 20.52 years).

Intangible asset, together with the property, plant and equipment are allocated to the Coal CGU for impairment testing. The review led to the recognition of an impairment loss on intangible asset of approximately HK$2,477,000 (2016: HK$17,573,000) in profit or loss. Details please refer to note 18(d) to the consolidated financial statements.

22. Inventories

	2017 HK$'000	2016 HK$'000
Finished goods	**18,295**	1,557
Consumables	**6,560**	5,834
	24,855	7,391

23. Trade and Bill Receivables

	2017 HK$'000	2016 HK$'000
Trade receivables	**4,619**	3,627
Impairment loss on trade receivables	**(2,593)**	(2,411)
	2,026	1,216
Bill receivables	**824**	6,439
	2,850	7,655

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

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

	2017 HK$'000	2016 HK$'000
0 to 90 days	**571**	1,100
91 to 180 days	**–**	–
181 to 365 days	**1,291**	116
Over 365 days	**164**	–
	2,026	1,216

23. Trade and Bill Receivables (Continued)

As 31 December 2017, an impairment provision of approximately HK$2,593,000 (2016: HK$2,411,000) was made for estimated irrecoverable trade receivables which relate to customers that were in financial difficulties. It was assessed that these receivables are expected to be irrecoverable.

Reconciliation of impairment loss on trade receivables:

	2017 **HK$'000**	2016 HK$'000
At 1 January	**2,411**	116,502
Impairment loss for the year	**–**	2,519
Disposal of subsidiaries	**–**	(111,499)
Exchange differences	**182**	(5,111)
At 31 December	**2,593**	2,411

As of 31 December 2017, trade receivables of approximately HK$2,026,000 (2016: HK$116,000) were past due but not impaired. These relate to several independent customers that have good track record with the Group. The ageing analysis of these trade receivables is as follows:

	2017 **HK$'000**	2016 HK$'000
Up to 90 days	**571**	–
91 to 180 days	**–**	–
181 to 365 days	**1,291**	116
Over 365 days	**164**	–
	2,026	116

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

24. Restricted Bank Deposits

The Group's restricted bank deposits of approximately HK$10,737,000 (2016: HK$7,134,000) are the deposits kept for the coal mining business and coal upgrading business, which are required by related coal mining regulation and in the PRC regulatory restriction. The aforesaid deposits are in RMB and at market interest rate.

25. Bank and Cash Balances

At 31 December 2017, the Group's bank and cash balances denominated in RMB and kept in the PRC amounted to approximately HK$2,377,000 (2016: HK$51,630,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

26. Accrued Charges and Other Payables

	2017 HK$'000	2016 HK$'000
Accrued charges	**45,960**	52,344
Other payables	**119,394**	124,874
Deferred revenue (note 31)	**2,402**	–
	167,756	177,218

27. Due to Non-Controlling Shareholders

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

	2017 HK$'000	2016 HK$'000
Current liabilities		
Other payables (note)	**7,393**	6,874

Note:

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

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

The directors estimate the carrying amount of the amounts due to non-controlling shareholders approximate its fair value as at 31 December 2017.

28. Other Loans

Other loans are repayable as follows:

	2017 HK$'000	2016 HK$'000
Within one year	–	25,228
In the second year	10,994	9,150
	10,994	34,378
Less: Amount due for settlement within 12 months (shown under current liabilities)	–	(25,228)
Amount due for settlement after 12 months	10,994	9,150

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

The average interest rate at 31 December 2017 was 4.5% (2016: 5.2%) per annum.

Other loans of approximately HK$4,718,000 (2016: HK$29,291,000) are arranged at fixed interest rates and expose the Group to fair value interest rate risk.

The directors estimate the carrying amounts of the other loans approximate their fair value as at 31 December 2017.

