CAA Resources Limited
優庫資源有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code： 02112

Annual Report 2017

* For identification only

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FINANCIAL AND OPERATING HIGHLIGHTS

	Notes	**2017 USD'000**	2016 USD'000	% Change
Result				
Revenue		**1,104,616**	1,240,674	-11.0
Profit attributable to owners of the Company		**3,415**	4,345	-21.4
Financial Position				
Trade receivables		**194,476**	91,918	+111.6
Total interest-bearing bank and other borrowings		**56,024**	33,738	+66.1
Trade payables		**26,078**	24,268	+7.5
Total assets		**302,441**	243,825	+24.0
Total current assets		**254,584**	196,939	+29.3
Total current liabilities		**170,070**	116,492	+46.0
Key Financial Ratios		**2017**	2016	Difference
Performance				
Gross profit margin		**1.5%**	1.1%	+36.4%
Net profit margin	1	**0.31%**	0.35%	-11.4%
Return on assets	2	**1.25%**	2.10%	-40.5%
Operating				
Inventory turnover days	3	**–**	3	-3
Debtors' turnover days	4	**47**	20	+27
Creditors' turnover days	5	**8**	6	+2
Liquidity and Gearing				
Current ratio	6	**1.5**	1.7	-0.2
Gearing ratio	7	**57.8%**	14.9%	+42.9 percentage points
Per share data				
Net assets per share (US cents)		**7.18**	6.84	
Basic earnings per share (US cents)		**0.23**	0.29	
Proposed final dividend (HK cents)		**–**	–	

FINANCIAL AND OPERATING HIGHLIGHTS

	2017	2016	Difference
Operating Statistics			
Number of crushing line owned and operated as at 31 December	**2**	2	–
Number of beneficiation line owned and operated as at 31 December	**5**	5	–
Actual ore mining volume (Kt) for the year ended 31 December	**0**	176	–100%
Actual ore crushing volume (Mt) for the year ended 31 December	**0**	0.04	–100%
Actual ore beneficiation volume (Mt) for the year ended 31 December	**0**	0.04	–100%
Ore production volume (Kt) for the year ended 31 December	**0**	42	–100%

Note:

1. Net profit margin is calculated by dividing profit for the year by revenue.

2. Return on assets represents the net profit attributable to the owners of the Company as percentage of the average of period-beginning balance and period-ending balance of total assets.

3. Inventory turnover days for the relevant year are calculated by dividing the average of the opening and closing balances of inventories for the relevant year by cost of sales and then multiplied by the number of days in the relevant year.

4. Debtors' turnover days for the relevant year are calculated by dividing the average of the opening and closing balances of trade receivables for the relevant year by revenue and then multiplied by the number of days in the relevant year.

5. Creditors' turnover days for the relevant year are calculated by dividing the average of the opening and closing balances of trade payables for the relevant year by cost of sales and then multiplied by the number of days in the relevant year.

6. Current ratio is the ratio of total currents assets to total current liabilities.

7. Gearing ratio is calculated based on the Group's net debt divided by total equity plus net debt. Net debt is defined as interest-bearing bank loans and other loans and an amount due to the ultimate holding company, net of cash and bank balances and it excludes liabilities incurred for working capital purposes. Equity includes equity attributable to the owners of the Company.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors of CAA Resources Limited, I am pleased to present the 2017 annual report to the Shareholders.

Our management team and staff have always been dedicated and practical, taking the shareholders' interests at a high priority, and have strictly complied with the Group's cost-controlling measures designed to increase effectiveness and optimize our capacity structure continuously. Looking back at the past year, the Platts 62% – Fe Iron Ore Index was volatile, falling from a high level of USD94.5 per tonne at the beginning of the year to USD53 per tonne at one point and then fluctuating until it closed at USD72.8 per tonne at the end of the year. In light of this, we continued the business strategy which we have adopted since 2015 and strived to focus on the trading of iron ore business and other commodity. During 2017, our revenue reached temporarily USD1,104.6 million. In light of iron ore price fluctuation and the costs of self-production, we have suspended our exploration, mining, crushing and beneficiation activities; we also established stable working relationships with the suppliers in order to effectively fix the price and quantity of goods supplied; these raised our gross profit margin by 0.4 percentage points to 1.5%. During 2017, we recorded a gross profit of approximately USD16.5 million, representing an increase of approximately 20.5% as compared to 2016, which shows that our cost-controlling measures were highly effective.

Besides, we have ventured into diversify our business portfolio, so as to bring opportunities for the sustainable development of the Group in the long term. For instance, the Company seeks to fully utilize the business network established in Malaysia over the years by the Group and grasp the opportunities brought by the "Belt and Road" initiative proposed by China. During the year, the Group has been negotiating with an enterprise in Malaysia which is engaged in high-tech development and manufacturing industries in relation to cooperation on a smart transportation project, thereby entering the fast-developing high-tech research and development and manufacturing industries of the country.

Looking ahead to 2018, since the four major mines are planning to increase production and it is expected that China will need to consume 1,120 Mt of iron ore (representing a slight decrease of 0.2% year on year), there is analysis indicating that the average iron ore price in 2018 would be USD51.50 per tonne. However, China's dependence on iron ore imports is expected to continue to be high in 2018 and China iron ore imports in January were the second highest on record. We will keep an eye on how the four major mines' plans to increase production will actually turn out and steadily expand our iron ore business and other commodity trading business. At the same time, we will continue to formulate our future business development plan in accordance with market environment conditions and our own needs, and actively look for the most appropriate investment plans.

Lastly, on behalf of all members of the Board, I would like to take this opportunity to convey our sincere thanks to the management and our staff for their hard work and contribution. I would also like to thank our investors, bankers, and business partners for their unfailing trust and support all along.

Li Yang
Chairman and Chief Executive Officer

Hong Kong, 29 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW OF BUSINESS DEVELOPMENT

The Company acts as an investment holding company, and its principal business activities are iron ore exploration, mining, crushing and beneficiation as well as sale of iron ore products and other commodities. There were no significant changes in the nature of the Group's principal activities during 2017 (the "Year"). The primary mining asset of the Group is the iron-ore reserves in Ibam Mine, which is located in the State of Pahang, Malaysia. In consideration of the fluctuation of iron ore price and low cost efficiency of self-production, the Group has focused on trading activities while primary activities in exploration, mining, crushing and beneficiation at the Ibam Mine was suspended during the year. As such, no mining volume and production volume was recorded for the year (2016: 175.9 Kt and 42.3 Kt respectively).

The Group will try different methods to diversify the business portfolio. Strategies included but not limited to conducting suitable mergers and acquisitions of other businesses so that the scope of businesses becomes more diversified. This will bring opportunities to the sustainable development of the Group in the long term. During the year, the Company took a solid step under the "Belt and Road" initiative proposed by China. As disclosed in the announcement dated 8 November 2017, the Group and an independent entity established in Malaysia which is engaged in hi-tech development and manufacturing industries entered into a memorandum of understanding. It was proposed that the Group would commence full-scale cooperation with the Counterparty in relation to a smart transportation project in Malaysia, thereby entering the fast-developing high-tech research and development and manufacturing industries of the country. For further details, please refer to the announcement of the Company dated 8 November 2017.

Apart from the existing business at Ibam Mine and commodities trading business, the Company has been seeking opportunities to further diversify the scope of business. During the year, the Company commenced negotiations with China Commercial Foreign Trade Chengdu Corporation Limited (中商外貿成都有限公司) with respect to cooperating on a large-scale commercial trade centre project (the "Potential Project") located at Longquanyi District of Chengdu city on 14 June 2017. Further on 11 July 2017, the Company entered into a MOU with an independent third party (the "vendor") for a proposed acquisition (the "Proposed Acquisition") of part of the issued share capital of a company established in the People's Republic of China (the "Target Company"). The Target Company operates a large-scale commercial trade centre located at the "Sino-France Ecological Park of Chengdu" in Chengdu, China. Since no concrete agreement was achieved in both Potential Project and Proposed Acquisition, the Company had decided not to proceed further on the negotiation.

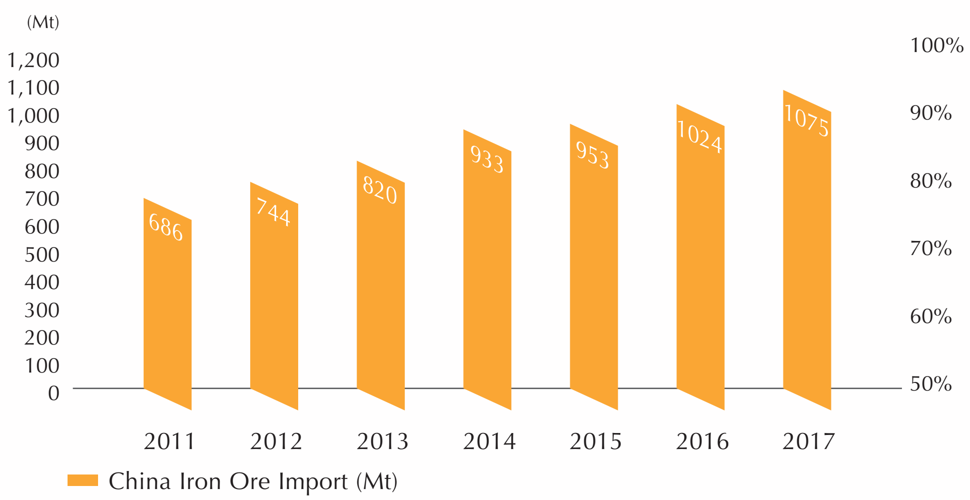
MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In 2017, global economic growth strengthened, driving the development of the overall market in China. The National Bureau of Statistics of China pointed out that China's gross domestic product grew by 6.9% during the year, reversing the downward trend since 2011. Among the industries, secondary industries grew by 6.1%. After the supply-side reform since the end of 2015, the overall industrial operating environment has gradually improved. The task of reducing the production capacity of the steel and coal industries for the year was completed. The industrial production capacity utilization rate was 77.0%, the highest in 5 years. China being the largest consumer state of steel in the world, the trend in its steel market has a significant influence on iron ore prices.

World Steel Association data show that China's steel output increased by 5.7% last year. Due to limited production capacity, steel prices were rather stiff during the year. The China steel price index was 121.8 points at the end of 2017, 22.3 points higher than at the beginning of the year, representing a rise of 22.4%. In contrast, iron ore prices fluctuated more. At the beginning of the year, the Platts Fe Iron Ore Index once hit the high of USD90 at its peak, plunging sharping in the second quarter that followed with average prices slipping to USD62.9. In the third quarter, driven by the rise of downstream steel prices and steel enterprises replenishing inventory, the index rebounded and surged to USD70.77. From September to December, the index rebounded. On the whole, the large inventories in ports and steel factories replenishing inventory in stages guided the market trend in 2017.

China Iron Ore Import



As for iron ore imports and exports, according to the Result of a Forecast of the Demand for Iron and Steel in China 2018 released by the China Metallurgical Industry Planning and Research Institute, in 2017, China produced about 710 Mt of pig iron, the estimated consumption of iron ores was 1,122 Mt, and iron ore import dependency was 88.4%. Data released by the General Administration of Customs also show that iron ore imports increased by 5.0% year-on-year to 1,075 Mt, setting a new record.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OUTLOOK

According to the newest Central Economic Work Conference convened in China, the fundamental key of work of "seeking change while achieving stability" in 2018 will set 2018 for a continuation of an active fiscal policy. Therefore, infrastructure investment leading from fiscal policies still remains high.

The China Metallurgical Industry Planning and Research Institute estimates that China's pig iron production will be about 709 Mt in 2018 and the estimated consumption of iron ores will be 1,120 Mt, down slightly by 0.2% year-on-year. Even though the overall demand is almost unchanged, China's iron ore import dependency will remain high in 2018. According to data from the General Administration of Customs, China's iron ore imports exceeded 100 Mt in January, which was the second highest on record. This is good news for the Group.

In relation to international iron ore prices, the shipment of high-grade resources of the four major mines will increase notably, and the output of the four major mines is expected to increase by 45 Mt. Analysis by the Commonwealth Bank of Australia shows that the rise in iron ore supply will put pressure on prices. The average iron ore price is expected to be USD51.50 per tonne in 2018, representing a drop of 20% compared with 2017.

BUSINESS & OPERATIONS REVIEW

Project Ibam operation update

The Group's principal mining site is Project Ibam. Based on the "Independent Technical Report" (see Appendix IV of the Prospectus of the Company for full report) there is approximately 151 Mt of ore resource at a grade higher than or equal to 35%, with an average grade of 46.5% total iron, and it has a mine life expected to be more than 26 years as of 31 December 2012. The Group uses the open-pit mining method to simplify operations and reduce production costs. The Group produces iron ore products through a relatively low-cost process which includes ball-milling, magnetic separation process and dewatering. The method is environmentally friendly as it does not require chemical additives and reduces the amount of waste water produced.

As at 31 December 2017, the Group owned 5 beneficiation lines and 2 crushing lines. During the Year, the Group focused on commodities trading and no mining volume and production volume was recorded due to the temporary suspension of mining activities in 2017 (2016: 175.9 Kt and 42.3 Kt respectively).

There was no exploration and development activities during the year ended 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Strategy

The volatility of international iron ore prices during the year was huge from as low as USD54.0 to the peak of USD95.1. The long-term price trend is uncertain, which renders the decision on resumption of production difficult. As such, the Group continued with its strategic focus on the trading of iron ores and other commodities. In addition, the Group has recently extended its product line in commodity trading to Eastern Siberia–Pacific Ocean oil (ESPO), so as to bring opportunities for the sustainable development of the Group in the long run.

Diversification of income source has been the Group's major strategy to maximize Shareholder value. For instance, the Company seeks to fully utilize the business network established in Malaysia over the years by the Group and grasp the opportunities brought by the "Belt and Road" initiative proposed by China. During the year, the Group and an independent entity established in Malaysia which is engaged in high-tech development and manufacturing industries entered into a memorandum of understanding. It was proposed that the Group would commence full-scale cooperation with that company in relation to a smart transportation project in Malaysia, promoting the advanced technology and equipment of China, thereby entering the fast-developing high-tech research and development and manufacturing industries of the country.

Looking ahead, the Group expects to continue to focus on the trading of iron ore and other commodities. At the same time, we will look for assets with stable and healthy operating profits and fast-growing companies for acquisition or investment or develop new businesses by way of cooperation, endeavouring to diversify income sources and further enhancing our profitability.

Operating Results

During the year, the Group focused on the business of trading iron ore products and other commodities and suspended the less cost-effective exploration business, helping to raise gross profit by 20.5% to USD16.5 million (2016: USD13.7 million).

In 2017, the Group recorded revenue of USD1,104.6 million (2016: USD1,240.7 million), representing a decrease of USD136.1 million or 11.0% compared with the same period of the previous year. The sales volume of iron ore products decreased by 28.9% to approximately 13,320 Kt on dry basis (2016: approximately 18,727 Kt). The products sold had an average iron ore grade of 62.0% (2016: 62.5%). During the year, the average selling price of the Group's iron ore products on dry basis was USD74.5 per tonne (2016: USD57.3 per tonne). Although international iron ore prices fluctuated considerably, our gross profit margin has increased to 1.5% (2016: 1.1%) by securing orders with higher profit margin.

Profit for the year decreased by 21.4% to USD3.4 million from USD4.3 million, and earnings per share was 0.23 US cents (2016: 0.29 US cents) which was largely due to increase in administrative expenses, administrative expenses, finance costs arising from the interest for notes and decrease in "Other income and gains" from interest income.

MANAGEMENT DISCUSSION AND ANALYSIS

The sales analysis for the Group is as follows:

	For the year ended 31 December 2017	For the year ended 31 December 2016	Change
Sales Revenue	**USD1,104,616,000**	USD1,240,674,000	–11.0%
– Iron Ore	**USD992,707,000**	USD1,073,941,000	–7.6%
– Other Commodities note	**USD111,909,000**	USD166,733,000	–32.9%
Sales Volume (dry basis)			
– Iron Ore	**13,320,000 tonnes**	18,727,000 tonnes	–28.9%
– Other Commodities note	**17,000 tonnes**	64,000 tonnes	–73.4%
Gross Profit	**USD16,527,000**	USD13,711,000	20.5%
Gross Profit Margin	**1.5%**	1.1%	+0.4 percentage points

Note: Nickel cathodes, copper cathodes, lead ore products and alumium during the year.

PRINCIPAL RISKS AND UNCERTAINTIES

During the year, the Company appointed an external firm of accountants to review and recommend the improvement of major risk areas of the Group. Certain risk factors which may affect the results and business operations of the Group are identified and summarised, together with the Group's actions and opinion towards such factors, are listed as below.

Risk of fluctuations in international commodity prices

The Group's iron ore production planning is highly driven by the international iron ore price which determines if the mining production is commercially feasible. The Group should reduce the iron ore production until and unless the selling price could cover the fixed costs of production and other costs borne by the Group such as inland transportation and storage. The fluctuation of international iron ore price may also affect the customers' demand on import iron ore, thus affecting the Group's sales. However, fluctuations in international commodity prices has lesser effect on the Group's trading activities. As such, the Group mitigated such risk by focusing more on the trading business of iron ore and other commodity.

MANAGEMENT DISCUSSION AND ANALYSIS

Reliance on limited number of customers

The Group derived a significant portion of our revenue from a limited number of customers. For the year ended 31 December 2017, the five largest customers of the Group contributed 78.5% of total sales of the Group. The iron ore mining and trading business may be affected by volatility of international iron ore and commodity price and change in global economic environment. Change on demand or financial position of major customers may have adverse effect on Group's sales. The Group has successfully enlarged the customer base and the reliance on top five customers has been reduced from 86.3% in 2016 to 78.5% this year. The Group will continue to expand the customer base to mitigate the risk.

Insufficient banking facilities granted

The Group uses documentary letter of credit of payment for purchase. Purchase amount in iron ore and other commodity trading are enormous. Insufficient banking facilities granted by commercial banks would limit the growth of sales. Drastic rise of iron ore or commodity price may even force the Group to lower the purchase quantity and increase the Group's business risk. The Group will try to maintain a good relationship with the current bankers, and to seek for new source of banking facilities.

Staff risk of fraud or fraud

In the day-to-day business operations, employees may be involved in inappropriate or unethical behavior to cause the Group to suffer losses. Including fraud, theft of company property, receipt of rebates, unauthorized access to corporate confidential information and so on. The Group is of the opinion that the current headcount of the Group is small enough for the management to exercise close supervision on the staff, thereby reducing the risk of staff mistakes or improper behavior but will closely monitor the situation and take appropriate measures as and when necessary.

FINANCIAL REVIEW

PROFIT AND OTHER COMPREHENSIVE INCOME

Revenue

During the year ended 31 December 2017, the Group's revenue reached approximately USD1,104.6 million, about 11.0% lower than that recorded in 2016, which was USD1,240.7 million. The decrease in revenue was mainly due to the modification of the Group's marketing strategy to secure orders with higher profit margin.

Cost of sales

During the year ended 31 December 2017, the Group's cost of sales reached approximately USD1,088.1 million, about 11.3% lower than approximately USD1,227.0 million recorded in 2016. The cost of sales comprised the purchase costs of iron ore products and other commodities from trading activities in the amount of USD1,088.1 million (2016: USD1,221.2 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit

During the year ended 31 December 2017, the Group's gross profit reached approximately USD16.5 million, about 20.5% higher than approximately USD13.7 million recorded in 2016. Gross profit grew substantially because the Group lifted the minimum gross profit margin as condition for accepting orders and that the Group paid prepayments to the suppliers so as to secure reliable supply and better pricing term. The average selling price of iron ore products increased from USD57.3 per tonne to USD74.5 per tonne during the year.