29. Due to a Director

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

	Note	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Loans	(a)	20,883	20,230

Note:

(a) The loans from a Director included interest payables of approximately HK$1,338,000 (2016: HK$1,021,000), which are unsecured, interest-bearing and repayable on 31 December 2019 (2016: 31 December 2018). The remaining balances are loans from a director and details are set out as below:

Fully repayable:	Interest rate	Security	2017 HK$'000	2016 HK$'000
31 December 2019 (2016: 31 December 2018)	Nil	Nil	13,545	12,209
31 December 2019 (2016: 31 December 2018)	5% p.a.	Nil	6,000	7,000
			19,545	19,209

29. Due to a Director (Continued)

Note: (Continued)

(a) (Continued)
Loans from a director repayable after one year included a loan recognised based on the effective interest method using discount rate of 3.14% p.a. (2016: 4.75% p.a.). As at 31 December 2017, the principal amount of this loan from a director is approximately HK$14,410,000 (2016: HK$13,397,000).

Loans from a director of approximately HK$6,000,000 (2016: HK$7,000,000) are arranged at fixed rates, thus exposing the Group to fair value interest rate risk.

The carrying amounts are denominated in the following currencies:

	Hong Kong dollar HK$'000	RMB HK$'000	Total HK$'000
2017			
Loans	**7,338**	**13,545**	**20,883**
2016			
Loans	8,021	12,209	20,230

The directors estimate the carrying amounts of amounts due to a director approximate their fair value as at 31 December 2017.

30. Provision

	2017 HK$'000	2016 HK$'000
At 1 January	**–**	–
Provision for the year	**5,054**	–
Exchange re-alignment	**191**	–
At 31 December	**5,245**	–
Presented as:		
Current portion	**–**	–
Non-current portion	**5,245**	–
	5,245	–

Provision represents the best estimates on land subsidence, restoration, rehabilitation and environmental costs determined by the directors of the Company. However, in so far as the effect on the land and the environment from current mining activities become apparent in future periods, the estimate of the associated costs may be subjected to revision in the future.

31. Deferred Revenue

	2017 HK$'000	2016 HK$'000
At 1 January	**2,233**	–
Government grant received	**–**	2,233
Exchange difference	**169**	–
At 31 December	**2,402**	2,233
Presented as:		
Current portion (note 26)	**2,402**	–
Non-current portion	**–**	2,233
	2,402	2,233

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

32. Deferred Tax

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

	Decelerated tax depreciation HK$'000	Future deductible expenses/ (taxable amounts) HK$'000	Tax losses HK$'000	Other temporary difference HK$'000	Undistributed earnings of the PRC subsidiaries HK$'000	Tax on gain from intergroup debts transfer and interest income HK$'000	Total HK$'000
At 1 January 2016	14,879	(7,074)	10,037	–	(1,429)	–	16,413
Credit/(charge) to profit or loss for the year (note 11)	(9,592)	9,079	(3,586)	–	294	(28,644)	(32,449)
Exchange differences	(342)	(31)	(357)	–	–	1,233	503
At 31 December 2016 and 1 January 2017	**4,945**	**1,974**	**6,094**	**–**	**(1,135)**	**(27,411)**	**(15,533)**
Credit/(charge) to profit or loss for the year (note 11)	**(3,392)**	**(1,974)**	**3,683**	**(673)**	**288**	**(347)**	**(2,415)**
Exchange differences	**245**	**–**	**600**	**50**	**–**	**(2,085)**	**(1,190)**
At 31 December 2017	**1,798**	**–**	**10,377**	**(623)**	**(847)**	**(29,843)**	**(19,138)**

32. Deferred Tax (Continued)

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

	2017 HK$'000	2016 HK$'000
Deferred tax assets	**12,175**	13,013
Deferred tax liabilities	**(31,313)**	(28,546)
	(19,138)	(15,533)

At the end of the reporting period the Group has unused tax losses of approximately HK$50,409,000 (2016: HK$61,954,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$48,697,000 (2016: HK$24,376,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$1,712,000 (2016: HK$37,578,000) due to the unpredictability of future profit streams. These unrecognised tax losses are available for offsetting against future taxable profits in one to five years.

33. Share Capital

Ordinary shares:	**Authorised**		
	No. of shares of HK$0.50 each	**No. of shares of HK$0.01 each**	**HK$'000**
As at 1 January 2016 and 31 December 2016	2,000,000,000	–	1,000,000
Share subdivision (note (i))	(2,000,000,000)	100,000,000,000	–
At 31 December 2017	–	100,000,000,000	1,000,000

	Issued and fully paid		
	No. of shares of HK$0.50 each	**No. of shares of HK$0.01 each**	**HK$'000**
As at 1 January 2016 and 31 December 2016	503,477,166	–	251,739
Capital reduction (note (i))	(503,477,166)	503,477,166	(246,704)
Issue of shares pursuant to a placing agreement (note (ii))	–	1,000,000,000	10,000
At 31 December 2017	–	1,503,477,166	15,035

Notes:

(i) On 14 December 2016, a special resolution of capital reduction and subdivision was passed at the extraordinary general meeting of the Company and the resolution of capital reduction of issued shares and subdivision of unissued share which has become effective on 22 March 2017. The capital reduction of issued shares and subdivision of unissued shares involved the following:

33. Share Capital (Continued)

Notes: (Continued)

(a) the par value of each issued share be reduced from HK$0.50 to HK$0.01 each by cancelling the paid up share capital to the extent of HK$0.49 on each issued share by way of a reduction of capital, so that each issued share shall be treated as one fully paid up share of par value of HK$0.01 each in share capital of the Company ("**Capital Reduction**");

(b) the credit arising from the Capital Reduction be applied towards offsetting the accumulated losses of the Company of approximately HK$111,422,000 as at the effective date of the Capital Reduction, thereby reducing the accumulated losses of the Company. The balance of credit of approximately HK$135,282,000 has been transferred to "distributable reserve"; and

(c) immediately following the Capital Reduction, each of the then authorised but unissued shares with par value of HK$0.50 each be subdivided into 50 new Shares of HK$0.01 par value each.

(ii) On 31 July 2017, 1,000,000,000 ordinary shares of HK$0.01 each were issued by way of placing at a price of HK$0.11 per share for cash consideration of HK$110,000,000. The premium on issue of shares approximately HK$96,935,000, which was net of share issue expenses approximately of HK$3,065,000, was credited to the share premium account.

These new Shares rank pari passu with the existing shares in issue in all aspects.

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to recognise the return to the shareholders through the recognition of the debt and equity balance. Capital comprises all components of equity (i.e. share capital, accumulated losses and other reserves) except for non-controlling interests, which remains unchanged from prior year. As at 31 December 2017, total equity attributable to owners of the Company of approximately HK$128,123,000 (2016: HK$157,629,000) was managed by the Group as capital.

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

The only externally imposed capital requirement is that, for the Group to maintain its listing on the Stock Exchange, it has to have a public float of at least 25% of the shares. The Group receives a report from the share registrars quarterly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. At 31 December 2017, 89.61% (2016: 68.98%) of the shares were in public hands.

34. Share-Based Payments

Equity-settled share option scheme

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

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

Details of the specific categories of options are as follows:

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

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

34. Share Based Payments (Continued)

Equity-settled share option scheme (Continued)

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

	2017		2016	
	Number of share options	**Weighted average exercise price HK$**	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January	**13,275,000**	**0.618**	25,650,000	0.631
Granted during the year	**–**	**–**	–	–
Lapsed during the year	**(3,375,000)**	**0.710**	(12,375,000)	0.645
Outstanding at 31 December	**9,900,000**	**0.587**	13,275,000	0.618
Exercisable at 31 December	**9,900,000**	**0.587**	13,275,000	0.618

The options outstanding at the end of the year have a weighted average remaining contractual life of 7.46 years (2016: 8.46 years) and the exercise prices range from HK$0.53 to HK$0.71 (2016: HK$0.53 to HK$0.71). No share options (2016: Nil) was granted during the year ended 31 December 2017.

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

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

35. Statement of Financial Position of the Company

	Note	As at 31 December 2017 HK$'000	2016 HK$'000
Non-current assets			
Investments in subsidiaries		**21**	21
Current assets			
Due from subsidiaries		**153,113**	135,799
Prepayment		**1,071**	1,293
Bank and cash balances		**102,462**	23,406
		256,646	160,498
Current liabilities			
Due to subsidiaries		**198**	198
Accrued charges and other payables		**801**	1,370
		999	1,568
Net current assets		**255,647**	158,930
Total assets less current liabilities		**255,668**	158,951
Non-current liabilities			
Due to a director		**7,338**	8,021
NET ASSETS		**248,330**	150,930
Capital and reserves			
Share capital		**15,035**	251,739
Reserves	36(a)	**233,295**	(100,809)
TOTAL EQUITY		**248,330**	150,930