ADMINISTRATIVE EXPENSES

During the year ended 31 December 2017, the Group's administrative expenses reached approximately USD8.7 million, about 61.4% higher than USD5.4 million recorded in 2016. The increase was mainly due to increase in one-off professional fees, increased staff costs and business travelling.

OTHER EXPENSES

During the year ended 31 December 2017, the Group's other expenses were approximately USD1.0 million, and the other expenses for 2016 were USD3.5 million. The decrease was mainly because the net foreign exchange gain of USD0.8 million was recognised in other income and gains during the year ended 31 December 2017 while a foreign exchange loss of USD1.1 million was recorded in other expenses in last year.

FINANCE COSTS

During the year ended 31 December 2017, the Group's finance costs reached approximately USD5.4 million, about 92% higher than USD2.8 million recorded in 2016. The increase was mainly due to interest expense incurred for the notes issued of USD3.7 million (2016: USD0.9 million) and interest expense incurred for bank loans of USD1.7 million (2016: USD1.3 million). No notional interest expense incurred for shareholder loan from Cosmo Field (the Controlling Shareholder) during the year. Please refer to note 6 to the Notes to Financial Statements for further details.

Income Tax Expenses

During the year, the Group's income tax expense reached approximately USD0.6 million, about 51.7% lower than the approximately USD1.2 million in the year of 2016. The effective tax rate was 14.9% in comparing with 22.2% of last year. The decrease in effective tax rate was mainly due to the overprovision for tax for the amount of USD0.7 million adjusted during the year.

Profit for the Year

Profit for the year ended 31 December 2017 decreased by 21.4%, from approximately USD4.3 million for the year ended 31 December 2016 to approximately USD3.4 million for the year ended 31 December 2017. The net profit margin decreased to 0.3% for the year ended 31 December 2017 from 0.4% for the year ended 31 December 2016. Decrease in profit for the year was mainly due to effect of increase in administrative expenses and finance costs were higher than the contribution of increase in gross profit.

MANAGEMENT DISCUSSION AND ANALYSIS

Total Comprehensive Income Attributable to Owners of the Company

Total comprehensive income attributable to owners of the Company decreased by 39.6%, from approximately USD8.6 million for the year ended 31 December 2016 to approximately USD5.2 million for the year ended 31 December 2017. The decrease was due to there was a decrease in fair value of available-for-sale investments for approximately USD0.1 million whereas a gain of USD5.9 million was recorded last year. Foreign exchange gain arising from translation of foreign operations of approximately USD1.8 million (2016: loss of USD0.2 million) as a result of appreciation of RM against USD.

SHAREHOLDER LOAN FROM CONTROLLING SHAREHOLDER TO THE COMPANY

As at 31 December 2017, the Group had interest-free loans from the ultimate holding company, Cosmo Field, of USD60,000,000 (note 19 to the Notes to Financial Statements). Cosmo Field granted unsecured interest-free loans of USD40,000,000 and USD20,000,000 to the Group pursuant to the shareholder loan agreements entered into between the Group and Cosmo Field dated 27 September 2016 and 22 December 2016, respectively, which were due on demand for repayment.

The Company has been notified that a deed of release has been executed on 4 January 2018 with respect to 752,000,000 shares ("Charged Shares") of the Company which were previously charged by Cosmo Field in favour of the second priority lender (as set out in the announcement dated 29 December 2016). The Company has also been notified that, Cosmo Field has charged the Charged Shares in favour of another independent third party institution as second priority lender on 4 January 2018. As at the date of this report, Cosmo Field owns a total of 843,750,000 shares of the Company, representing 56.25% of the issued share capital of the Company. The Charged Shares represent approximately 50.13% of the issued share capital of the Company as at the date of this report. Cosmo Field is the Company's Controlling Shareholder (as defined in the Listing Rules) which is wholly owned by Mr. Li Yang who is a chairman and Controlling Shareholder of the Company.

PROPERTY, PLANT AND EQUIPMENT ("PPE")

The Group's PPE mainly consisted of machinery, mines properties and vehicles. As at 31 December 2017, the Group's PPE reached to approximately USD4.3 million, representing about 10.2% decrease from USD4.8 million as at 31 December 2016. The decrease was mainly due to the depreciation charge for the year.

MINING RIGHTS AND RESERVES

As at 31 December 2017, the Group's mining rights and reserves amounted to approximately USD12.9 million, representing a 9.8% increase from approximately USD11.8 million as at 31 December 2016. The increase was mainly due to foreign exchange alignment after offset by the amortization charged for the year.

MANAGEMENT DISCUSSION AND ANALYSIS

AVAILABLE-FOR-SALE INVESTMENTS

The unlisted equity investments represented the Group's investments in Fortune Union Financial Holdings (Asia Pacific) Limited ("Fortune Union") and Shenzhen Gongxinying Financial Information Service Co., Ltd. ("Shenzhen Gongxinying"). Fortune Union, whose indirect wholly owned subsidiaries are currently engaged in the equipment lease business, and has a certain market share in the micro credit market in Chongqing China. Shenzhen Gongxinying is a company incorporated in Shenzhen China engaged in internet finance. Unlisted equity investments in both Fortune Union and Shenzhen Gongxinying are stated at fair value. The Group does not intend to dispose of the investments in the near future.

TRADE RECEIVABLES

The Group's trade receivables increased by 111.6%, from approximately USD91.9 million as at 31 December 2016 to approximately USD194.5 million as at 31 December 2017 which was mainly due to the lengthening of trade receivable turnover days. Trade receivable turnover days were approximately 47 days (2016: 20 days). The longer trade receivable turnover days was recorded due to the increase in settlement by tele-transfer of which longer credit period was granted.

Major customers were granted credit on open account basis or allowed to settle by documentary letter of credit. Overdue balances are reviewed regularly by senior management, if any. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

As at 31 December 2017, all trade receivables of the Group, based on the sales recognition date, were aged within six months and about 74.4% of the trade receivables were neither past due but not impaired.

PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

As at 31 December 2017, the Group's prepayments, deposits and other receivables amounted to approximately USD50.9 million (31 December 2016: approximately USD19.1 million). The significant increase was mainly due to the prepayments made to certain commodities suppliers as prepayments or deposits to secure a more competitive purchase price and secured supply for commodities trading activities. During the years of 2017 and 2016, these suppliers were top ten suppliers of the Group.

TRADE PAYABLES

Trade payables mainly consisted of payables to suppliers for purchase of iron ore products and other commodities for trading activities. The Group's trade payables amounted to approximately USD26.1 million as at 31 December 2017 and approximately USD24.3 million as at 31 December 2016.

OTHER PAYABLES AND ACCRUALS

As at 31 December 2017, the Group's other payables and accruals amounted to approximately USD63.5 million, about 20.5% higher than approximately USD52.7 million as at 31 December 2016. The increase was mainly due to a further increase in amount due to Cosmo Field for the amount of USD10 million to USD60 million (31 December, 2016: USD50 million).

MANAGEMENT DISCUSSION AND ANALYSIS

NOTES

The amount represented subscription notes issued on 20 September 2016 and 19 October 2017 for the amounts of USD20.9 million and USD19.8 million (2016: USD20.2 million and nil) respectively. The notes were recorded at the amortised cost using the effective-interest method after deducting of issuance costs at the issue date. The notes issued on 20 September 2016 were reclassified as current liability as at 31 December 2017 and non-current liability as at 31 December 2016. The notes issued on 19 October 2017 were classified as non-current liability as at 31 December 2017. For further details, please refer to the announcement dated 20 September 2016 and 19 October 2017 respectively.

Net Current Assets Position

The Group's net current assets was increased during the year, from net current assets of approximately USD80.4 million as at 31 December 2016 to net current assets of approximately USD84.5 million as at 31 December 2017. The increase was primarily attributable to significant increase in trade receivable. Decrease in cash and cash equivalents for the amount of approximately USD72.8 million (2016: increase of USD47.3 million), reclassification of notes as current liabilities for approximately USD20.9 million (2016: Nil), increase in interest-bearing and other borrowings for approximately USD22.3 million (2016: decrease USD1.8 million) and loans due to the ultimate holding company for the amount of USD10.0 million during the year formed the offsetting items against the current assets.

Borrowings

As at 31 December 2017, the Group's borrowings mainly included: (i) secured bank loans of approximately USD56.0 million with an annual interest rate ranging from 2.29% to 3.89%; (ii) hire purchase arrangements for motor vehicles of USD0.02 million with an annual interest rate ranging from 2.36% to 2.47%; (iii) notes amounted to USD40.7 million which comprised the Note 1 of USD20.9 million and the Note 2 of USD19.8 million issued on 20 September 2016 and 19 October 2017 respectively, details of which can be referred to the announcements dated 20 September 2016 and 19 October 2017 respectively.

As of 31 December 2017, the Company also owed shareholder loans of USD60.0 million (2016: USD50.0 million) from Cosmo Field (the Controlling Shareholder) which were interest-free and unsecured, the details of which can be referred to section "shareholder loan from controlling shareholder to the company" of this report.

Disclosure pursuant to Rule 13.21 of the Listing Rules

On 20 September 2016, the Company as issuer, entered into a subscription agreement with an independent third party institution (the "Noteholder 1") pursuant to which the Company agrees to issue and the Noteholder 1 agrees to subscribe for the subscription notes ("Note 1") in the principal amount of HK$164,865,750 with a final redemption date falling 18 months after the date of issue. The Company entered into a letter agreement with the Noteholder 1 on 19 March 2018 to extend the final redemption date of the Note 1 from 19 March 2018 to 19 May 2018 and made a payment of USD2,000,000 on 29 March 2018 to the Noteholder 1 to be applied first to interest accrued due as at the date of such payment and thereafter to reduce the principal balance of the Note 1. Pursuant to the terms of the Note 1, it will be an event of default if, among others, (i) Mr. Li Yang ("Mr. Li", the chairman and Controlling Shareholder of the Company) fails to remain the Controlling Shareholder (as defined in the Listing Rules) of the Company; or (ii) Mr. Li ceases to be the chairman of the Company. Upon and at any time after the occurrence of an event of default, the Subscriber may give notice to the Company that one or more of the Note 1 shall become immediately due and repayable with all accrued interests.

MANAGEMENT DISCUSSION AND ANALYSIS

Further, on 19 October 2017, the Company entered into a subscription agreement with, amongst others, an independent third party institution (the "Noteholder 2") pursuant to which the Company agrees to issue and the Noteholder 2 agrees to subscribe for the notes ("Note 2") in the principal amount of not more than US$20,000,000 with a maturity date of two years from the date of issuance. Pursuant to the terms of the Note 2, it will be an event of default in respect of the Note 2 if, amongst others, so long as any part of the Note 2 is outstanding and without the prior consent of the Subscriber, (i) Mr. Li Yang ("Mr. Li", the chairman and Controlling Shareholder (as defined under the Listing Rules) of the Company) fails to remain as the single largest shareholder of the Company and holds 55.00% of the issued share capital of the Company; (ii) sells, transfers or creates any further encumbrance over his equity interests in the Company; or (iii) ceases to act as the chairman, the chief executive officer and the executive director of the Company.

Cosmo Field, Mr. Li Yang and his father have provided guarantee with respect to the Note 1 and Cosmo Field and Mr. Li Yang have provided guarantee with respect of the Note 2 for which the Group is not required to provide any consideration. The aforesaid guarantees are fully exempted connected transactions.

LIQUIDITY AND CAPITAL RESOURCES

The total equity of the Group as at 31 December 2017 was approximately USD107.7 million (31 December 2016: USD102.6 million). The Group generally finances its operation with internally generated cash flow, interest-bearing bank and other borrowings, and interest-free and security-free shareholder loans from our Controlling Shareholder as set out in section "shareholder loan from controlling shareholder to the company". Primary uses of funds during the year included payment of iron ore and other commodities purchased and operating expenses. As at 31 December 2017, current assets of approximately USD254.6 million primarily comprised USD194.5 million of trade receivables, USD50.9 million of prepayments, deposits and other receivables, and USD9.2 million of cash and bank balances (including pledged bank deposits). Current liabilities of approximately USD170.1 million mainly comprised USD26.1 million of trade payables, USD63.5 million of other payables and accruals, USD56.0 million of interest-bearing bank and other borrowings, USD20.9 million of notes payable and USD3.6 million of tax payable. Current ratio, being total current assets to total current liabilities was 1.5 as at 31 December 2017 (2016: 1.7). The liquidity position indicated that the Group has sufficient financial resources to finance its business and to meet its working capital requirements.

As at 31 December 2017, the Group had certain interest-bearing bank and other borrowings of USD56.0 million in total (2016: USD33.7 million). The bank and other borrowings were mainly used to finance the issuance of letter of credit.

On 19 October 2017, the Company issued the Note 2 in the principal amount of USD20 million) with a final redemption date falling 2 years after the date of issue. For details, please refer to announcement of the Company dated 19 October 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Cash and Cash Equivalents

Cash and cash equivalents of the Group in 2017 decreased by approximately USD72.8 million compared to 2016.

Detailed cash flow analysis is as follows:

	For the year ended 31 December	
	2017	2016
	USD'000	*USD'000*
Cash and cash equivalents in the consolidated statement of cash flow at beginning of year	**74,922**	27,664
Net cash used in operating activities	**(127,409)**	(8,944)
Net cash flows from investing activities	**6,110**	4,516
Net cash flows from financing activities	**48,509**	51,312
Net (decrease)/increase in cash and cash equivalents	**(72,790)**	46,884
Effect of foreign exchange rate changes, net	**(47)**	374
Cash and cash equivalents at end of year	**2,085**	74,922

Net Cash Flows used in Operating Activities

The Group's net cash flows used in operating activities changed from approximately USD8.9 million outflow for the year ended 31 December 2016 to approximately outflow of USD127.4 million for the year ended 31 December 2017. It primarily included the profit before tax of USD4.0 million and the outflow of cash was mainly contributed by the increase in trade receivables of approximately USD102.6 million, increase in prepayments, deposits and other receivables of approximately USD33.1 million and offset by the increase in trade payables of approximately USD4.1 million.

Net Cash Flows from Investing Activities

The Group's net cash flows from investing activities increased by 35.3%, from approximately inflow of USD4.5 million for the year ended 31 December 2016 to approximately inflow of USD6.1 million for the year ended 31 December 2017. It primarily included collection of loan advanced to third parties for approximately USD18.5 million, decrease in pledged bank deposit for approximately USD3.9 million and interest received for approximately USD2.2 million. Investing cash outflow included loan advanced to third parties for USD18.5 million.

Net Cash Flows from Financing Activities

The Group's net cash flows from financing activities decreased by 5.5%, from approximately USD51.3 million for the year ended 31 December 2016 to approximately USD48.5 million for the year ended 31 December 2017. The decrease is primarily due to cash inflows from Cosmo Field (the Company's Controlling Shareholder) was lower of approximately USD10.0 million (2016: net inflows of USD35.0 million). Other major source of finance was net increase in bank borrowing of USD22.3 million (2016: net decrease of USD1.7 million).

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

The Group is currently funding its capital expenditure through internal funds generated from its operations, new bank borrowings, notes issued and loan from Cosmo Field. The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. Net debt is defined as interest-bearing bank and other borrowings and an amount due to Cosmo Field, net of cash and bank balances and it excludes liabilities incurred for working capital purposes. Equity includes equity attributable to the owners of the Company.

The Group's gearing ratio as at 31 December 2017 was 57.8% (31 December 2016: 14.9%).

The Group continued to conduct its operational business mainly in USD. The Group did not arrange any forward currency contracts for hedging purposes.

CONTINGENT LIABILITIES

As at 31 December 2017, neither the Group nor the Company had any significant contingent liabilities.

FOREIGN CURRENCY RISK

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of each reporting period to a reasonably possible change in the RM exchange rate, with all other variables held constant, of the Group's profit before tax.

	Increase/ (decrease) in RM rate	Increase/ (decrease) in profit before tax
	%	*USD'000*
2017		
If the US dollar weakens against RM	**5**	269
If the US dollar strengthens against RM	**(5)**	(269)
2016		
If the US dollar weakens against RM	**5**	954
If the US dollar strengthens against RM	**(5)**	(954)

MANAGEMENT DISCUSSION AND ANALYSIS

INTEREST RATE RISK

The Group's income and operating cash flows were not substantially affected by changes in market interest rates. The Group has no significant interest-bearing assets, except for cash and bank balances. The Group had no significant interest rate exposure arising from all of its interest-bearing loans since the interest rates were fixed. In addition, the Group has not used any interest rate swap to hedge against interest rate risk.

CHARGE ON ASSETS

Save for certain motor vehicles, trade receivables and bank balances pledged for bank and other loans as disclosed in notes 11, 16 and 17 to the Notes to Financial Statements, the Group did not have any pledges on its assets as at 31 December 2017.

EMPLOYEES AND EMOLUMENT POLICIES

The Group values its human resources and recognizes the importance of attracting and retaining qualified staff for its continuing success. As at 31 December 2017, the Group had 46 employees (2016: 51). For the year ended 31 December 2017, total staff cost including Directors' emolument amounted to approximately USD2.1 million (2016: USD1.6 million).

The Group's remuneration policies are in line with prevailing market practices and are determined on the basis of the performance and experience of the individual. The Group has constantly been reviewing the staff remuneration package to ensure it is competitive in the relevant industries.

ACQUISITIONS AND INVESTMENTS IN PROGRESS

For details of significant acquisitions and investments of the Group during 2017, please refer to the section "Other Investment and Business Development".

MANAGEMENT DISCUSSION AND ANALYSIS

Other Information

RESOURCE AND RESERVES OF IBAM MINE UNDER JORC CODE AS AT 31 DECEMBER 2017

Mineral resources of the Ibam Mine for ore with iron grade greater than or equal to 35% as at 31 December 2017 *(Note)***:**

Classification	Quantity (Mt)	Fe Grade (%)
Measured	108	46.7
Indicated	–	–
Inferred	42	46.4
Total	150	46.6

Ore reserves of the Ibam Mine for ore with iron grade greater than or equal to 35% as at 31 December 2017:

Classification	Quantity (Mt)	Fe Grade (%)
Proved	–	–
Probable	102	44.7

Note: The figures were calculated by the resource and reserves as at 31 December 2013 under the JORC Code (confirmed by Geos Mining Minerals Consultants, Australia which is a specialist independent geological and mineral exploration consultant) less the mining volume since then.

All assumptions and technical parameters set out in the technical report of Geos Mining (the "**Independent Technical Adviser**") which is prepared under JORC Code as shown in the prospectus of the Company dated 20 June 2013 with respect to the Ibam Mine have not been materially changed and continued to apply to the above disclosed data.

EXPLORATION, DEVELOPMENT AND MINING PRODUCTION ACTIVITIES

During the year ended 31 December 2017, no exploration and development activities were carried out. The Group did not incur any investment in equipment upgrade during the year ended 31 December 2017.

During the year, no mining volume and production volume were recorded since the mining activities has been temporarily suspended (2016: 175.9 Kt) and 42.3 Kt respectively).

MANAGEMENT DISCUSSION AND ANALYSIS

CONTRACTUAL OBLIGATIONS

Save as disclosed in notes 30 and 31 to the Notes to Financial Statements, as at 31 December 2017, the Group had no material contractual obligations to disclose (31 December 2016: nil).

CAPITAL EXPENDITURE

During the year, the Group's total capital expenditure was USD6,000 (31 December 2016: USD155,000) mainly for acquisition of computers.