Approved by the Board of Directors on 23 March 2018 and is signed on its behalf by:

Xu Bin
Director

Zhang Fusheng
Director

36. Other Reserves

(a) Company

	Note	Share premium HK$'000	Capital reserve HK$'000	Distributive reserve HK$'000	Share-based payment reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016		293,461	3,917	–	8,509	(291,883)	14,004
Total comprehensive income for the year		–	–	–	–	(114,813)	(114,813)
Cancellation of share premium		(293,461)	–	–	–	293,461	–
Share options lapsed		–	–	–	(4,204)	4,204	–
At 1 January 2017		**–**	**3,917**	**–**	**4,305**	**(109,031)**	**(100,809)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**(9,535)**	**(9,535)**
Share placement	33(ii)	**96,935**	**–**	**–**	**–**	**–**	**96,935**
Capital reduction	33(i)	**–**	**–**	**135,282**	**–**	**111,422**	**246,704**
Share options lapsed		**–**	**–**	**–**	**(1,232)**	**1,232**	**–**
At 31 December 2017		**96,935**	**3,917**	**135,282**	**3,073**	**(5,912)**	**233,295**

(b) Nature and purpose of reserves

(i) Capital reserve

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

(ii) Distributable reserve

On 22 March 2017, the authorised and issued share capital of the Company was reduced through a reduction in the nominal value of each shares from HK$0.50 to HK$0.01. The credit balance of the capital reduction amount after reducing the accumulated losses of the Company was transferred to distributable reserve.

(iii) Future development fund

Pursuant to the relevant PRC regulations, the Group is required to set aside an amount to a future development fund at RMB9.5 (2016: RMB9.5) per tonne of raw coal mined. The fund can be used for future development of the coal mining operations, and is not available for distribution to shareholders. Upon incurring qualifying development expenditure, an equivalent amount is transferred from future development fund to retained earnings.

36. Other Reserves (Continued)

(b) Nature and purpose of reserves (Continued)

(iv) Safety fund

Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC, the Group is required to set aside an amount to a safety fund at RMB15 (2016: RMB15) per tonne of raw coal mined. The fund can be used for improvements of safety at the mines, and is not available for distribution to shareholders. Upon incurring qualifying safety expenditure, an equivalent amount is transferred from safety fund to retained earnings.

(v) Foreign currency translation reserve

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

(vi) Share-based payment reserve

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

37. Notes to the Consolidated Statement of Cash Flows

(a) Disposal of subsidiaries

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

Net assets at the date of disposal were as follows:

	2016 HK$'000
Property, plant and equipment	11,553
Prepaid land lease	2,375
Deposits, prepayments and other receivables	37
Bank and cash balances	2
Trade payables	(1,329)
Accrued charges and other payables	(11,864)
Current tax liabilities	(30)
Net assets disposed of	744
Release of foreign currency translation reserve	(26,741)
Direct cost to the disposal	66
Gain on disposal of subsidiaries (note 15)	48,731
Consideration satisfied by cash	22,800
Net cash inflow arising on disposal:	
Cash consideration received	22,800
Cash paid for direct cost	(66)
Cash and cash equivalents disposed of	(2)
	22,732

(b) Major non-cash transaction

During the year, the Group sold certain motor vehicles for settlement of its trade payables of approximately HK$1,267,000 (2016: HK$884,000).

37. Notes to the Consolidated Statement of Cash Flows (Continued)

(c) Reconciliation of liabilities arising from financing activities

	Due to non-controlling shareholders (note 27) HK$'000	Other loans (note 28) HK$'000	Due to a director (note 29) HK$'000
At 1 January 2017	6,874	34,378	20,230
Change from cash flows:			
Proceeds from new loans	–	1,904	–
Repayment of loan	–	(26,302)	(1,000)
Total changes from financing cash flows	–	(24,398)	(1,000)
Other changes:			
Exchange adjustments	519	559	939
Interest expenses	–	455	714
Total other changes	519	1,014	1,653
At 31 December 2017	7,393	10,994	20,883

38. Contingent Liabilities

Based on relevant coal mining regulations in the PRC (中華人民共和國國務院令第446號《國務院關於預防煤礦生產安全事故的特別規定》及發改電[2014]226號《關於遏制煤礦超能力生產規範企業生產行為的通知》), the over-production of Inner Mongolia Jinyuanli during the year ended 31 December 2016 may result in a maximum penalty of RMB2,000,000 (equivalent to HK$2,402,000) and, consideration of possible to bring its operations to a halt. Inner Mongolia Jinyuanli made an application to relevant authorities to increase its annual production capacity in May 2015 (the "**Application**") and is now still subject to an examination period.

Inner Mongolia Jinyuanli obtained the legal opinion from an independent legal advisor that it is very unlikely that Inner Mongolia Jinyuanli will be penalised or suspended the operations and it could maintain its operations of current production output before there are any further development of the Application. The directors relied on the above mentioned legal opinion to conduct the coal mining operations. Up to the date of this report, Inner Mongolia Jinyuanli does not receive any penalty notice nor any order to suspend its operation from government authorities concerning the above matter. Nevertheless, directors consider that the Group has a potential contingent liability arisen from the over-production of coal with a maximum amount of HK$2,402,000 as at 31 December 2017 (2016: HK$2,233,000).

39. Capital Commitments

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

	2017 **HK$'000**	2016 HK$'000
Property, plant and equipment	**24,809**	31,030
Prepaid land lease payments	**18,874**	17,548
	43,683	48,578

40. Lease Commitments

At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017 **HK$'000**	2016 HK$'000
Within one year	**1,409**	2,984
In the second to fifth years inclusive	**1,351**	2,623
	2,760	5,607

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

41. Related Party Transactions

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

	2017 **HK$'000**	2016 HK$'000
Loan interest paid to a director	**316**	399

The Company and a director entered into the License Agreement. Pursuant to the License Agreement, the Company paid a nominal license fee of HK$Nil (2016: HK$1) for the licensing of the Proprietary Technology (note 14(b)).

Compensation of key management personnel

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

42. Principal Subsidiaries

Particulars of the principal subsidiaries as at 31 December 2017 are as follow:

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

(1) Sino-foreign equity joint venture.

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

42. Principal Subsidiaries (Continued)

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

Name	Jilin De Feng		Inner Mongolia Jinyuanli		CCGC	
	2017	2016	**2017**	2016	**2017**	2016
Principal place of business/country of incorporation	PRC/PRC		PRC/PRC		PRC/PRC	
% of ownership interests/voting rights held by NCI	**49%/49%**	49%/49%	**43.8%/43.8%**	43.8%/43.8%	**20%/20%**	20%/20%
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 31 December:						
Non-current assets	**493**	559	**201,318**	215,322	**1,752**	7,056
Current assets	**47,738**	44,826	**46,484**	76,406	**130**	289
Non-current liabilities	**–**	–	**(5,868)**	–	**(21,550)**	(13,209)
Current liabilities	**(151)**	(140)	**(208,180)**	(227,209)	**(16,082)**	(21,346)
Net assets/(liabilities)	**48,080**	45,245	**33,754**	64,519	**(35,750)**	(27,210)
Accumulated NCI	**23,551**	22,163	**15,063**	28,538	**(7,150)**	(5,442)
Year ended 31 December:						
Revenue	**–**	–	**111,842**	264,392	**–**	–
Loss	**(565)**	(587)	**(34,344)**	(8,198)	**(6,247)**	(7,092)
Total comprehensive income	**2,833**	(3,011)	**(30,766)**	(11,715)	**(8,541)**	(5,695)
Loss allocated to NCI	**1,388**	(1,475)	**(13,476)**	(5,131)	**(1,708)**	(1,139)
Dividends paid to NCI	**–**	–	**–**	–	**–**	–
Net cash generated from/(used in) operating activities	**(460)**	(12,579)	**(40,999)**	120,854	**(510)**	(796)
Net cash generated from/(used in) investing activities	**–**	2	**(3,324)**	(17,203)	**(1)**	(34)
Net cash (used in)/generated from financing activities	**903**	–	**(3,075)**	(55,604)	**511**	823
Net increase/(decrease) in cash and cash equivalents	**443**	(12,577)	**(47,398)**	48,047	**–**	(7)