SIGNIFICANT ACQUISITIONS, DISPOSALS AND INVESTMENTS

During the year, the Company did not make any significant acquisition and investments. The Group's acquisitions, disposals and investments under planning included (but are not limited to) the projects described in the section "Overview of business development" above. Save as disclosed herein, the Company does not have any future plan for significant acquisition, disposal and investment during the year and as at the date of this report.

RELATED PARTY TRANSACTIONS

Details of the related party transactions as stated in note 32 to the Notes to Financial Statements comprise: (i) a further interest-free loans from Cosmo Field, the controlling shareholder of the Company, for the amount of USD10 million, while the principal amount of the interest-free loan from Cosmo Field to the Company amounts to USD60 million as at 31 December 2017, all of which are interest-free, security free and fully exempted connected transactions; (ii) compensation of key management personnel of the Group for the amount of USD1.1 million; (iii) guarantees provided by Mr. Li Yang (chairman and controlling shareholder), his father and Cosmo Field.

Purchase, sale or redemption of the Company's listed securities

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

Final Dividend

The Directors did not recommend the payment of any final dividend for the year ended 31 December 2017 (2016: Nil).

CORPORATE GOVERNANCE REPORT

The Board of Directors is committed to maintaining appropriate corporate governance practices to enhance the accountability and transparency of the Company in order to protect Shareholders' interests and to ensure that the Company complies with the latest statutory requirements and professional standards.

The Company has complied with the code provisions set out in CG Code for the year ended 31 December 2017 except for the deviation from CG Code provision A.2.1 in respect of the roles of chairman and Chief Executive Officer of the Company which is further discussed in the section of "Chairman and Chief Executive Officer" in this corporate governance report.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct for dealing in securities by the Directors. Having made specific enquiry to all the Directors, all the Directors have confirmed that they had complied with the required standards set out in the Model Code for the year ended 31 December 2017.

CHANGE OF AUDITOR

The termination of the engagement of Ernst & Young as auditor of the Company and the appointment of Graham H. Y. Chan & Co. as the new auditor of the Company was duly approved by shareholders on 28 February 2018. For details, please refer to the circular dated 6 February 2018.

BOARD OF DIRECTORS

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has delegated to the Chief Executive Officer, and through him, to the senior management the authority and responsibility for the day-to-day management and operation of the Group.

All Directors have carried out their duties in good faith, in compliance with applicable laws and regulations and in the interests of the Company and its Shareholders at all times.

DELEGATION OF MANAGEMENT FUNCTIONS

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

CORPORATE GOVERNANCE REPORT

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

As at 31 December 2017 and up to the date of this corporate governance report, the Board comprised four executive Directors and three independent non-executive Directors.

Executive Directors
Mr. Li Yang *(Chairman and Chief Executive Officer)*
Ms. Li Xiaolan
Mr. Wang Er
Ms. Xu Mijia

Independent Non-Executive Directors
Mr. Leung Yiu Cho *(Appointed on 21 August 2017)*
Dr. Li Zhongquan
Dr. Wang Ling

The biographical details of the Directors and the relationship among the members of the Board are set out in the section of "Profiles of Directors and Senior Management" on pages 45 to 49 of this annual report. Ms. Li Xiaolan is the younger sister of Mr. Li Yang's father.

In compliance with Rules 3.10(1) and (2) and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors, who have represented at least one-third of the Board. Mr. Leung Yiu Cho, being one of the independent non-executive Directors possesses the appropriate professional qualifications or accounting or related financial management expertise. The Board considers that all the independent non-executive Directors have appropriate and sufficient business, legal and/or finance experience and qualifications to carry out their duties so as to protect the interests of the Shareholders of the Company.

The Company has received from each of the independent non-executive Directors an annual confirmation of their independence as required under Rule 3.13 of the Listing Rules. The Company considered all the independent non-executive Directors to be independent.

Each of the independent non-executive Directors has taken up the role as an independent non-executive Director for an initial term of 3 years and is subject to retirement and re-election in accordance with the Articles of Association.

CORPORATE GOVERNANCE REPORT

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 continuing professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance with Model Code, and the Company's compliance with the CG Code and disclosure in this corporate governance report.

TRAINING OF THE DIRECTORS

During the year under review, all the Directors have taken continuous professional development trainings in order to refresh their knowledge and skills and have provided their records to the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under CG Code A.2.1 under Appendix 14 to the Listing Rules, the roles of chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The positions of chairman and Chief Executive Officer of the Company are both currently carried on by Mr. Li Yang. The Board considers that the structure currently operated by the Company does not undermine the balance of power and authority between the Board of Directors and the management.

The Board members have considerable experience and qualities which they bring to the Company and the Board, of which Mr. Li Yang can take advantage in fulfilling his duties, and the management is not impaired. Mr. Li Yang has strong client relationships and has the full backing from the Board of Directors and senior management of the Company in fulfilling his obligations as chairman and Chief Executive Officer. The Board believes that having the same person performing the roles of both chairman and Chief Executive Officer can provide the Group with strong and consistent leadership and that, operating in this manner allows for more effective and efficient overall strategic planning of the Group. Further, the decisions of the Board are made collectively by way of voting and therefore the chairman of the Board should not be able to monopolize the voting result.

CHANGE OF DIRECTOR DURING 2017

During the year, Mr. Kong Chi Mo resigned as an independent non-executive director of the Company due to personal commitments and to focus on his other business with effect from 21 August 2017 and Mr. Leung Yiu Cho was appointed as independent non-executive director on the same date. For details, please refer to the announcement dated 21 August 2017.

ROTATION OF DIRECTORS

In accordance with articles of the Company's articles of association, Ms. Li Xiaolan, Ms. Xu Mijia and Dr. Li Zhongquan will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are appointed for periods of one to three years.

CORPORATE GOVERNANCE REPORT

Pursuant to Article 83 (3) of the Articles of Association, Mr. Leung Yiu Cho, the independent non-executive director of the Company, who filled the casual vacancy upon the resignation of Mr. Kong Chi Mo, could hold office until the first general meeting of Members after his appointment. As such, Mr. Leung Yiu Cho was re-elected as independent non-executive director of the Company in the extraordinary general meeting of Members held on 28 February 2018.

MEETINGS OF THE BOARD

Notices of regular Board meetings are given to all the Directors in accordance with the Articles of Association. Schedules and agenda of each meeting are made available to the Directors in advance. All the Directors are given an opportunity to include matters in the agenda for regular Board meetings. For other Board and committee meetings, notices are given within reasonable times in advance. Minutes of all Board meetings and committee meetings are kept by the company secretary and open for the Directors' inspection. Draft and final version of minutes are circulated to the Directors for their comment and record within a reasonable time after the Board meeting is held.

The attendances at the Board, respective Board committees meetings and the AGM held either in person or through other electronic means of communication for the year ended 31 December 2017 are as follows:

	Board	Audit Committee	Nomination Committee	Remuneration Committee	AGM
Executive Directors					
Mr. Li Yang	4/4	N.A.	3/3	N.A.	1/1
Ms. Li Xiaolan	4/4	N.A.	N.A.	3/3	1/1
Mr. Wang Er	4/4	N.A.	N.A.	N.A.	1/1
Ms. Xu Mijia	4/4	N.A.	N.A.	N.A.	1/1
Independent non-executive Directors					
Mr. Leung Yiu Cho (appointed on 21 August 2017)	2/2	4/4	N.A.	N.A.	N.A.
Dr. Li Zhongquan	4/4	5/5	3/3	3/3	1/1
Dr. Wang Ling	4/4	5/5	3/3	3/3	1/1
Mr. Kong Chi Mo (resigned on 21 August 2017)	2/2	1/1	N.A.	N.A.	1/1

Note: number of meeting attended is shown as nominator and total number of meetings a director eligible to attend and held is shown as denominator.

In addition to the disclosure made above, the Board held a meeting on 29 March 2018 to approve the annual results and other relevant matters of the Group. All Directors were present in person or through other electronic means of communication in the meeting.

COMMITTEES OF THE BOARD

The Board has established the Audit Committee, the Nomination Committee and the Remuneration Committee to oversee particular aspects of the affairs of the Company. Each of these committees is set up with specific written terms of reference in compliance with the CG Code. Each committee is delegated with authorities and duties within its terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

CORPORATE GOVERNANCE REPORT

The majority of the members of each Board committee are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 152.

Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances at the Company's expense.

Audit Committee

The Company established an audit committee pursuant to a resolution of our Directors passed at a Board meeting on 12 April 2013 with effect upon the Listing. The primary duties of the Audit Committee include ensuring that an effective financial reporting and internal control system is in place and compliance of the Listing Rules controlling the completeness of the Company's financial statements, selecting external auditor and assessing their independence and qualifications, and ensuring the effective communication between our external auditor. The Audit Committee comprises three Independent non-executive Directors, namely, Mr. Leung Yiu Cho (chairman of the Audit Committee), Dr. Wang Ling and Dr. Li Zhongquan.

During the year, Mr. Kong Chi Mo resigned as an independent non-executive director of the Company due to personal commitments and to focus on his other business with effect from 21 August 2017. Subsequent to his resignation, Mr. Kong ceased to be the chairman of the Audit Committee of the Company. Mr. Leung Yiu Cho was appointed as independent non-executive director and chairman of Audit Committee on the same date. For details, please refer to the announcement dated 21 August 2017.

The Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial process, internal control and risk management system of the Group, overseeing the audit process and performing other duties and responsibilities assigned by the Board. The Audit Committee held two meetings during the year and up to the date of this report to review interim and annual financial results and reports and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditor.

The Audit Committee also met the external auditor twice without the presence of the executive Directors during the year and up to the date of this report.

The terms of reference for the Audit Committee have been revised in accordance with the Listing Rules and published on the Stock Exchange website on 31 December 2015.

CORPORATE GOVERNANCE REPORT

The Company's and the Group's audited financial statements for the year ended 31 December 2017 have been reviewed by the Audit Committee, who was of the opinion that these statements complied with the applicable accounting standards, the Listing Rules and the legal requirements, and that adequate disclosures had been made. For the year ended 31 December 2017, five committee meetings were held and the attendance records of individual members are set out below:

Number of meetings	Name of Directors attended/held
Mr. Leung Yiu Cho (appointed on 21 August 2017)	4/4
Dr. Wang Ling	5/5
Dr. Li Zhongquan	5/5
Mr. Kong Chi Mo (resigned on 21 August 2017)	1/1

Remuneration Committee

The Company established a remuneration committee pursuant to a resolution of our Directors passed at a Board meeting on 12 April 2013 with effect upon the Listing. The Remuneration Committee comprises two independent non-executive Directors, namely, Dr. Wang Ling (chairman of the Remuneration Committee), Dr. Li Zhongquan and one executive Director, namely Ms. Li Xiaolan.

The duties of the Remuneration Committee mainly include making recommendations on and approving the remuneration policy and structure and remuneration packages of all Directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions. The Remuneration Committee would make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy.

For the year ended 31 December 2017, three committee meetings were held and the attendance records of individual members are set out below:

Number of meetings	Name of Directors attended/held
Dr. Wang Ling	3/3
Dr. Li Zhongquan	3/3
Ms. Li Xiaolan	3/3

CORPORATE GOVERNANCE REPORT

During the year under review, Mr. Kong Chi Mo resigned as an independent non-executive director of the Company due to personal commitments and to focus on his other business with effect from 21 August 2017 and Mr. Leung Yiu Cho was appointed as independent non-executive director on the same date. It is the Company's policy that the remuneration package of each Director and senior management shall be determined by reference to, inter alia, their duties, responsibilities, experience and qualifications.

Details of remuneration payable to the Directors and senior management by band are set out in note 8 to the Notes to Financial Statements of this annual report.

Nomination Committee

The Company established a nomination committee pursuant to a resolution of our Directors passed at a Board meeting on 12 April 2013 with effect upon the Listing. The Nomination Committee comprises one executive Director, namely, Mr. Li Yang (chairman of the Nomination Committee), and two independent non-executive Directors, namely Dr. Wang Ling and Dr. Li Zhongquan. The primary duties of the Nomination Committee include identifying suitable candidates for the Directors and making recommendations to the Board, assessing the structure and composition of the Board, preparing, making recommendations to and supervising the execution of the nominating policy of the Company.

For the year ended 31 December 2017, three committee meetings were held and the attendance records of individual members are set out below:

Number of meetings	**Name of Directors attended/held**
Mr. Li Yang	3/3
Dr. Wang Ling	3/3
Dr. Li Zhongquan	3/3

The Company has received from each of the independent non-executive Directors an annual confirmation of their independence required under Rule 3.13 of the Listing Rules. The Company considered all the independent non-executive Directors to be independent. Besides, the Nomination Committee reviewed the appointment of each Director prior to that Director seeking re-election at the forthcoming AGM and was pleased to recommend the re-election of three eligible Directors to the Board.

CORPORATE GOVERNANCE REPORT

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The termination of the engagement of Ernst & Young as auditor of the Company and the appointment of Graham H. Y. Chan & Co. as the new auditor of the Company was duly approved by shareholders on 28 February 2018. For details, please refer to the circular dated 6 February 2018.

For the year ended 31 December 2017, the fees paid and payable to Ernst & Young (the then auditor) in respect of services rendered to the Group amounted to approximately USD93,000, which was paid for non-auditing services. For the year ended 31 December 2017, the fees paid and payable to Graham H. Y. Chan & Co. in respect of services rendered to the Group amounted to approximately USD216,000, of which a sum of USD177,000 was paid for auditing services and of USD39,000 for non-auditing services.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements which give a true and fair view of the state of affairs of the Company and the Group and of the results and cash flows for the Group for the year ended 31 December 2017.

In preparing the consolidated financial statements, supported by the finance department of the Group, the Directors have:

(i) reviewed the adoption of all applicable IFRSs;

(ii) selected suitable accounting policies and applied them on a consistent basis;

(iii) made judgments and estimates that are prudent, fair and reasonable; and

(iv) prepared the consolidated financial statements on a going concern basis.

In preparing the consolidated financial statements for the year ended 31 December 2017, the Board has received sufficient explanation and information from the management, which enabled the Board to make an informed assessment of the consolidated financial statements and other information before approval. The Directors continue to adopt the going concern approach in preparing the consolidated financial statements and are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

The Board recognizes its responsibility for maintaining an adequate and sound enterprise risk management and internal control system and through the Audit Committee and, if necessary, an external firm of qualified accountants to provide internal control services, conducts reviews on the effectiveness of these systems at least annually, covering material controls, including financial, operational, compliance and strategic risk control functions. The Board understands that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year under review, a Malaysian legal adviser was appointed to provide advice to the Board and the designated compliance officers on an ongoing basis in respect of all relevant Malaysian laws and regulations, including changes to such laws and regulations, which may affect the Group's operations in Malaysia.

During the year under review, the Board, through the Audit Committee, conducted review of both design and implementation effectiveness of the risk management and internal control systems of the Group, covering all material controls, including financial, operational and compliance controls, with a view to ensuring that resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions are adequate. In this respect, the Audit Committee communicates any material issues identified to the Board.

During the year under review, the audit committee of the Company engaged BDOFS to conduct forensic investigation with respect to certain findings by EY, and BDOFS identified a number of major weaknesses in the Company's internal controls, in respect of which the Company has taken steps to adopt rectification measures. For details, please refer to the announcement of the Company date 24 January 2018, the Company also appointed, Baker Tilly Hong Kong Risk Assurance Limited ("Baker Tilly") an external firm of qualified accountants to:

- assist in identifying and assessing the risks of the Group through a series of workshops and interviews; and

- independently perform internal control review and assess effectiveness of the Group's risk management and internal control systems.

CORPORATE GOVERNANCE REPORT

Our Enterprise Risk Management Framework

The Group established its enterprise risk management framework in 2016. While the Board has the overall responsibility to ensure that sound and effective internal controls are maintained, management is responsible for designing and implementing an internal control system to manage all kinds of risks faced by the Group.

Through the risk identification and assessment processes, risks are identified, assessed, prioritized and allocated treatments. Our risk management framework follows the COSO Enterprise Risk Management – Integrated Framework, which allows the Board and management to manage the risks of the Group effectively. The Board receives regular reports through the Audit Committee that oversights risk management and internal audit functions.

Principal Risks

In the year of 2017, no material principal risks were identified except for the findings reported under the section "Internal Control Deficiencies" reported by BDO Financial Service Limited in the announcement of the Company dated 24 January 2018, in respect of which the Company has taken rectification measures. For details, please refer to the announcement of the Company dated 24 January 2018.

Our Risk Control Mechanism

The Group adopts a "three-layer" corporate governance structure with operational management and controls performed by operations management, coupled with risk management monitoring carried out by the finance and compliance team and independent internal audit outsourced to and conducted by Baker Tilly. The Group maintains a risk register to keep track of all identified major risks of the Group. The risk register provides the Board, the Audit Committee, and management with a profile of its major risks and records management's action taken to mitigate the relevant risks. Each risk is evaluated at least annually based on its likelihood of occurrence and potential impact upon the Group. The risk register is updated by management as the risk owners with addition of new risks and/or removal of existing risks, if applicable, at least annually, after the annual risk evaluation has been performed. This review process can ensure that the Group proactively manages the risks faced by it in the sense that all risk related parties have access to the risk register and are aware of and alert to those risks in their area of responsibility so that they can take follow-up action in an efficient manner.

CORPORATE GOVERNANCE REPORT

Our risk management activities are performed by management on an ongoing process. The effectiveness of our risk management framework will be evaluated at least annually, and periodic management meeting is held to update the progress of risk monitoring efforts. Management is committed to ensure that risk management forms part of the daily business operation processes in order to align risk management with corporate goals in an effective manner.

There is currently no internal audit function within the Group. The directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it would be more cost effective to appoint external independent professionals to perform internal audit function for the Group in order to meet its needs. Nevertheless, the directors will continue to review at least annually the need for an internal audit function.

The Company will continue to engage external independent professionals to review the Group's system of internal controls and risk management annually and further enhance the Group's internal control and risk management systems as appropriate.

The Audit Committee has reviewed the forensic investigation report and based on the controls in place as well as the rectifications taken by management, is satisfied that there are effective and adequate internal controls in the Group. The Board is of the view that the Company has complied with the CG Code for the year ended 31 December 2017.

Disclosure of Inside Information

The Group has put in place a set of policy for the disclosure of inside information which sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner and in compliance with the SFO. The policy and its effectiveness are subject to review on a regular basis.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

Mr. Chu Lok Fung Barry, who has been appointed as the company secretary of the Company since 12 April 2013, has complied with Rule 3.29 of the Listing Rules in relation to the professional training requirements.

SHAREHOLDERS' RIGHTS

The Board and the management of the Group endeavored to ensure all the Shareholders are treated equally and have their deserved rights. The Board has established the Shareholders' communication policy to maintain an open and effective communication with the Shareholders and to update the Shareholders on relevant information on the Group's business in a timely manner.

To safeguard Shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at Shareholder meetings, including the re-election of individual directors.

All resolutions put forward at Shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each Shareholder meeting.

Any Shareholder may appoint a proxy or representative to attend the general meeting, and they are entitled to exercise the same voting rights in the meeting.

The notice of AGM is distributed to all Shareholders at least 21 clear days and 20 clear business days prior to the AGM and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules. The chairman of the AGM exercises his power under the Company's Articles of Association to put each proposed resolution to the vote by way of a poll.

Procedures for convening an Extraordinary General Meeting and Putting Forward Proposals at General Meetings by Shareholders.

Pursuant to Article 58 of the Company's Articles of Association, an extraordinary general meeting shall be called by the Board on the written requisition of any one or more Shareholders of the Company, provided that such Shareholder(s) held at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such meeting shall be called for the transaction of any business specified in the written requisition to the Board or the Secretary of the Company; and shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

CORPORATE GOVERNANCE REPORT

There are no statutory provisions granting the right to Shareholders to put forward or move new resolutions at general meetings under the Companies Law or the Articles of Association of the Company. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

COMMUNICATION WITH SHAREHOLDERS

To embrace best corporate governance principles and practice, the Group, as a listed company, emphasizes the importance of maintaining good communication with the Shareholders and investors, so as to increase the Company's transparency and undertaking by the Shareholders. The AGM provides a useful forum for Shareholders to exchange views with the Board, external auditor and the chairman of each of the Board committees attend the general meeting and are pleased to answer Shareholders' enquiries. Furthermore, to foster two-way communication amongst the Company, its Shareholders and potential investors, and to update them abreast of the latest industry updates, corporate communications and the Group's announcements and business development in a timely manner, the Company has appointed an investor relation advisor and a formal channel to respond to enquiries from Shareholders and the public. In the event that a Shareholder wishes to put forward a proposal to the Board, he/she may put forth his/her enquiry in writing to the Hong Kong office of the Company at Suite 5602, 56/F., The Center, 99 Queen's Road Central, Hong Kong and the Company will act on the subject matter accordingly. In addition, the Company is committed to maximizing the use of its website at www.caa-resources.com and the website of the Stock Exchange at www.hkexnews.hk as a channel to provide updated information in a timely manner and strengthen the communication with both the Shareholders and the public.

PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

Shareholders may at any time send their enquiries and concerns to the Board in writing to the Hong Kong office of the Company whose contact details are as follows:

Suite 5602, 56/F., The Center, 99 Queen's Road Central, Hong Kong

CHANGES TO CONSTITUTIONAL DOCUMENTS

There was no change in the Company's constitutional documents for the year ended 31 December 2017.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE ESG REPORT

The Company is pleased to present its second ESG Report (the "Report"). This Report herein focuses on providing an overview of the environmental and social aspects of the Group, and outlines how we seek to continually improve our operational strategy in regard to our environment and society in order to cope with the global standards of sustainability.

During the process of our preparation of this ESG Report, the Group has conducted thorough review and evaluation of the existing policies and practices. The ESG Report covers the period which is consistent with the financial year of our Annual Report of 2017. Unless otherwise stated, this Report covers the data of all operating units of the Group.

Report Scope and Boundary

The ESG Report is prepared in accordance with the selected global, local and industrial standards and best practices, which include, but not limited to, the ESG Reporting Guide as set out in Appendix 27 to the Listing Rules and any applicable accounting and financial reporting standards in Hong Kong.

In order to comply with the disclosure requirement of the "comply or explain" provision, the ESG Report has outlined our overall performance in respect of environmental protection, human resources, operating practice and community involvement for the financial year of 2017.

This ESG Report has been approved by the Board of the Company on 29 March 2018.

Information and Feedbacks

For details in relation to our financial performance during the financial year of 2017, please visit our website or Annual Report.

Your feedback and comments are important to us. Please send us an email addressed to enquiry@caamine.com if you have any queries on the ESG Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OUR STAKEHOLDERS

As stakeholders play a crucial role in sustaining the success of our business, we make use of various communication channels to understand and engage our stakeholders. The probable points of concern of the stakeholders and the way of our communication and responses are listed below.

Stakeholders	Probable Points of Concern	Communication and Responses
HKEX	Compliance with listing rules, and timely and accurate announcements.	Meetings, training, workshop, programs, website updates, and announcements.
Government	Compliance with laws and regulations, preventing tax evasion, and social welfare.	Interaction and visits, government inspections, tax returns and other information.
Investors	Corporate governance, business strategies and performance, and investment returns.	Organizing briefing sessions and seminars, interviews, shareholders' meetings, issue of financial reports or operation reports for investors, media and analysts.
Media & Public	Corporate governance, environmental protection, and human right.	Issue of newsletters on the Company's website.
Suppliers	Payment schedule, and stable demand.	Performance of site visits.
Customers	Service quality, service delivery schedule, reasonable prices, service value, and personal data protection.	After-sales services.
Employees	Rights and benefits of employees, compensation, training and development, work hours, and working environment.	Conducting union activities, training, interviews with employees, internal memos, and employee suggestion boxes.
Community	Community environment, employment opportunities, community development, and social welfare.	Developing community activities, employee voluntary activities, and community welfare subsidies and donations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL

Overview

Our primary business operations include iron ore mining, crushing and beneficiation as well as the sale of iron products in the form of iron ore concentrates and iron ore fines. We sell iron ore products primarily to steel manufacturers and/or their representative purchase agents in China.

In light of the uncertainties of world economies and weakening demand for iron ores, our primary business operations have shifted from mining to commodity trading. During the financial year of 2017, no mining of iron ores had taken place, and thus, the total amounts of emissions of air pollutants and greenhouse gas, use of resources, discharges into water and land, and generation of hazardous and non-hazardous waste were comparatively lower than those generated in the previous year.

Nevertheless, we comply with all relevant laws and regulations that are related to environmental protection in Hong Kong, China and Malaysia that have a significant impact on us, and are actively updating our "Green Policies" in order to incorporate the idea of sustainable development into our Group's day-to-day operations. We strive to manage our physical operations in an efficient and sustainable manner. We continually seek for opportunities to improve our performance and corporate strategies to mitigate the harm to the environment caused by our operations.

Compliance and Grievance

During the financial year of 2017, we comply with all relevant environmental laws and regulations that have a significant impact on us, including but not limited to, Environmental Ordinances in Hong Kong, the Environmental Protection Law in China, and the Environmental Quality Act 1974 of Malaysia. No confirmed non-compliance incidents or grievances were noted by us in relation to environmental issues.

Emissions

The major types of pollutants created during open cut mining, blasting and scale of the mining operation are nitrogen oxides, carbon monoxide and dust. However, since no mining activity had been carried out in 2017, the total amount of air emissions is minimal and immaterial, and thus, no data was recorded during the financial year of 2017.

The greenhouse gas ("GHG") emissions resulted mainly from four types of activities of the Group, including, but not limited to, vehicle uses with direct emissions, air-conditioning of the operating units with direct emissions, employees travelling by air with indirect emissions, and mining processes with direct emissions.

Motor vehicles

We own several cars for travelling of our management and picking up our guests or clients. However, transportation is not a material part of our business. Furthermore, all vehicles are under regular maintenance check to ensure fuel consumption efficiency and road safety with a view to keeping carbon dioxide emission from the vehicles at the minimum level.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Air-conditioning

Employees are encouraged to set offices' air-conditioners at a comfortable temperature and all unused air-conditioners are switched off. The Group has also put reminders at prominent places for employees' awareness of electricity consumption and energy conservation during office hours of business operations.

Travelling by air

In the financial year of 2017, the total number of business air trips by employees was 126 times and the total CO2 emissions were 18,280.20 kg. Employees are only required to travel by air, when necessary, and, in most of the time, we arranged telephone or video conference calls rather than face-to-face meetings in order to reduce the carbon emissions that are indirectly caused by air travel.

The process of mining

Even though no mining of iron ores had taken place this year, we often fulfill our responsibility to protect, restore and treat the environment by implementing measures to reduce energy consumption and GHG emissions. The measures that we have taken are listed as follows:

1. The iron ore business minimizes the mining loss rate and dilution rate and maximizes the processing recovery rate by optimizing its mining methods and processing techniques, strengthening the management of on-site operations, and establishing strict technical standards for mining. Technologies are utilized to improve the extraction rate and recovery rate of mining, thus creating less impact on the environment.

2. In the case of happening of an accident, in the aftermath of the accident, we would investigate and analyze the cause, propose and implement remedial measures, and assess the effectiveness and impacts of the remedial measures on the environment with an aim to prevent any further impact the accident would cause to the environment, and also to avoid the occurrence of the accident.

3. We use diesel to run all equipment. Diesel consumption has been reduced by using diesel-saving equipment. Equipment is required to be turned off when not in use so as to avoid unnecessary emission of pollutants into the air.

4. Water pool is used for the process of iron ore cleaning. It produces very little or almost no diesel fumes or dust, and thus, less pollutants are emitted into the air.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Use of Resources

We always endeavour to promote sustainability and aim to cease our resources wastage to provoke detrimental harm to the environment. Various measures have been implemented to attain the goal of efficient use of resources. These measures have been effectively communicated to all levels of staff, ensuring that all employees understand clearly the importance of conserving energy and making full use of the available resources during operations.

Since we have shifted our core business from mining to trading, the consumption of water, electricity and other natural resources is minimal; the measures taken to minimize the usage of resources are stated below.

Water Usage

Water is the key component for the on-site beneficiation process. It is convenient for the Group to source ample amount of natural water from local streams, natural runoff and pumping from a retention pond in the Iban Mine area. As for the other offices of the Group, due to the nature of the operations, water consumption mainly arises from the daily use of water by the employees at the offices during working hours, and the domestic sewage is directly discharged into municipal sewage pipelines.

As the water bills for offices in Hong Kong and Chengdu, China were included in the rent, while natural water was obtained from local streams in Malaysia, thus we are unable to collect and disclose the relevant data.

Electricity and Energy Usage

Our Hong Kong office's electricity consumption for the financial year of 2017 was approximately at 15,242 kWh, and the total emission of CO2 was 12,041.18 kg, mainly arising from the daily office operations. The following measures are adopted and implemented by us to preserve energy and reduce electricity usage:

- Reduce power consumption by using power-saving facilities;
- Turn off unused lighting and appliances to reduce energy consumption;
- Turn off air conditioning and lights after office hours and in idle rooms; and
- Regularly maintain office equipment to ensure efficient operation of office equipment such as air conditioners, computers, lights, and refrigerators, etc.

Only the units of usage of electricity of the Group's Hong Kong office are able to be collected, while in Chengdu, China and Malaysia, the electricity fees were already included in the rent, and thus, we are unable to collect and disclose the relevant data of electricity usage in Chengdu, China and Malaysia.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Generation of Waste

The solid waste generated mainly arises from the Group's day-to-day operations, including, but not limited to, office-use paper, office waste and waste generated from the mining of iron ores. In order to alleviate the pressure on landfills and promote environmental friendliness within the Group, we have implemented various measures to encourage recycling of office supplies and other materials, thus eliminating the over-consumption of unnecessary materials.

In the financial year of 2017, we complied with all relevant laws and regulations that have a significant impact on us, including, but not limited to, Waste Disposal Ordinance in Hong Kong, Solid Waste and Public Cleansing Management Act 2007 in Malaysia and the Law of China on Prevention and Control of Environmental Pollution by Solid Waste in China. No confirmed material non-compliance incidents or grievances were noted by us in relation to environmental issues.

Furthermore, no chemical or clinical hazardous waste was generated and we did not generate large amount of non-hazardous waste during our daily operations, and therefore, the data of non-hazardous waste was not included in the calculation. Moreover, no packing materials were used for metal products, and thus, no data in this respect is available.

Reduction of printing and paper usage

We require our staff to make full use of office paper before its disposal. Various measures have been incorporated into our business operations, such as adopting the use of environmental friendly paper and promoting the use of double-sided printing. For any single-sided printing, the relevant paper should be reused under the circumstances that no confidential information was printed on one side of the paper. Moreover, used up ink cartridges were properly recycled so as to avoid the generation of hazardous waste. We will continue to leverage the use of technology for communication with our employees and customers; moving towards an operation of paperless system.

Reduction of waste generated from mining of ore

In order to minimize our impact on the environment and manage the potential risks relating to environmental protection matters, we will conduct reclamation/rehabilitation works, and also recycle and reuse waste water at the ore processing lines and tailing ponds. We occupy part of the land when conducting mining activity. After the activity has been completed, we will restore the land and vegetation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Data on Greenhouse Gas Emission

Year ended 31 December 2017	Unit	Carbon emission (CO_2) in kg
Scope 2		
Electricity consumption	15,242 kWh	12,041.18
Scope 3		
Business trips of employees by air	126 times	18,280.20
Total emission of GHG		30,321.38

SOCIAL

Employment and Labour Practices

Employee engagement has been our core strategy for enhancing productivity and workforce stability. As such, we focus on building a safe and enjoyable working environment for all employees. We have complied with all laws and regulations in relation to employment that have a significant impact on us, including but not limited to, Hong Kong Employment Ordinance, Employment Act 1955 in Malaysia and Labour Law of China.

Compliance and Grievance

During the financial year of 2017, no confirmed non-compliance incidents or grievances were noted by the Company in relation to employment aspects.

Employment

We strictly comply with the requirements of the Employment Ordinance, the Minimum Wage Ordinance, the Employees' Compensation Ordinance as well as other relevant laws and regulations which cover employment protection and benefits. We have a set of personnel policy and procedures that set out our standard internal procedures relating to recruitment and promotion, working hours, holidays, equal opportunities, compensation, dismissal, diversity of origins, anti-discrimination and other human resources treatments and benefits of our employees, etc., to provide a set of standardized and adequate guideline on work practice for our employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Equal opportunity

All employees are entitled to equal opportunity in terms of treatment and promotion. In practice, employees can file a complaint or accusation against senior management if he or she is unpleased with how the senior management has treated him or her. The human resources department is responsible for handling these cases. All employees are treated equally and respectfully. It is our aim to let employees work in a friendly and peaceful environment.

Anti-discrimination policy

The human resources department is responsible for conducting investigations over reported incidents in regard to discrimination or abuse. If a report of discrimination or abuse is confirmed, we will terminate the relevant employee's employment contract and seek for legal actions against the offender depending on the seriousness of the incident.

Attract and retain talents

Our remuneration policies are in line with prevailing market practices and are determined on the basis of the competency, qualifications and experience of individual employees. Management has been constantly reviewing the staff remuneration package and employees' promotion opportunities. Adjustments will be made, usually annually, to conform to the market standard in order to retain talents and ensure the offer is competitive as compared to our peers in the industry.

We emphasize the unity and harmony within the working environment. Over the years, our human resources department has contributed numerous efforts in organizing activities to strengthen the bonding of employees within our family. Team building activities and gatherings are organized regularly so as to let our employees maintain their work-life balance, and also help build unity and a harmonious working environment.

Welfare and benefits

Employees are entitled to all holidays as stated on the Employment Act, apart from that, employees are also entitled to generous annual leave package, including 1 to 3 days' marriage leave and 1 to 3 days' funeral leave.

Moreover, we continue to uphold the government laws and provide comprehensive support to pregnant female employees. We have a "Support Policy" to show support to all pregnant employees and to ensure that their original job is available to them upon their return from maternity leave. Furthermore, during their pregnancy period, we prohibit any pregnant employees to perform heavy lifting assignments so as to ensure that both the mother and the baby are safe at CAA Resources.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Health and Safety

We comply with the relevant laws and regulations regarding industrial safety, hygiene and health, and other caring arrangements for employees that have a significant impact on us, including, but not limited to, Occupational Safety and Health Ordinance in Hong Kong and Occupational Safety and Health Act 1994 in Malaysia. Apart from employees' compensation insurance, we provide other fringe benefits to our employees, such as medical cover. Our business operations do not involve any high-risk work activities that could lead to serious industrial events or occupational health problems. No case of injuries was reported during the financial year of 2017.

In addition, we have implemented the following policies to create and maintain a good, comfortable and healthy work environment for our employees:

- Keep all emergency exits in the workplace unobstructed;
- Provide sufficient lights at workplace;
- Prohibit smoking in the workplace; and
- Conduct regular safety inspections and fire drill training.

Development and Training

We believe that investing in employees through training will help promote job satisfaction, work motivation and staff loyalty. Different types of training were provided to employees to make sure that all staff can have updated information and enough knowledge and skills to provide quality services to our customers. During the financial year of 2017, the Company provided on-the-job training to our employees, and all new joiners received induction training on their first day of employment.

Moreover, employees are encouraged to attend external training seminars and courses that can help them gain updated knowledge with the fast changing business world taken into account. The training seminars and courses include, but not limited to, updates on the Listing Rules, corporate governance, as well as changes and development of relevant laws and regulations so as to refresh our employees' knowledge and let them maintain sustainable professional development.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Labour Standards

We are committed to complying with the Employment Ordinance in Hong Kong, the PRC Employment Contract Law, the PRC Labour Law, and the Employment Regulations 1957 in Malaysia. Every act of engagement is subject to a stringent internal review process that involves a well-defined monitoring procedure designed to verify a candidate's personal information in order to avoid misrepresentation and any form of child labour.

The practice of forced and child labour is strictly prohibited. If the management discovers that there has been any illegal practice of child or forced labour, we will immediately terminate the employment contract of the relevant executives. During the financial year of 2017, all employees are over the age of 18, and have been properly employed in accordance with the requirements of all applicable laws and regulations.

OPERATING PRACTICES

Supply Chain Management

We aim to provide comprehensive solutions that meet customers' needs and establish a comprehensive vertical supply chain management system through resources integration and supply management. In addition to improving cost competitiveness, we also value suppliers' development capability in a sustainable manner. We focus on close cooperation with suppliers to reduce the environmental impact of products being manufactured in the production process, and ensure the quality of services provided to our customers.

During the financial year of 2017, we purchased from over 15 suppliers which are widely spread all over the world. Our suppliers are mainly located in Hong Kong, China and Singapore. It is our wish to collaborate with our suppliers in innovation development and application, participation in production process enhancement for the continuous optimization of supply chain capabilities as well as fulfilment of our responsibilities in social and environmental protection.

Product Responsibility

We strictly comply with laws and regulations with regard to product responsibility in Hong Kong, Malaysia and PRC that have a significant impact on us, including, but not limited to, the Consumer Protection Law of China, China's Law of Tort, the Trade Description Ordinance and the Sale of Goods Ordinance in Hong Kong, and the Consumer Protection Act 1999 in Malaysia. There were no major breaches of the Trade Description Ordinance, nor were we sued for copyright infringement in the financial year of 2017. Also, no products have been returned to us by customers due to health and safety issue.

In order to ensure the quality of our products, we maintain long-term relationship with those qualified suppliers with good reputation. Quality is based on the content of the mineral; and the Group obtains laboratory test results from its suppliers so as to ensure that all products are with high quality.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Anti-corruption

We clearly understand that financial crime can have significant consequences upon our customers and us. Moreover, the community and the economies in which we operate can also be greatly impacted. Therefore, we are highly committed to participating in industry-wide efforts to address the problem of corruption.

We maintain and implement our own anti-money laundering, counter-terrorist financing, anti-bribery, anti-corruption and anti-fraud practices and procedures. We do not support, nor do we tolerate, any corruption practice and the payment or receipt of bribes for any purpose. We have set out a clear policy to guide our employees' behaviour in this area, and have complied with all relevant laws and regulations that have a significant impact on us, including, but not limited to, Criminal Law of China, Anti-Money Laundering Law of China, the Prevention of Bribery Ordinance in Hong Kong and the Malaysian Anti-Corruption Commission Act 2009. During the financial year of 2017, there was no report of any corruption or bribery behavior within the Group.

Community Investment

We deeply understand the importance of giving back to the society. Therefore, we encourage our employees to take part in community services so as to contribute to a more sustainable and harmonious society.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Li Yang, aged 30, was appointed as Director on 25 April 2012 and was redesignated as an executive Director, the chairman and Chief Executive Officer of the Company on 12 April 2013 and was re-elected as executive Director on 19 June 2015. Mr. Li is the director of Capture Bukit Besi since September 2013, the director of Keen Wise Asia Investment Limited since 27 July 2015, the director of Shenzhen Shihua Information Technology Limited since 25 November 2015 and currently the Group's resident key management executive in Malaysia, responsible for the day-to-day business management and supervision of mining production. He is also the chairman of the Nomination Committee.

Mr. Li first joined our Group in December 2009 as our resident representative for our mines in Malaysia. In February 2010, he was appointed as the director of Capture Advance, our principal operating entity in Malaysia, and also the director of Capture Advantage and director of Best Sparkle Development Ltd. since June 2011. He had since represented our Group in the liaisons with clients and various Malaysian governmental authorities. Apart from managing our business operation in Malaysia, Mr. Li also played a vital role in the Group's business development in the PRC, and was a key figure in procuring our Group's entering into the framework agreement with one of our major customers. Mr. Li was closely involved in our daily mining operation and convened regular meetings to discuss with our resident Directors and the senior management teams, who would provide their professional technical advice. Mr. Li is also responsible for the strategic planning of the Group's ongoing business expansions. Mr. Li is the sole director of Cosmo Field which is the beneficial owner of 843,750,000 Shares of the Company, representing 56.25% of the issued share capital of the Company.

Mr. Li graduated from the College of Business of Eastern New Mexico University in the United States in 2009 with a major degree in business administration. He is the son of Mr. Li Dongming, the founder of the Group, and nephew of Ms. Li Xiaolan.

Ms. Li Xiaolan, aged 53, was appointed as an executive Director and the deputy general manager of the Company on 12 April 2013. She joined our Group in March 2008 and had been appointed as the director of Capture Advantage, Best Sparkle Development Ltd. and 3W Development Limited since August 2010, November 2010 and February 2014 respectively. Ms. Li is currently responsible for the financial management of the Group, and her duty includes enhancing internal control of our financial system, supervising the daily operation of our finance department and controlling the allocation of internal resources. In addition, she is also responsible for reviewing and approving the financials and feasibility of new projects.

Ms. Li has approximately 18 years of experience in accounting. Previously she had been the finance director of Tongxing Group Mining Company (同興集團礦業公司) between January 1997 and October 2003, and the finance director of Chengdu Hande between November 2003 and August 2007.

Ms. Li obtained a diploma in industrial enterprises operation and management from Sichuan Radio and Television University (四川廣播電視大學) in the PRC in 1986, and her bachelor's degree in accounting from Sichuan University (四川大學) in the PRC in 1992. Ms. Li is the younger sister of Mr. Li Dongming, the founder of the Group, and aunt of Mr. Li Yang.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Wang Er, aged 61, was appointed as an executive Director and the production supervisor of our Company on 12 April 2013 and was re-elected as an executive Director on 19 June 2015. He had also been appointed as the director of Capture Advance, Pacific Mining and Capture Advantage Besi since February 2010, May 2011 and June 2011 respectively. Mr. Wang has approximately 33 years of experience in the mining industry. Mainly responsible for the daily operation and production of the Group's mines, he is the key on-site person-in-charge of Project Ibam as well as the resident supervisor at the mine site for overall production management and testing of iron ore grading.

Mr. Wang first joined our Group in March 2008 as the resident representative in Malaysia and took part in a number of field trips in search for suitable mining projects in Malaysia. He was also actively involved in the establishment of the Group's warehouse in Kuantan.

Prior to joining the Group, Mr. Wang served as the general manager of Chengdu Hande between November 2003 and December 2006, and was mainly responsible for the preliminary screening of potential investment opportunities in the mining sector. Between March 1998 and October 2003, Mr. Wang was the general manager of Sichuan Guandi Mine (四川官地鐵礦), serving as the key on-site person-in-charge of the mining project, and responsible for the construction of mining production lines and arranging staff for the mining operation. Before that, Mr. Wang had also successively served the positions of technician, engineer and deputy manager in the non-ferrous metal department at Sichuan Enterprises Mining Company (四川鄉鎮企業礦業公司).

Mr. Wang graduated from Henan Jiaozuo Mining Institute (河南焦作礦業學院) in the PRC with a major degree in mineral processing in 1998.

Ms. Xu Mijia, aged 32, was appointed as the director of China Bright Industries Limited (formerly known as China Bright Mining Limited) since 10 April 2012. Ms. Xu joined the Group since December 2007 as Trading Manager Assistant. Ms. Xu is responsible for the implementation and management of marketing strategies and trading business of the Group. Ms. Xu has over 9 years of experience in bulk commodity especially in mineral industries.

Ms. Xu holds a bachelor's degree in economics from Sichuan University in China and a bachelor's degree in business administration from Montpellier Business School in France.

Independent Non-executive Directors

Mr. Leung Yiu Cho (梁耀祖), aged 38, is appointed as an independent non-executive director and chairman of audit committee of the Company with effect from 21 August 2017.

Mr. Leung has over 10 years of experience in financial management and corporate finance. Mr. Leung was appointed as independent non-executive director of Zheng Li Holdings Limited (a company listed on the Growth Enterprise Market of the Stock Exchange with the stock code of 8283) since 21 October 2016 and an executive director of Primeview Holdings Limited ("Primeview", formerly known as "Artini China Co. Ltd.") (Stock Code: 0789), a company listed on the Main Board of the Stock Exchange ("Main Board") since 1 December 2016. Mr. Leung joined Primeview as its chief financial officer in December 2013 and has been its investment

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

principal since October 2015. As the investment principal of Primeview, Mr. Leung is responsible for monitoring corporate finance transactions and investors relationship. Prior to that, Mr. Leung started his employment with Deloitte Touche Tohmatsu in June 2005 as a semisenior accountant before leaving as a senior accountant in July 2006. Between July 2006 and August 2007, he was the assistant financial controller of Ta Yang Group Holdings Limited (大洋集團控股有限公司) (Stock Code: 1991), a company listed on the Main Board. From August 2007 to September 2008, Mr. Leung joined CSC Securities (HK) Limited (群益證券(香港)有限公司) as an executive in the investment banking department. Mr. Leung was the financial controller and board secretary of United Technology Holdings Company Limited (聯合科技控股有限公司) in 2011. From March 2012 to August 2013, he joined Highland Asset Management Corporation (漢鎰資產管理股份有限公司) as its senior deputy finance manager and board secretary.

Mr. Leung graduated from Lingnan University (嶺南大學) in Hong Kong, in December 2001 with a bachelor of business administration degree. He then obtained his masters of corporate finance degree from The Hong Kong Polytechnic University (香港理工大學) in December 2006. He was admitted as a member of the Associate of Chartered Certified Accountants in March 2014. Save as disclosed above, Mr. Leung did not hold any directorships in any public listed companies in the last three years.

Dr. Li Zhongquan, aged 53, was appointed as an independent non-executive Director of the Company on 12 April 2013, mainly responsible for independent supervision and management of the Company. He was the leader in a variety of scientific research projects, including but not limited to the National "Eleventh Five-year" Key Scientific Research Project (國家「十一五」科技重大專項), the National "Ninth Five-year" Projects (國家「九五」項目), "Tenth Five-year" Technology Projects (國家「十五」項目).

Dr. Li obtained his bachelor's degree in science from the department of geology of Nanjing University (南京大學) in 1986 and his master's degree in science from the department of geology of Chengdu University of Technology (成都理工大學) (formerly known as Chengdu Geology College (成都地質學院)) in 1989, and working with Chengdu ever since. Dr. Li then obtained his doctor's degree in engineering from Chengdu University of Technology (成都理工大學) in June 1999, conducted research work subsequently for three years as a post doctorate in Peking University and completed post-doctoral research in Saint Louis University of United States from May 2005 to November 2006.

Dr. Wang Ling, aged 59, was appointed as an independent non-executive Director on 12 April 2013 and was re-elected as independent non-executive Director on 19 June 2015, mainly responsible for the independent supervision of the Company. He is also the chairman of the Remuneration Committee From October 2001 to May 2008, Dr. Wang served as the independent director of Xiwang Foodstuffs Co., Ltd. (西王食品股份有限公司) (stock code: SZ000639, formerly known as Zhuzhou Qingyun Development Co., Ltd. (株洲慶雲發展股份有限公司) and Hunan Ginde Development Co., Ltd. (湖南金德發展股份有限公司)), a company listed on the Shenzhen Stock Exchange. Save as disclosed herein, Dr. Wang is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Before that, Dr. Wang worked with Changsha Institute of Geotectonics, Chinese Academy of Sciences (中國科學院長沙大地構造研究所) as an associate researcher, researcher and tutor for doctoral candidates successively. Dr. Wang has been a professor and tutor for doctoral candidates of Chengdu University of Technology (成都理工大學) since January 2002. He received the Government Special Allowance awarded by the State Council of China (國務院政府特殊津貼) in 1999 and was recognized as the Leader of Academy and Technology (學術和技術帶頭人) in Sichuan in 2003.

Dr. Wang graduated from Southwest University of Science and Technology (西南科技大學) in the PRC (formerly known as Sichuan Institute of Building Materials (四川建築材料工業學院)) with a bachelor's degree in non-metallic mineral geology and exploration in 1982, and obtained a doctoral degree from Changsha Institute of Geotectonics, Chinese Academy of Sciences (中國科學院長沙大地構造研究所) in 1994. Dr. Wang was a visiting scholar at the department of earth sciences in University of Cambridge from December 1999 to December 2000.

SENIOR MANAGEMENT

Mr. Yan Xiaodong, aged 58, was appointed as the Company's chief engineer on 12 April 2013, mainly responsible for on-site geological exploration and mining operations of the Group. Mr. Yan has approximately 32 years of experience in the mining industry. He joined our Group in March 2008 and since then had taken part in a number of field trips to Malaysia in search for suitable mining projects. In particular, as a chief engineer, Mr. Yan was responsible for prospecting, collection of samples and preparing internal analysis reports during the early development stage of the Ibam Mine. Mr. Yan is currently responsible for ore beneficiation of the Ibam Mine and geological prospecting.

And his working experience includes:

Between January 2003 and February 2007, Mr. Yan served as a deputy general manager of Sichuan Licheng Mining Appraisal Limited Company (四川立誠礦業評估有限公司), a company qualified to conduct mineral asset appraisal, where he was mainly responsible for appraisal of exploration rights and mining rights, providing geological and mining advice and advising on the feasibility of mining investment projects, etc., in various kinds of minerals including covered coal, iron, vanadium titanium magnetite, ferrochrome, gold, etc. As a key member of the technical team, Mr. Yan spent substantial time in fields to collect specimens and prepared appraisal reports.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Before that, Mr. Yan worked with the Sichuan Metallurgy and Geology Exploration Bureau of the Ministry of Metallurgical Industry (四川省冶金地質勘查局) where he successively served as technician, assistant engineer and engineer, where he focused on geological prospecting, special study on gold mines and polymetallic mines.

Mr. Yan graduated from Kunming Institute of Technology (昆明工學院) in the PRC majoring in mineral surveying and prospecting in 1983.

Mr. Wang Zeping, aged 60, was appointed a vice deputy manager and mine manager of the Company on 12 April 2013 as resident representative in Malaysia, mainly responsible for the supervision and management of the on-site production of Ibam Mine. Mr. Wang has approximately 35 years of experience in the mining industry. He joined our Group since March 2008 and appointed as director of Capture Bukit Besi in September 2013 where he mainly supervises the daily operation of beneficiation line of Ibam Mine.

Before joining the Group, Mr. Wang worked with Haikou Yiming Industry and Trade Company (海口怡明工貿公司) from January 1993 to November 2007 as deputy general manager and general manager, mainly responsible for the overall supervision of upgrading iron ore to higher grade iron concentrate and other iron products. Furthermore, Mr. Wang also stationed at the mining sites for preparing the mining project map and assisting clients with installation of production lines. Before that, Mr. Wang had worked with Standard Unit Factory of Haikou Machinery Bureau (海口機械局標準件廠) as a technician, director and deputy director successively, mainly responsible for overall supervision on the mining equipment manufacturing (e.g. ball mill and grinder), assisting clients on mining sites for mining equipment and providing assembly and production guidance.

Mr. Wang graduated from Haikou Technician School (海口市技工學校) in the PRC in 1980.

Mr. Chu Lok Fung Barry, aged 47, was appointed as the company secretary and financial controller of the Company on 12 April 2013. Mr. Chu is responsible for accounting, financial reporting and internal control procedures of the Company. Prior to joining the Group, Mr. Chu worked with a number of listed companies and was responsible for various finance and management control duties. Mr. Chu has over 13 years of experience of auditing, financial and accounting gained from international accounting firms and listed companies, and has served as the auditor of two audit firms in Hong Kong for more than six years. He is a Fellow Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant of the CPA Australia.

Mr. Chu holds a master of economics from the University of Hong Kong, a master of arts in philosophy from the Chinese University of Hong Kong, a master of science in accountancy from the Hong Kong Polytechnic University and a bachelor's degree in business from Monash University in Australia.

COMPANY SECRETARY

Mr. Chu Lok Fung Barry is the company secretary of the Company. Please refer to the sub-section headed "Senior Management" above in this section for details of his biography.

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company. The activities of its principal subsidiaries are iron ore exploration, mining, crushing and beneficiation as well as sale of iron ore products in the form of iron ore concentrates and iron ore fines. There were no significant changes in the nature of the Group's principal activities during the year while the Company has consolidated its focus on trading of iron ore and has undertaken financing related businesses during the year under review. Details of the Company's subsidiaries as at 31 December 2017 are set out in note 1 to the Notes to Financial Statements of this annual report.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the Management Discussion and Analysis set out on pages 5 to 20 of this annual report. This discussion forms part of this directors' report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group recognizes the importance of proper adoption of environmental policies is essential to the attainability of corporate growth. The Group uses the open-pit mining method to simplify operations and reduce production costs. The Group produces iron ore products through a relatively low-cost process which includes ball-milling, magnetic separation process and dewatering. The method is environmentally friendly as it does not require chemical additives and reduces the amount of waste water produced. For more discussion on the Group's environmental, policies and performance, please refer to "Environmental, Social and Governance Report" on pages 34 to 44 of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

As at 31 December 2017 and up to the date of this report, the Board was unaware of any non–compliance with the relevant laws and regulations that have a significant impact on the Company.

RELATIONSHIPS WITH KEY STAKEHOLDERS

Discussions on the Group's relationships with its employees, customers and suppliers is contained in the section headed "Environmental, Social and Governance Report" on pages 34 to 44 of this report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in Hong Kong and Malaysia while the Company itself is listed on the main board of The Stock Exchange of Hong Kong Limited. The establishment and operations accordingly shall comply with relevant laws and regulations in Hong Kong, the PRC and Malaysia. During the year ended 31 December 2017 and up to the date of this report, the Group has complied with all the relevant laws and regulations in the PRC and Hong Kong.

CORPORATE GOVERNANCE

The Company's corporate governance report is set out on page 21 to 33 of this annual report.

DIRECTORS' REPORT

FUTURE PLAN

In light of the uncertain market conditions for the self-production of mine segment, the Group will focus more on the trading of commodities (including, but not limited to, iron ore), and also strive to diversify the income sources. The Group aims to diversify the business portfolio, strategies included to merge with and acquire a series of other businesses so the scope of business becomes more diversified. A number of memorandum of understanding were signed with various parties during the year and negotiation is being processed. The Company would provide further information on the proposed projects in accordance with the requirements of the Listing Rules once available. For further details please refer to "Overview of Business Development" on page 5.

FINANCIAL KEY PERFORMANCE INDICATOR

Key performance indicators used by the Group are listed on page 2 to 3 of this annual report. Please refer to the section headed "Financial Review" in the Management Discussion and Analysis in this annual report for details.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 73.

No interim dividend was paid during the year (2016: Nil). The Directors do not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

CLOSURE OF REGISTER OF MEMBERS

The AGM of the Company is scheduled on Wednesday, 30 May 2018. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 25 May 2018 to Wednesday, 30 May 2018, both days inclusive, during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the AGM, all transfer of shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Thursday, 24 May 2018.

DIRECTORS' REPORT

SUMMARY OF FINANCIAL INFORMATION

A five year summary of the consolidated results, assets and liabilities of the Group, as extracted from the audited consolidated financial statements of the Group and the Prospectus, is set out on pages 144 and 145 in this annual report. This summary does not form part of the audited financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group, including the interest-free and security-free loan of USD60 million by Cosmo Field Holdings Limited, the Ultimate Parent company of the Company, as at 31 December 2017 are set out in note 19, note 20 and note 32(c) to the Notes to Financial Statements.

NOTES

Details of the notes issued by the Company are set out in note 21 to the Notes to Financial Statements.

PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment of the Group for the year ended 31 December 2017 was USD0.006 million (2016: USD0.2 million). Details of the movements during the year in the Group's property, plant and equipment are set out in note 11 to the Notes to Financial Statements of this annual report.

SHARE CAPITAL

Details of the movements during the year in the issued share capital of the Company are set out in note 26 to the Notes to Financial Statements of this annual report.

DISTRIBUTABLE RESERVES OF THE COMPANY

Details of the movements during the year in the reserves of the Group are set out in the consolidated statement of changes in equity on page 76 of this annual report. As at 31 December 2017, the Company's reserves available for distribution to the Shareholders in accordance with the Articles of Association was USD49.6 million (2016: USD53.1 million). Under the Companies Law, subject to the provision of its Articles of Association, the share premium account may be applied by the Company in paying distributions or dividends to its members or in paying up unissued shares to be issued to its members as fully paid bonus shares provided that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business. The reserves of the Company available for distribution depend on the dividend distributable by the Company's subsidiaries.

DIRECTORS' REPORT

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

CHARITABLE CONTRIBUTIONS

During the year, the Group did not make any charitable contributions (2016: USD77,205).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 78.5% of the Group's total sales for the year ended 31 December 2017 (2016: 86.3%), and sales to its largest customer accounted for 29.6% of the Group's total sales for the year ended 31 December 2017 (2016: 35.9%). Purchases from the Group's five largest suppliers accounted for approximately 80.9% of the total purchases for the year ended 31 December 2017 (2016: 81.5%) and purchases from the largest supplier accounted for approximately 37.9% of total purchases for the year ended 31 December 2017 (2016: 52.0%).

None of the Directors, their associates or any Shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers during the year.

The Board is of the view that the Group has maintained a harmonious business relationship with its major customers and suppliers during the year under review.

MANAGEMENT CONTRACTS

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

DIRECTORS

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

Executives Directors

Mr. Li Yang
Ms. Li Xiaolan
Mr. Wang Er
Ms. Xu Mijia

Independent Non-Executive Directors

Mr. Leung Yiu Cho (appointed on 21 August 2017)
Dr. Li Zhongquan
Dr. Wang Ling
Mr. Kong Chi Mo (resigned on 21 August 2017)

DIRECTORS' REPORT

During the year, Mr. Kong Chi Mo resigned as an independent non-executive director of the Company due to personal commitments and to focus on his other business with effect from 21 August 2017 and Mr. Leung Yiu Cho was appointed as independent non-executive director on the same date. Pursuant to Article 83 (3) of the Articles of Association, Mr. Leung Yiu Cho, the independent non-executive director of the Company, who filled the casual vacancy upon the resignation of Mr. Kong Chi Mo, could hold office until the first general meeting of Members after his appointment. Mr. Leung Yiu Cho was re-elected as independent non-executive director of the Company in the extraordinary general meeting of Members held on 28 February 2018. For details, please refer to the announcement dated 21 August 2017 and 28 February 2018.

In accordance with the Company's Articles of Association, at each AGM, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an AGM at least once every three years. A retiring director shall be eligible for re-election. A director appointed to fill a vacancy or as an additional director shall retire at the next following general meeting and shall then be eligible for re-election. In compliance with the provisions of the Articles, Ms. Li Xiaolan, Ms. Xu Mijia and Dr. Li Zhongquan shall retire from office by rotation, and, being eligible, offer themselves for re-election at the forthcoming AGM. Mr. Leung Yiu Cho had been re-elected in the extraordinary general meeting on 28 February 2018. All other remaining Directors continue in office.

The Company has received annual confirmation of independence from each of the three independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules and considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the above Directors and senior management are set out in the section headed "Profiles of Directors and Senior Management" on pages 45 to 49 of this annual report.

The Board is of the view that the Group has maintained a harmonious employment relationship with its board members and senior management during the year under review.

DIRECTORS' INTERESTS IN CONTRACTS

No Directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party for the year ended 31 December 2017.

Cosmo Field Holdings Limited, our controlling shareholder wholly-owned by Mr. Li Yang who is the executive Director, has provided a security-free and interest-free loan of USD60.0 million to the Company.

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors of the Company had engaged in any business or had any interest in business which competes or may constitutes competition directly or indirectly (within the meaning of the Listing Rules) with the business of the Group for the year ended 31 December 2017.

DIRECTORS' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of Shares of the Company granted to any Director or their respective spouse or minor children; or were any such rights exercised by them or was the Company, or any of its subsidiaries a party to any arrangement to enable those persons to acquire such rights in any other body corporate.

DIRECTORS' SERVICE CONTRACTS

Each of our executive Directors and independent non-executive Directors has entered into a service contract with the Company on 25 July 2017 for a term of three years.

None of the Directors has entered into any service agreement with the Company which is not determinable within one year without payment of compensation, other than the statutory compensation.

PERMITTED INDEMNITY PROVISION

The Company's Articles of Association provides that every Director shall be indemnified out of the assets of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses, including legal expenses as a result of any act or failure to act in carrying out his/her functions.

The Company has taken out and maintained directors and officers liability insurance since the Listing of the Company which provides appropriate cover for the Directors and directors of the subsidiaries of the Group.

DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, the Directors and the Chief Executive Officer of the Company had the following interests and short positions in the Shares, underlying Shares or the 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 the provision of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have under such provisions of the SFO) and/or required to be entered in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

(i) Long positions in Shares of the Company:

Name of Director	Nature of Interest	Number of Ordinary Shares	Approximate percentage of the Company's issued share capital
Li Yang (notes 2 & 3)	Interest in controlled corporation	843,750,000 (L)	56.25%

DIRECTORS' REPORT

Note:

1. The letter "L" denotes the Shareholder's long position in the share capital while the letter "S" denotes the Shareholder's short position.

2. Mr. Li beneficially owns the entire issued share capital of Cosmo Field Holdings Limited ("Cosmo Field"). Therefore, Mr. Li is deemed, or taken to be, interested in all the shares of the Company held by Cosmo Field for the purpose of the SFO. Mr. Li is the sole director of Cosmo Field.

3. The Company has been notified that Cosmo Field have charged certain shares in favour of third parties as at the Latest Practicable Date:

   (a) The Company has been notified that 711,000,000 shares ("Shares") of the Company and 41,000,000 Shares which were previously charged by Cosmo Field in favour of Cheer Hope Holdings Limited, have been released on 23 September 2016 and 26 September 2016 respectively. The Company has also been notified that, Cosmo Field has charged 711,000,000 Shares and 41,000,000 Shares (collectively "Charged Shares") in favour of an independent third party institution on 23 September 2016 and 27 September 2016 respectively. The Charged Shares represent approximately 50.13% of the issued share capital of the Company as at the Latest Practicable Date.

   (b) The Company has been notified that, a deed of release has been executed on 4 January 2018 with respect to the Charged Shares which were previously changed by Cosmo Field in favour of the second priority lender (as set out in the announcement dated 29 December 2016). Cosmo Field has changed the Shares in favour of anther secondary priority lender on 4 January 2018.

(ii) Long position in shares of the associated corporation:

Name of Director	Nature of associated corporation	Nature of Interest	Approximate percentage of interest in the share capital of the associated corporation
Li Yang (notes 2 & 3)	Cosmo Field	Beneficial owner	100.00%

Save as disclosed above, as at 31 December 2017, none of the Directors nor the Chief Executive Officers of the Company had any interests or short positions in any Shares, underlying Shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which were taken or deemed to have under such provisions of the SFO), or which were recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which would have to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTEREST AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at the date of this report, so far as it is known to the Directors, the persons (other than the Directors or Chief Executive Officer of the Company) with interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register of the Company required to be kept under section 336 of the SFO or who are directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstance at general meetings of any member of the Group were as follows:

Substantial Shareholder	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholdings
Cosmo Field (notes 2, 3)	Beneficial owner	843,750,000 (L)	56.25 (L)
Ample Professional Limited (note 5)	Security interest in shares	752,000,000 (L)	50.13%
Huarong International Financial Holdings Limited (note 5)	Interest in Corporation controlled	752,000,000 (L)	50.13%
中國華融資產管理股份有限公司 (note 5)	Interest in Corporation controlled	752,000,000 (L)	50.13%
Haitong International Financial Products (Singapore) Pte. Ltd. (note 6)	Security interest in shares	172,352,000(L)	11.49%
Haitong International Holdings Limited (note 6)	Interest in Corporation controlled	172,352,000(L)	11.49%
Haitong International Securities Group (Singapore) Pte. Ltd. (note 6)	Interest in Corporation controlled	172,352,000(L)	11.49%
Haitong International Securities Group Limited (note 6)	Interest in Corporation controlled	172,352,000(L)	11.49%
Haitong Securities Co., Ltd. (note 6)	Interest in Corporation controlled	172,352,000(L)	11.49%
Hua Heng (note 4)	Beneficial owner	100,575,000 (L)	6.71% (L)
Yang Jun (note 4)	Interest in controlled corporation	100,575,000 (L)	6.71% (L)
Tang Lingyan (note 4)	Interest of a Substantial Shareholder's child under 18 or spouse	100,575,000 (L)	6.71% (L)

Note:

1. The letter "L" denotes the Shareholder's long position in the share capital while the letter "S" denotes the Shareholder's short position.

2. Mr. Li beneficially owns the entire issued share capital of Cosmo Field Holdings Limited ("Cosmo Field"). Therefore, Mr. Li is deemed, or taken to be, interested in all the shares of the Company held by Cosmo Field for the purpose of the SFO. Mr. Li is the sole director of Cosmo Field.

DIRECTORS' REPORT

3. The Company has been notified that Cosmo Field have charged certain shares in favour of third parties as at the Latest Practicable Date:

   (a) The Company has been notified that 711,000,000 shares ("Shares") of the Company and 41,000,000 Shares which were previously charged by Cosmo Field in favour of Cheer Hope Holdings Limited, have been released on 23 September 2016 and 26 September 2016 respectively. The Company has also been notified that, Cosmo Field has charged 711,000,000 Shares and 41,000,000 Shares (collectively "Charged Shares") in favour of an independent third party institution on 23 September 2016 and 27 September 2016 respectively. The Charged Shares represent approximately 50.13% of the issued share capital of the Company as at the Latest Practicable Date.

   (b) The Company has been notified that, a deed of release has been executed on 4 January 2018 with respect to the Charged Shares which were previously changed by Cosmo Field in favour of the second priority lender (as set out in the announcement dated 29 December 2016). Cosmo Field has changed the Shares in favour of anther secondary priority lender on 4 January 2018.

4. Tang Lingyan is the spouse of Mr. Yang Jun. Mr. Yang Jun beneficially owns the entire issued share capital of Hua Heng. Therefore, Tang Lingyan is deemed, or taken to be, interested in all the Shares of the Company held by Hua Heng for the purpose of the SFO. Mr. Yang Jun is the sole director of Hua Heng.

5. Each of Huarong International Financial Holdings Limited and 中國華融資產管理股份有限公司 is deemed, or taken to be, interested in all the interest held by Ample Professional Limited in the shares of the Company for the purpose of the SFO.

6. Each of Haitong International Holdings Limited, Haitong International Securities Group (Singapore) Pte. Ltd., Haitong International Securities Group Limited and Haitong Securities Co., Ltd. is deemed, or taken to be, interested in all the interest held by Haitong International Financial Products (Singapore) Pte. Ltd. in the shares of the Company for the purpose of the SFO.

Save as disclosed above, as at the date of this report, no other person had any 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 pursuant to Section 336 of the SFO or, were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote under all circumstances at general meetings of any other member of the Group.

CHANGE OF AUDITOR

As set out in the circular of the Company dated 6 February 2018 and the poll results announcement dated 28 February 2018, the Company has approved to remove Ernst & Young as auditor of the Company with immediate effect and appoint Graham Y.H. Chan & Co as auditor of the Company in place of Ernst & Young immediately following the aforesaid removal and to hold office until the conclusion of the forthcoming annual general meeting of the Company. A resolution for re-appointment of Graham Y.H. Chan & Co has been proposed for approval in the forthcoming annual general meeting.

DIRECTORS' REPORT

REMUNERATION OF THE DIRECTORS

The remuneration of the Directors is determined with reference to the Directors' duties and responsibilities under their employment or service contracts as approved by the Company's Shareholders resolutions in writing on 12 April 2013 before the Listing and the Board under the authority of the shareholders' resolutions passed on 30 April 2014, with the operating results of the Group and performance of the individual taken into account and aligning with market statistics. Service contracts were renewed on 25 July 2017 for the Directors for a term of 3 years. Details of the remuneration of the Directors are set out in note 8 to the Notes to Financial Statements of this annual report.

RELATED PARTY TRANSACTIONS

Details of the related party transaction are stated in note 32 to the Notes to Financial Statements of this annual report, which comprise of, among others, (1) the interest-free and security-free shareholder loans of USD60,000,000 by Cosmo Field (the controlling shareholder of the Company) to the Company, and provision of guarantee by Mr. Li, his father and his controlled entity with respect to the Company's loans at nil consideration, which are all fully exempt connected transaction under Rule 14A.90 of the Listing Rules; and (2) remuneration payable to the Directors and other key management personnel of the Group.

RETIREMENT BENEFITS SCHEMES

Particulars of the retirement benefits schemes of the Group are set out in notes 2.4 and 7 to the Notes to Financial Statements.

SHARE OPTION SCHEME

The Share Option Scheme was conditionally adopted by the Shareholders by way of written resolution on 12 April 2013 for the purpose of attracting and retaining the best available personnel; providing additional incentive to employees (full-time and parttime), Directors, consultants, advisors, distributors, contractors, suppliers, agents, customers, business partners or service providers of our Group; and to promoting the success of the business of our Group. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

The period of Share Option Scheme commences on 12 April 2013 and will expire at the close of business on the business day immediately preceding the tenth anniversary thereof on 11 April 2023.

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or advisor of our Group, or any substantial shareholder of our Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of our Group, options to subscribe at a price calculated for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

DIRECTORS' REPORT

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of our Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a Business Day; (ii) the average of the closing prices of our Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option, provided always that for the purpose of calculating the subscription price, where our Company has been listed on the Stock Exchange for less than five Business Days, the new issue price shall be used as the closing price for any Business Day fallen within the period before listing.

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to our Company on acceptance of the offer for the grant of an option is HK$1.00.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

The maximum number of unexercised share options currently permitted to be granted under the Company's Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time (being 150,000,000 Shares, representing 10% of the total issued shares of the Company as at 31 December 2017). The maximum number of shares issuable under share options to each eligible participant in the Company's Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of shares options in excess of this limit is subject to shareholders' approval in a general meeting. During the twelve months ended 31 December 2017, the Company may grant options in respect of up to 150,000,000 Shares to the participants under the Share Option Scheme, being 10% of the issued shares of the Company.

No option has lapsed, or has been granted, exercised or cancelled under the Share Option Scheme during the year ended 31 December 2017. Our Group did not have any outstanding share options, warrants, convertible instruments, or similar rights convertible into our Shares as at 31 December 2017.

DIRECTORS' REPORT

NON-COMPETITION UNDERTAKING

Each of the executive Directors (collectively the "Covenantors") have entered into a Deed of Non-Competition in favour of the Company (on behalf of itself and the Group) dated 9 June 2013 (the "Deed"). Pursuant to the Deed, each of the Covenantors shall procure that their respective associates shall not directly or indirectly engage in any business in competition with the existing business activity of the Group. Relevant information on the Deed was disclosed in the Prospectus in the section headed "Relationship with Controlling Shareholders".

The Company has received confirmations from the Covenantors of their compliance with the terms of the Deed. The Covenantors declared that they have fully complied with the Deed for the year ended 31 December 2017. The independent non-executive Directors have reviewed on the confirmations from the Covenantors and concluded that the Deed has been complied with and has been effectively enforced.

SUFFICIENCY OF PUBLIC FLOATING

Based on the information that is publicly available to the Company and as far as the Directors are aware, the Company has maintained at least 25% of public float as for the year ended 31 December 2017 and up to the date of this annual report..

On Behalf of the Board of Directors

LI Yang
Chairman and Chief Executive Officer

29 March 2018

INDEPENDENT AUDITOR'S REPORT

陳浩賢會計師事務所

GRAHAM H. Y. CHAN & CO.

CERTIFIED PUBLIC ACCOUNTANTS (PRACTISING)

HONG KONG

TO THE SHAREDHOLDERS OF CAA RESOURCES LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of CAA Resources Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 73 to 143, which comprise the consolidated statement of financial position as at 31 December 2017, 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.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

Key audit matters identified in our audit are summarised as follows:

1. Going concern assessment

Nature of the key audit matter	How our audit addressed the key audit matter
Refer to note 2.1 to the consolidated financial statements, the Group has negative operating cash outflows for four consecutive years. In addition, the original final redemption date of the 12% senior notes in the aggregate of the principal and accrued interest amount of approximately USD21,889,000 falls on 19 March 2018 and on that date, the Company entered into a Letter Agreement with the relevant note holder to extend the final redemption date of the above notes from 19 March 2018 to 19 May 2018 on the condition that, among others, the Company shall make a payment of USD2,000,000 to the relevant note holder on or before 29 March 2018 to be applied first to interest accrued due as at the date of such payment and thereafter to reduce the principal balance of the above notes. These conditions increased the uncertainty about the Group's ability to continue as a going concern.	We obtained the letter agreement entered into by the Company and the relevant note holder to verify the terms for extending the final redemption date of the 12% Senior Notes. We obtained the Cash Flow Forecast and assessed the reasonableness of the key assumptions adopted by management in the preparation of the Cash Flow Forecast based on the historical performance of the Group and the timing of maturities of the Group's financial obligations. We also matched the forecasted amounts and timing of the collection of trade receivables due from the three major customers to the Commitment Letters and compared the forecasted timing of collection of trade receivables of other customers to their past repayment history.

INDEPENDENT AUDITOR'S REPORT

1. Going concern assessment (continued)

Nature of the key audit matter	How our audit addressed the key audit matter
In view of these circumstances, the Group has obtained commitment letters (the "Commitment Letters") from three major customers which promised to repay their trade debts to the Group that have been due on 26 March 2018 and/or which will be due in April 2018 before 30 April 2018 (the "Agreed Date"). In addition, the directors of the Company prepared a cash flow forecast for a period of 12 months ending 31 December 2018 (the "Cash Flow Forecast"), which has taken into consideration the Group's cash position, expected status of subsequent settlement of trade receivables, expected financial performance of the Group, expected liquidity requirements and its available facilities from its principal bankers. The directors are of the opinion that the Group will have sufficient financial resources to finance its operations and to meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the directors of the Company considered that there was no material uncertainty in relation to going concern and it is appropriate to prepare the consolidated financial statements on a going concern basis. We focused on this area as assessing the Group's ability to continue as a going concern involves significant management's judgment about inherently uncertain future outcome of events or conditions.	We considered the impact of reasonably possible downside changes in the key assumptions underlying the Cash Flow Forecast by performing sensitivity analysis.

INDEPENDENT AUDITOR'S REPORT

2. Impairment assessment of non-current assets related to Ibam mine

Nature of the key audit matter	How our audit addressed the key audit matter
As at 31 December 2017, the Group had material balances in non-current assets related to the Ibam Mine cash-generating unit (the "Ibam Mine CGU"), consisting of mining rights and reserves of USD12,932,000, property, plant and equipment of USD3,622,000 and goodwill of USD6,765,000. Since the year of 2016, production activities at the Ibam mine have been suspended. These are considered impairment indicators for such assets and therefore management performed an impairment assessment based on a value in use calculation of the recoverable amount of the Ibam Mine CGU using the discounted cash flow projections. The impairment assessment of the Ibam Mine CGU involves significant estimation uncertainty, subjective assumptions and application of significant judgement. The Group's disclosures in relation to the impairment test are set out in note 3 and note 15 to the consolidated financial statements, which specifically explain management's accounting estimates and key assumptions.	We obtained the discounted future cash flow projections of the Ibam Mine CGU prepared by the management, assessed the discount rate applied to the cash flow projections and the model that calculates the future cash flows, and evaluated the major assumptions and key inputs such as the date on which mining is expected to recommence, the expected growth rates, the projected selling prices, sales and production volumes, etc. used in the cash flow projections. We tested the mathematical accuracy of the value-in-use calculation of the recoverable amount of the Ibam Mine CGU. In addition, we compared the inputs used to determine the value in use calculation with the approved business plan for the resumption of production at Ibam mine as approved by the directors. We tested independently those assumptions to which the outcome of the impairment testing is most sensitive. We also assessed the adequacy of the disclosures in the consolidated financial statements of the key assumptions used in the value in use calculation of the recoverable amount of the Ibam Mine CGU.

INDEPENDENT AUDITOR'S REPORT

3. Recoverability of trade receivables

Nature of the key audit matter	How our audit addressed the key audit matter
The Group's trade receivables amounted to approximately USD194,476,000 (representing approximately 64.3% of the Group's total assets) as at 31 December 2017. Management's assessment of whether objective evidence of impairment of trade receivables exist is based on a number of factors which include ageing of overdue trade receivables, customers' repayment history, management's assessment of customers' financial position and current market conditions, all of which involve a significant degree of management judgement. The Group's disclosures relating to trade receivables are included in note 3 and note 16 to the consolidated financial statements. We considered assessing the recoverability of trade receivables as a key audit matter because related balance is significant and the assessment of the recoverability of trade receivables is inherently subjective and requires significant management judgement.	We obtained audit confirmations from those customers with material trade receivable balances as at 31 December 2017 to confirm the respective trade receivable balances as at the year-end date. We checked, on a sample basis, whether items in the trade receivables ageing report were classified within the appropriate ageing category by comparing individual items in the report with the relevant sales invoices, sales contracts and other supporting documents. We inspected cash receipts from customers after 31 December 2017 relating to trade receivable balances as at 31 December 2017, on a sample basis. For trade receivable balances that are past due as at 31 December 2017, we checked subsequent settlements received up to the date of completing our audit procedures and analysed the historic repayment pattern of the relevant customers for anomalies.

INDEPENDENT AUDITOR'S REPORT

4. Valuation of available-for-sale investments

Nature of the key audit matter	How our audit addressed the key audit matter
As at 31 December 2017, the Group had material investments in unlisted equity investments which were designated as available-for-sale investments. The Group measured its available-for-sale investments at fair values which are based on the valuation carried out by an independent professional valuer. The valuation of such investments is inherently subjective as they are valued using financial models which require unobservable input rather than by reference to quoted prices in an active market. The Group's disclosures in relation to the valuation of available-for-sale investments are included in note 3, note 14 and note 33 to the consolidated financial statements.	We performed an assessment of the methodology and the valuation models and key inputs used by the professional valuer to value the available-for-sale investments. We also evaluated the objectivity, qualifications and competence of the professional valuer engaged by the Group to perform the valuation of the Group's available-for-sale investments as of 31 December 2017. Further, we assessed the adequacy of the disclosures relating to the valuation of the Group's available-for-sale investments in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

5. Recoverability of other receivable in respect of disposal of property, plant and equipment

Nature of the key audit matter	How our audit addressed the key audit matter
Refer to note 13(b) to the consolidated financial statements. On 22 December 2015, the Group signed an agreement with an independent third party (the "Buyer") for disposal of some of its machinery in Malaysia ("Disposed Machinery") to the Buyer for an aggregate consideration of RM52,300,000, or equivalent to approximately USD12,181,000 as at 31 December 2015. According to the aforesaid agreement, the consideration is to be settled by two equal instalments before the end of 31 December 2016 and 31 December 2017, respectively. This receivable is secured by the pledge of the Disposed Machinery. During the year ended 31 December 2016, the Group had received 50% of the consideration. However, the remaining balance of the consideration amounting to RM26,150,000, or equivalent to approximately USD6,438,000 as at 31 December 2017 remained unsettled up to 31 December 2017. On 5 March 2018, the Group entered into a supplemental agreement (the "Supplemental Agreement") with the Buyer to extend the payment term of the remaining consideration to 31 December 2018. The Buyer is required to pay interest on the unsettled balance to the Group at the interest rate of 5% per annum on a quarterly basis.	We obtained audit confirmation from the Buyer to confirm the unsettled balance as at 31 December 2017. In respect of the Disposed Machinery, we performed the following procedures: (i) we obtained the audit working paper from the certified public accounting firm engaged by the Group in carrying out the physical inspection of the Disposed Machinery and understood the procedures undertaken by them to confirm the existence and condition of the Disposed Machinery; (ii) we obtained and assessed the values of the Disposed Machinery as estimated by the management; and (iii) we assessed the recoverability of the unsettled balance due from the Buyer taking into account the total estimated value of the Disposed Machinery.

INDEPENDENT AUDITOR'S REPORT

5. Recoverability of other receivable in respect of disposal of property, plant and equipment (continued)

Nature of the key audit matter	How our audit addressed the key audit matter
The Group engaged a certified public accounting firm in Malaysia to carry out a physical inspection of the Disposed Machinery which are pledged for such receivable. Management performed impairment assessment on such receivable based on their assessment of the Buyer's financial strength and creditworthiness and taking into account the estimated value of the pledged machinery. Subsequently, the Buyer has settled the first interest payment in accordance with the Supplemental Agreement. No impairment was recognized on such receivable in the consolidated financial statements. We focused on this area due to the estimation uncertainty inherent and significant judgement involved in the management's impairment assessment process in respect of the collectability of such receivable.	We also checked the subsequent settlement of the first interest payment received from the Buyer in accordance with the Supplemental Agreement.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is CHAN Ho Yin, Graham.

Graham H. Y. Chan & Co.
Certified Public Accountants (Practising)
Hong Kong

29 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017 USD'000	2016 USD'000
REVENUE	5	**1,104,616**	1,240,674
Cost of sales		**(1,088,089)**	(1,226,963)
Gross profit		**16,527**	13,711
Other income and gains		**3,398**	3,738
Selling and distribution expenses		**(770)**	(180)
Administrative expenses		**(8,684)**	(5,379)
Other expenses		**(1,012)**	(3,466)
Finance costs	6	**(5,444)**	(2,836)
PROFIT BEFORE TAX	7	**4,015**	5,588
Income tax expense	9	**(600)**	(1,243)
PROFIT FOR THE YEAR		**3,415**	4,345
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of available-for-sale investments		**(76)**	5,884
Income tax effect		**19**	(1,471)
		(57)	4,413
Exchange differences on translation of foreign operations		**1,828**	(178)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**1,771**	4,235
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**5,186**	8,580
Earnings per share attributable to ordinary equity holders of the Company:			
Basic and diluted (US cents)	10	**0.23**	0.29

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 USD'000	2016 USD'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**4,327**	4,816
Mining rights and reserves	12	**12,932**	11,782
Available-for-sale investments	14	**23,808**	23,884
Goodwill	15	**6,765**	6,172
Deferred tax assets	24	**25**	232
Total non-current assets		**47,857**	46,886
CURRENT ASSETS			
Trade receivables	16	**194,476**	91,918
Prepayments, deposits and other receivables	13	**50,899**	19,055
Pledged deposits	17	**7,124**	11,044
Cash and cash equivalents	17	**2,085**	74,922
Total current assets		**254,584**	196,939
CURRENT LIABILITIES			
Trade payables	18	**26,078**	24,268
Other payables and accruals	19	**63,503**	52,707
Interest-bearing bank and other borrowings	20	**56,017**	33,715
Notes	21	**20,882**	–
Tax payable		**3,590**	5,802
Total current liabilities		**170,070**	116,492
NET CURRENT ASSETS		**84,514**	80,447
Total assets less current liabilities		**132,371**	127,333

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 USD'000	2016 USD'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	20	**7**	23
Notes	21	**19,810**	20,213
Deferred tax liabilities	24	**4,437**	4,193
Provision for rehabilitation	25	**380**	353
Total non-current liabilities		**24,634**	24,782
Net assets		**107,737**	102,551
EQUITY			
Equity attributable to owners of the Company			
Issued capital	26	**1,934**	1,934
Reserves	27	**105,803**	100,617
Total equity		**107,737**	102,551

Li Yang
Director

Li Xiaolan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Attributable to owners of the Company							
	Issued capital USD'000 (note 26)	Share premium USD'000 (note 27(a))	Capital reserve USD'000 (note 27(b))	Contributed surplus USD'000 (note 27(c))	Available-for-sale investment revaluation reserve USD'000	Exchange fluctuation reserve USD'000	Retained earnings USD'000	Total USD'000
At 1 January 2016	1,934	47,541	14,956	50	–	(5,788)	35,278	93,971
Profit for the year	–	–	–	–	–	–	4,345	4,345
Other comprehensive income/(loss) for the year:								
Exchange differences related to foreign operations	–	–	–	–	–	(178)	–	(178)
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	4,413	–	–	4,413
Total comprehensive income/(loss) for the year	–	–	–	–	4,413	(178)	4,345	8,580
At 31 December 2016	1,934	47,541*	14,956*	50*	4,413*	(5,966)*	39,623*	102,551
At 1 January 2017	1,934	47,541	14,956	50	4,413	(5,966)	39,623	102,551
Profit for the year	–	–	–	–	–	–	3,415	3,415
Other comprehensive income/(loss) for the year								
Exchange differences related to foreign operations	–	–	–	–	–	1,828	–	1,828
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	(57)	–	–	(57)
Total comprehensive income/(loss) for the year	–	–	–	–	(57)	1,828	3,415	5,186
At 31 December 2017	1,934	47,541*	14,956*	50*	4,356*	(4,138)*	43,038*	107,737

* These reserve accounts comprise the consolidated reserves of USD105,803,000 (2016: USD100,617,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	**2017 USD'000**	2016 USD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**4,015**	5,588
Adjustments for:			
Finance costs	6	**5,444**	2,836
Unrealised foreign exchange (gains)/losses		**(778)**	797
Interest income		**(2,611)**	(3,730)
Loss on disposal of items of property, plant and equipment	7	**–**	73
Write-off of payments in advance	7	**–**	50
Imputed interest accelerated amortisation on an early settlement of a shareholder's loan	7	**–**	583
Depreciation	11	**893**	942
Amortisation of intangible assets	12	**23**	23
		6,986	7,162
Increase in trade receivables		**(102,558)**	(45,843)
Decrease in inventories		**–**	21,855
(Increase)/decrease in prepayments, deposits and other receivables		**(33,122)**	570
Increase in trade payables		**4,110**	8,965
(Decrease)/increase in other payables and accruals		**(203)**	1,200
Decrease in an amount due from a related party		**–**	10
Cash used in operations		**(124,787)**	(6,081)
Interest received		**1**	2
Income tax paid		**(2,623)**	(2,865)
Net cash flows used in operating activities		**(127,409)**	(8,944)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 USD'000	2016 USD'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**2,196**	2,993
Purchase of items of property, plant and equipment		**(6)**	(155)
Proceeds from disposal of items of property, plant and equipment		**–**	5,920
Decrease/(increase) in pledged deposits		**3,920**	(5,742)
Advances of loans to third parties		**(18,500)**	(15,000)
Collection of loans previously advanced to third parties		**18,500**	16,500
Net cash flows from investing activities		**6,110**	4,516
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan from the ultimate holding company	23	**10,000**	50,000
Repayment of loan from the ultimate holding company	23	**–**	(15,000)
Capital element of hire purchase arrangement payments	23	**(62)**	(87)
Net increase/(decrease) in bank borrowings	23	**22,340**	(1,727)
Proceeds from issue of notes	23	**20,000**	21,270
Notes issue expenses	23	**(200)**	(1,270)
Interest paid		**(3,569)**	(1,874)
Net cash flows from financing activities		**48,509**	51,312
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(72,790)**	46,884
Cash and cash equivalents at beginning of year		**74,922**	27,664
Effect of foreign exchange rate changes, net		**(47)**	374
CASH AND CASH EQUIVALENTS AT END OF YEAR	17	**2,085**	74,922

NOTES TO FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION

CAA Resources Limited was incorporated as an exempted company with limited liability in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at Suite 5602, 56th Floor, The Center, 99 Queen's Road Central, Hong Kong.

During the year ended 31 December 2017, the Group was principally engaged in sales of iron ore products and other commodities to steel manufacturers and/or their respective purchase agents in Mainland China and other commodity trading companies, as well as investment holding.

In the opinion of the Directors, the holding company and the ultimate holding company of the Company is Cosmo Field, which is incorporated in the BVI.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company %	Principal activities
Directly held:				
Capture Advantage	BVI	USD50,000	100	Investment holding
Indirectly held:				
Best Sparkle Development Ltd.	BVI	USD50,000	100	Investment holding
Value Source Ventures Limited	BVI	–	100	Investment holding
Capture Advance	Malaysia	RM15,000,000	100	Iron ore mining and iron ore beneficiation
Pacific Mining	Malaysia	RM100	100	Iron ore mining and iron ore beneficiation
Capture Bukit Besi	Malaysia	RM2	100	Inactive
China Bright Industries Limited ("China Bright HK")	Hong Kong	HKD100	100	Purchase and sale of iron ore products and trading of commodities

NOTES TO FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company %	Principal activities
Indirectly held: (continued)				
3W Development	Hong Kong	HKD10,000	100	Investment holding
Keen Wise Asia Investment Limited	Hong Kong	HKD1	100	Investment holding
Shenzhen Shihua Information Technology Limited	Mainland China	RMB5,000,000	100	Investment holding
China Bright (Pte.) Limited	Singapore	Singapore dollar ("SGD") 1	100	Inactive

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standsards ("IAS") and Interpretations issued by the IASB. These consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("SEHK"). They have been prepared under the historical cost convention, except for available-for-sale equity investments which have been measured at fair value. These consolidated financial statements are presented in United States dollars ("USD") and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern basis

The Group has negative operating cash outflows for four consecutive years. In addition, the original final redemption date of the 12% senior notes in the aggregate of the principal and accrued interest amount of approximately USD21,889,000 falls on 19 March 2018 and on that date, the Company entered into a Letter Agreement with the relevant note holder to extend the final redemption date of the above notes from 19 March 2018 to 19 May 2018 on the condition that, among others, the Company shall make a payment of USD2,000,000 to the relevant note holder on or before 29 March 2018 to be applied first to interest accrued due as at the date of such payment and thereafter to reduce the principal balance of the above notes.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.1 BASIS OF PREPARATION (continued)

Going concern basis (continued)

In view of these circumstances, the Group has obtained commitment letters from three major customers which promised to repay their trade debts to the Group that have been due on 26 March 2018 and/or which will be due in April 2018 before 30 April 2018 (the "Agreed Date"). In addition, the directors of the Company prepared a cash flow forecast for a period of 12 months ending 31 December 2018, which has taken into consideration the Group's cash position, expected status of subsequent settlement of trade receivables, expected financial performance of the Group, expected liquidity requirements and its available facilities from its principal bankers. The directors are of the opinion that the Group will have sufficient financial resources to finance its operations and to meet its financial obligations as and when they fall due in the foreseeable future. The consolidated financial statements for the year have been prepared on a going concern basis, the validity of which depends upon the success of the Group in generating sufficient cash flows from operations, especially the successful collection of trade receivables from the three major customers by the Group on or before the Agreed Date.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at the amounts other than which they are currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2017. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

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

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

2.2 APPLICATION OF NEW AND REVISED IFRSs

The Group has applied, for the first time, the following amendments to IFRSs which are effective for annual periods beginning on or after 1 January 2017.

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014 – 2016 Cycle

Except as described below, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.2 APPLICATION OF NEW AND REVISED IFRSs (continued)

Amendments to IAS 7 "Disclosure Initiative"

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The Group has provided the information for the current period in note 23. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 23, the application of these amendments has had no impact on the Group's consolidated financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014 – 2016 Cycle[1]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015 – 2017 Cycle[2]
IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Clarifications[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[4]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatment[2]

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 No mandatory effective date yet determined

4 Effective for annual periods beginning on or after 1 January 2021

Except for the new IFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs and Interpretations will have no material impact on the consolidated financial statements of the Group in the foreseeable future.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (continued)

Further information about those IFRSs that are expected to be relevant to the Group is as follows:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group currently plans to adopt IFRS 9 from 1 January 2018. During 2017, the Group performed a detailed assessment of the impact of the adoption of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

IFRS 9 requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It will apply to the Group's financial assets measured at amortised cost. The Group has assessed how its impairment provisions would be affected by the new model. So far it has concluded that there would be no material impact for the application of the new impairment requirements.

IFRS 15 Revenue from Contracts with Customers and the related Clarifications

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued Clarifications to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group currently plans to adopt IFRS 15 on 1 January 2018. The Group has assessed that the application of IFRS 15 will not have a significant impact on the consolidated financial statements of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (continued)

IFRS 16 Leases

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group currently plans to adopt IFRS 16 on 1 January 2019. As at 31 December 2017, the Group had non-cancellable operating lease commitments of USD538,000 as set out in note 30. The interest expense on the lease liability and the depreciation expense on the right-of-use asset under IFRS 16 will replace the rental charge under IAS 17. The operating lease commitments as shown in off-balance sheet items will be replaced by "right-of-use asset" and "lease liability" in the consolidated statement of financial position of the Group. Other than the above, the Group does not anticipate that the application of this standard will have material impact on the consolidated financial statements of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

Mine properties	10 years
Machinery	3-10 years
Motor vehicles	3 years
Others	3 years

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

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

Construction in progress represents items of property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Mining rights and reserves

Mining rights and reserves are stated at cost less accumulated amortisation and any impairment losses. Mining rights and reserves include the cost of acquiring mining licences, exploration and evaluation costs transferred from exploration rights and assets upon determination that an exploration property is capable of commercial production, and the cost of acquiring interests in the mining reserves of existing mining properties. The mining rights and reserves are amortised over the estimated useful lives of the mines, in accordance with the production plans of the entities concerned and the proved and probable reserves of the mines using the Units of Production ("UOP") method. Mining rights and reserves are written off to profit or loss if the mining property is abandoned.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

Investments and other financial assets

Initial recognition and measurement

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Loans and receivables

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

Available-for-sale financial investments

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

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

Derecognition of financial assets

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

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

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

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

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company, notes, and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Loans and borrowings (including notes)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Cash and cash equivalents

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

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

Provisions

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

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

Provisions for the Group's obligations for rehabilitation are based on estimates of required expenditure at the mines in accordance with the rules and regulations of Malaysia. The obligation generally arises when the asset is installed or the ground environment is disturbed at the production location. The Group estimates its liabilities for final rehabilitation and mine closure based upon detailed calculations of the amount and timing of the future cash expenditure to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditure expected to be required to settle the obligation. When the liability is initially recognised, the present value of the estimated cost is capitalised by increasing the carrying amount of the related mining infrastructure.

Over time, the discounted liability is increased for the change in the present value based on the appropriate discount rate. The periodic unwinding of the discount is recognised within "Finance costs" in profit or loss. The asset is depreciated using the straight-line method over its expected life and the liability is accreted to the projected expenditure date. Additional disturbances or changes in estimates (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities) will be recognised as additions or charges to the corresponding assets and rehabilitation liabilities when they occur at the appropriate discount rate.

Income tax

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

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

(c) dividend income, when the shareholders' right to receive payment has been established.

Pension schemes

Mainland China

The employees in Mainland China are required to participate in a central defined pension scheme managed by the local municipal government of the areas in Mainland China in which they operate. These subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of their employees to the central pension scheme. The Group has no obligation for the payment of retirement benefits beyond the annual contributions. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Hong Kong

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

Malaysia

The Group makes contributions to the Employee Provident Fund in Malaysia, a defined contribution pension scheme. Contributions to this scheme are recognised as an expense in the period in which the related service is performed.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

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

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

Foreign currencies

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

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

The functional currencies of certain subsidiaries are currencies other than USD. As at the end of the reporting period, the assets and liabilities of these entities are translated into USD at the exchange rates prevailing at the end of the reporting period and their profits or losses are translated into USD at the weighted average exchange rates for the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3. SIGNIFICANT ACCOUNTING ESTIMATES

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

Estimation uncertainty

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

(a) Going concern

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the success of the Group in generating sufficient cash flows from operations, especially the successful collection of trade receivables from the three major customers on or before the Agreed Date as referred to in note 2.1, to finance its operations and to meet its financial obligations as and when they fall due in the foreseeable future. Details are set out in note 2.1 above.

(b) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was USD6,765,000 (2016: USD6,172,000). There was no impairment provision for goodwill during the two years ended 31 December 2017 and 2016. Further details are given in note 15.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Estimation uncertainty (continued)

(c) Impairment of receivables

Impairment of receivables is estimated based on an assessment of the recoverability of receivables. The assessment of impairment of receivables involves the use of estimates and judgements. An estimate for doubtful debts is made when collection of the full amount under the invoice is no longer probable, as supported by objective evidence using available contemporary and historical information to evaluate the exposure. Bad debts are written off as incurred. Where the actual outcome or expectation in the future is different from the original estimates, such differences will affect the carrying amount of receivables and thus the impairment loss in the period in which such estimate is changed. There was no impairment provision for receivables during the two years ended 31 December 2017 and 2016.

(d) Useful lives of property, plant and equipment

The Group estimates useful lives and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and actions of its competitors. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will record an impairment provision for technically obsolete assets that have been abandoned. The carrying amount of property, plant and equipment as at 31 December 2017 was USD4,327,000 (2016: USD4,816,000).

(e) Mine reserves

Engineering estimates of the Group's mine reserves are inherently imprecise and represent only approximate amounts because of the significant judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as "proved" and "probable". Proved and probable mine reserve estimates are updated at regular intervals taking into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable mine reserves also changes. This change is considered a change in estimates for accounting purposes and is reflected on a prospective basis in both depreciation and amortisation rates calculated on the UOP method and the time period for discounting the rehabilitation provision. Changes in the estimate of mine reserves are also taken into account in impairment assessments of non-current assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Estimation uncertainty (continued)

(f) Fair value of available-for-sale investments

The Group's unlisted equity investments have been valued based on the market approach of valuation. This valuation approach requires the Group to consider prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the investments relative to the market comparative if necessary and appropriate, hence they are subject to uncertainty. The fair value of the unlisted equity investments at 31 December 2017 which were measured based on the market approach was USD23,808,000 (2016: USD10,884,000). Further details are included in note 14 to the consolidated financial statements.

(g) Provision for rehabilitation

The Group recognises the provision for the rehabilitation of each site. The provision recognised represents management's best estimate of the present value of the future costs required. Significant estimates and assumptions are made in determining the amount of rehabilitation provision. Those estimates and assumptions deal with uncertainties such as: requirements of the relevant legal and regulatory framework; the magnitude of possible contamination and the timing, extent and costs of required rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for operating sites are recognised in the consolidated statement of financial position by adjusting both the rehabilitation asset and provision. Such changes give rise to a change in future depreciation and financial charges. For closed sites, changes to estimated future costs are recognised immediately in profit or loss. The carrying amount of provision for rehabilitation as at 31 December 2017 was USD380,000 (2016: USD353,000).

(h) Income tax

Significant judgement is involved in determining the group-wide tax provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome for these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Estimation uncertainty (continued)

(i) Deferred tax assets

Deferred tax assets are recognised when it is probable that taxable profits will be available against which the deferred tax assets can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets at 31 December 2017 was USD25,000 (2016: USD232,000). Further details are contained in note 24 to the consolidated financial statements.

(j) Impairment of non-current assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Definite life non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) the mine operation segment comprises mining and ore processing and the sale of ore products to iron ore trading companies in Malaysia;

(b) the commercial trade segment comprises purchases of iron ore products and other commodities and then sales to steel manufacturers and/or their respective purchasing agents in Mainland China and other commodity trading companies; and

(c) the financing operation segment comprises the investments in unlisted enterprises principally engaging in financing related businesses, and the provision of loans to third parties.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that interest income on bank deposits, foreign currency gains/losses as well as head office, corporate and other unallocated expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, cash and cash equivalents and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude tax payable, deferred tax liabilities and other unallocated corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2017

	Mine operation USD'000	Commercial trade USD'000	Financing operation USD'000	Total USD'000
SEGMENT REVENUE	**–**	**1,104,616**	**–**	**1,104,616**
SEGMENT RESULTS	**(629)**	**4,185**	**2,197**	**5,753**
Reconciliation:				
Interest income on bank deposits				**1**
Foreign currency gains, net				**757**
Corporate and other unallocated expenses				**(2,496)**
Profit before tax				**4,015**
SEGMENT ASSETS	**30,154**	**237,192**	**32,308**	**299,654**
Reconciliation:				
Cash and cash equivalents				**2,085**
Deferred tax assets				**25**
Corporate and other unallocated assets				**677**
Total assets				**302,441**
SEGMENT LIABILITIES	**1,589**	**184,912**	**–**	**186,501**
Reconciliation:				
Tax payable				**3,590**
Deferred tax liabilities				**4,437**
Corporate and other unallocated liabilities				**176**
Total liabilities				**194,704**
OTHER SEGMENT INFORMATION				
Interest income	**413**	**–**	**2,197**	**2,610**
Finance costs	**29**	**5,415**	**–**	**5,444**
Depreciation and amortisation	**757**	**–**	**–**	**757**

NOTES TO FINANCIAL STATEMENTS

31 December 2017

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2016

	Mine operation USD'000	Commercial trade USD'000	Financing operation USD'000	Total USD'000
SEGMENT REVENUE	1,342	1,239,332	–	1,240,674
SEGMENT RESULTS	489	7,588	2,355	10,432
Reconciliation:				
Interest income on bank deposits				2
Foreign currency losses, net				(1,129)
Corporate and other unallocated expenses				(3,717)
Profit before tax				5,588
SEGMENT ASSETS	30,519	104,317	32,384	167,220
Reconciliation:				
Cash and cash equivalents				74,922
Deferred tax assets				232
Corporate and other unallocated assets				1,451
Total assets				243,825
SEGMENT LIABILITIES	1,638	128,946	–	130,584
Reconciliation:				
Tax payable				5,802
Deferred tax liabilities				4,193
Corporate and other unallocated liabilities				695
Total liabilities				141,274
OTHER SEGMENT INFORMATION				
Interest income	785	–	2,943	3,728
Finance costs	46	2,790	–	2,836
Depreciation and amortisation	807	–	–	807

NOTES TO FINANCIAL STATEMENTS

31 December 2017

4. OPERATING SEGMENT INFORMATION (continued)

Entity-wide disclosures

Geographical information

The following table sets out information about the geographical locations of the Group's revenue from external customers during the year. The geographical locations of customers are determined based on the locations designated by the customers at which the goods were delivered or services were rendered.

	2017	2016
	USD'000	USD'000
Domestic – Malaysia	**–**	1,342
Overseas – Netherlands	**1,692**	–
Overseas – South Korea	**23,303**	–
Overseas – The People's Republic of China ("PRC")	**1,079,621**	1,239,332
	1,104,616	1,240,674

At the end of the reporting period, except for certain office furniture and motor vehicles located in Hong Kong and Mainland China with the respective net carrying amounts of USD30,000 (2016: USD57,000) and USD277,000 (2016: USD404,000), all of the Group's non-current assets excluding financial instruments were located in Malaysia, place of domicile of the Group's principal subsidiary, Capture Advance.

Information about major customers

Revenue from each of the major customers, which amounted to 10% or more of the total revenue, is set out below:

	2017	2016
	USD'000	USD'000
Customer A	**326,836**	254,454
Customer B	**204,742**	445,381
Customer C	**157,748**	*
Customer D	*	182,448

* Less than 10%

NOTES TO FINANCIAL STATEMENTS

31 December 2017

5. REVENUE

Revenue represents the net invoiced value of goods sold. An analysis of revenue from sales of goods is as follows:

	2017	2016
	USD'000	USD'000
Iron ore products	**992,707**	1,073,941
Copper cathodes	**78,566**	108,257
Nickel cathodes	**27,475**	48,370
Lead ore products	**4,176**	–
Aluminium	**1,692**	–
Pig iron	**–**	7,200
Poly carbonate	**–**	2,906
	1,104,616	1,240,674

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2017	2016
	USD'000	USD'000
Interest on bank loans	**1,699**	1,330
Interest on notes	**3,716**	929
Notional interest on a loan from the ultimate holding company	**–**	530
Interest on hire purchase arrangements	**2**	21
Unwinding of discount on provision (note 25)	**27**	26
	5,444	2,836

NOTES TO FINANCIAL STATEMENTS

31 December 2017

7. PROFIT BEFORE TAX

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

	Notes	2017 USD'000	2016 USD'000
Cost of inventories sold		**1,088,089**	1,226,963
Employee benefit expense (including directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**1,813**	1,464
Pension scheme contributions			
– Defined contribution schemes		**54**	39
Welfare and other benefits		**229**	139
Total employee benefit expense		**2,096**	1,642
Depreciation	11	**893**	942
Amortisation of intangible assets	12	**23**	23
Depreciation and amortisation expenses		**916**	965
Operating lease payments in respect of:			
Motor vehicles		**111**	128
Office		**205**	235
Auditor's remuneration			
Current year		**186**	350
Under-provision in prior year		**8**	–
Interest income*		**(2,611)**	(3,730)
Write-off of payment in advance**		**–**	50
Loss on disposal of items of property, plant and equipment**		**–**	73
Foreign currency (gains)/losses, net*		**(757)**	1,129
Imputed interest accelerated amortisation on an early settlement of a loan from the ultimate holding company**		**–**	583
(Over-provision of tax surcharges in prior year)/tax surcharges**		**(16)**	290

* These are included in "Other income and gains" in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017. The amount of foreign currency losses of USD1,129,000 for the year ended 31 December 2016 was included in "Other expenses" in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016.

** These are included in "Other expenses" in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO FINANCIAL STATEMENTS

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

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

	2017 **USD'000**	2016 USD'000
Fees	**261**	108
Other emoluments:		
Salaries, allowances and benefits in kind	**402**	309
Pension scheme contributions		
– Defined contribution fund	**13**	10
	415	319
	676	427

(a) Independent non-executive directors

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

	2017 **USD'000**	2016 USD'000
Mr. Leung Yiu Cho	**11**	–
Mr. Kong Chi Mo	**19**	29
Dr. Li Zhongquan	**13**	13
Dr. Wang Ling	**13**	13
	56	55

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2017

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Executive directors and the chief executive

	Fees USD'000	Salaries, allowances and benefits in kinds USD'000	Pension scheme contributions USD'000	Total USD'000
2017				
Mr. Li Yang[(i)]	**129**	**216**	**4**	**349**
Ms. Xu Mijia	**14**	**62**	**4**	**80**
Mr. Wang Er	**20**	**38**	**–**	**58**
Ms. Li Xiaolan	**42**	**86**	**5**	**133**
	205	**402**	**13**	**620**

	Fees USD'000	Salaries, allowances and benefits in kinds USD'000	Pension scheme contributions USD'000	Total USD'000
2016				
Mr. Li Yang[(i)]	14	117	2	133
Mr. Dong Jie[(ii)]	7	7	–	14
Ms. Xu Mijia[(ii)]	4	55	2	61
Mr. Wang Er	14	39	2	55
Ms. Li Xiaolan	14	91	4	109
	53	309	10	372

(i) Mr. Li Yang who acts as an executive director of the Company is also the chief executive officer of the Company.

(ii) Mr. Dong Jie has resigned as an executive director and Ms. Xu Mijia has been appointed as an executive director of the Company on 12 September 2016.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2016: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2017

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(c) Five highest paid employees

The five highest paid employees during the year included three (2016: three) directors (including the chief executive officer who is also an executive director of the Company), details of whose remuneration are set out above. Details of the remuneration for the year of the remaining two (2016: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017 **USD'000**	2016 USD'000
Salaries, allowances and benefits in kind	**341**	258
Pension scheme contributions	**4**	4
	345	262

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

	Number of employees	
	2017	2016
Nil to HKD1,000,000	**1**	1
HKD1,000,001 to HKD2,000,000	**1**	1
	2	2

9. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group was not subject to any income tax in the Cayman Islands and BVI.

No provision for Singapore and PRC corporate income tax has been provided as the Company's subsidiaries located in Singapore and Mainland China had no assessable profits derived or earned in Mainland China and Singapore during the year.

Pursuant to the income tax rules and regulations in Malaysia, the subsidiaries located in Malaysia are liable to Malaysia corporate income tax at a rate of 24% (2016: 24%) on the assessable profits generated during the year.

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

NOTES TO FINANCIAL STATEMENTS

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9. INCOME TAX (continued)

The major components of income tax expense are as follows:

	2017 USD'000	2016 USD'000
Current tax – Hong Kong		
Charge for the year	**1,108**	1,373
Overprovision in prior year	**(696)**	–
	412	1,373
Deferred tax (note 24)	**188**	(130)
Total tax charge for the year	**600**	1,243

A reconciliation of income tax expense applicable to profit before taxation at the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2017 USD'000	2016 USD'000
Profit before tax	**4,015**	5,588
Tax at Hong Kong statutory tax rate of 16.5% (2016: 16.5%)	**766**	1,085
Tax at Malaysia statutory tax rate of 24% (2016: 24%)	**(151)**	(236)
Benefit of tax losses not recognised	**–**	126
Tax effect of utilisation of tax losses not previously recognised	**(57)**	–
Tax effect of income not subject to tax	**(744)**	(262)
Tax effect of expenses not deductible for tax	**1,274**	661
Overprovision in prior year	**(476)**	–
Effect of change in tax rate	**–**	(122)
Others	**(12)**	(9)
Tax charge at the Group's effective tax rate	**600**	1,243

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company, and the number of ordinary shares of 1,500,000,000 (2016: 1,500,000,000) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2017 and 2016 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

11. PROPERTY, PLANT AND EQUIPMENT

	Mine properties USD'000	Machinery USD'000	Motor vehicles USD'000	Others USD'000	Total USD'000
31 December 2017					
Cost:					
At 1 January 2017	**2,026**	**5,113**	**896**	**494**	**8,529**
Additions	**–**	**–**	**–**	**6**	**6**
Exchange realignment	**214**	**596**	**35**	**36**	**881**
At 31 December 2017	**2,240**	**5,709**	**931**	**536**	**9,416**
Accumulated depreciation:					
At 1 January 2017	**728**	**2,440**	**393**	**152**	**3,713**
Provided for the year	**238**	**480**	**127**	**48**	**893**
Exchange realignment	**87**	**354**	**34**	**8**	**483**
At 31 December 2017	**1,053**	**3,274**	**554**	**208**	**5,089**
Net carrying amount:					
At 1 January 2017	**1,298**	**2,673**	**503**	**342**	**4,816**
At 31 December 2017	**1,187**	**2,435**	**377**	**328**	**4,327**
31 December 2016					
Cost:					
At 1 January 2016	2,118	5,605	793	497	9,013
Additions	–	–	142	13	155
Disposals	–	(222)	(23)	–	(245)
Exchange realignment	(92)	(270)	(16)	(16)	(394)
At 31 December 2016	2,026	5,113	896	494	8,529
Accumulated depreciation:					
At 1 January 2016	523	2,162	283	109	3,077
Provided for the year	245	505	145	47	942
Disposals	–	(72)	(19)	–	(91)
Exchange realignment	(40)	(155)	(16)	(4)	(215)
At 31 December 2016	728	2,440	393	152	3,713
Net carrying amount:					
At 1 January 2016	1,595	3,443	510	388	5,936
At 31 December 2016	1,298	2,673	503	342	4,816

NOTES TO FINANCIAL STATEMENTS

31 December 2017

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

(a) Motor vehicles with an aggregate net carrying amount of USD6,000 (2016: USD6,000) were held under hire purchase arrangements entered into by the Group (note 20) at 31 December 2017.

(b) A motor vehicle with a net carrying amount of USD171,000 (2016: USD269,000) was held under custody of Chengdu Hande as at 31 December 2017. The largest shareholder of Chengdu Hande is the father of Mr. Li Yang, the controlling shareholder of the Group.

(c) As at 31 December 2017, the gross carrying amount of fully depreciated assets that were still in use totalled USD1,584,000 (2016: USD1,386,000).

12. MINING RIGHTS AND RESERVES

	2017 **USD'000**	2016 USD'000
Cost:		
At 1 January	**11,968**	12,471
Exchange realignment	**1,173**	(503)
At 31 December	**13,141**	11,968
Accumulated amortisation:		
At 1 January	**186**	163
Provided for the year	**23**	23
At 31 December	**209**	186
Net carrying amount:		
At 1 January	**11,782**	12,308
At 31 December	**12,932**	11,782

NOTES TO FINANCIAL STATEMENTS

31 December 2017

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	**2017 USD'000**	2016 USD'000
Prepayments in respect of purchase of iron ore	(a)	**35,592**	1,662
Other receivables in respect of:			
– disposal of property, plant and equipment	(b)	**6,438**	5,456
– termination of acquisition of a 60% equity interest in a company	(c)	**–**	2,300
– interest-bearing loan to a company	(d)	**8,500**	8,500
Other prepayments, deposits and receivables		**369**	1,137
		50,899	19,055

Notes:

(a) As at 31 December 2017, the Group had prepayments in the aggregate amount of approximately USD35,592,000 made to two suppliers for purchase of iron ores. According to the relevant purchase agreements entered into with the relevant suppliers, the said prepayments were used to deduct the shipment value of iron ore to be provided by the relevant suppliers to the Group for the first half year of 2018.

(b) In December 2015, the Group disposed of some of its machinery in Malaysia ("Disposed Machinery") to an independent third party (the "Buyer") for an aggregate consideration of RM52,300,000 equivalent to approximately USD12,181,000 as at 31 December 2015. According to the agreement entered into between the Group and the Buyer, the aggregate consideration will be settled by two equal instalments before the end of 31 December 2016 and 31 December 2017, respectively. This receivable is secured by the pledge of the Disposed Machinery.

During the year ended 31 December 2016, the Group had received 50% of the consideration. The remaining balance of the consideration amounting to RM26,150,000 equivalent to approximately USD6,438,000 as at 31 December 2017 remained unsettled up to 31 December 2017. On 5 March 2018, the Group entered into a supplemental agreement (the "Supplemental Agreement") with the Buyer to extend the payment term of the remaining consideration to 31 December 2018. The Buyer is required to pay interest on the unsettled balance to the Group at the interest rate of 5% per annum on a quarterly basis.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Notes: (continued)

(c) The balance represented the prepayment of USD2,300,000 to two independent third parties in relation to the proposed acquisition of a 60% equity interest in Red Sun Resources Sdn. Bhd. ("Red Sun"), which was due to be fully collected before 31 December 2016 due to the termination of the proposed acquisition. During the year ended 31 December 2017, the balance was fully settled through the Group's purchases of iron ore products from Red Sun.

(d) The balance represents a loan with a principal of USD8,500,000 granted to Shenzhen Wanyuntong Real Estate Development Company Limited (31 December 2016: USD8,500,000), the details of which are set out in the announcement dated 24 December 2015.

Except for the receivable as disclosed in note (b) above, none of the above assets is either past due or impaired as at 31 December 2017. Except for the receivable as disclosed in note (b) above, the financial assets included in the above balances relate to receivables for which there was no recent history of default.

14. AVAILABLE-FOR-SALE INVESTMENTS

	2017	2016
	USD'000	USD'000
Unlisted equity investments, at fair value	**23,808**	23,884

During the year, the gross loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to USD76,000 (2016: gross gain of USD5,884,000).

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity dates or coupon rates. The Group does not intend to dispose of the investments in the near future.

15. GOODWILL

	USD'000
Cost and net carrying amount at 1 January 2016	6,427
Exchange realignment	(255)
Cost and net carrying amount at 31 December 2016 and 1 January 2017	6,172
Exchange realignment	593
Cost and net carrying amount at 31 December 2017	6,765

NOTES TO FINANCIAL STATEMENTS

31 December 2017

15. GOODWILL (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the iron ore cash-generating unit, i.e., Ibam Mine cash-generating unit for impairment testing.

The recoverable amount of Ibam Mine cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The pre-tax discount rate applied to the cash flow projections is 19.83% (2016: 19.84%). The growth rate used to extrapolate the cash flows of the iron ore cash-generating unit beyond the five-year period is 0% (2016: 0%) and the inflation rate is 3% (2016: 3%). The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed the recoverable amount of the Ibam Mine cash-generating unit.

Assumptions were used in the value in use calculation of the iron ore cash-generating unit. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Production and sales volumes – production and sales volumes are expected to increase from approximately 0.04 million tonnes in 2016 to approximately 1.28 million tonnes in 2019 as production is expanded up to its designed capacity. During the year, production at Ibam Mine has been suspended, but is expected to resume from 2018. Estimated production volumes are based on detailed life-of-mine plans and take into account development plans for the mine agreed by management as part of the long-term planning process. Sales volumes are dependent on a number of variables, such as: the recoverable quantities; the production profile; the cost of the development of the infrastructure necessary to extract the reserves; the production costs; and the selling price of the iron ore. The production profiles used were consistent with the reserves and resource volumes approved as part of the Group's process for the estimation of proved and probable reserves and resource estimates. These are then assessed to ensure they are consistent with what a market participant would estimate.

Iron ore prices – Future iron ore prices in the valuation model are estimated by management based on their industry experience, historic price trends and independent expert reports and commentaries.

Budgeted gross margins – Based on the average production costs achieved in the recent years, adjusted for management's expectations for possible change in the production costs and estimated market prices.

Discount rate –The discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to key assumptions are consistent with external information sources.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

16. TRADE RECEIVABLES

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

	2017	2016
	USD'000	USD'000
Within 3 months	**128,712**	91,612
3 to 6 months	**65,764**	306
	194,476	91,918

The Group normally accepts settlement by way of irrevocable letter of credit or telegraphic transfer. During the year, the Group granted credit periods of three to four months to its major customers. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

	2017	2016
	USD'000	USD'000
Neither past due nor impaired	**144,752**	91,612
Less than 1 month past due	**20,010**	306
Past due more than 1 month but less than 3 months	**24,472**	–
Past due more than 3 months	**5,242**	–
	194,476	91,918

Receivables that were past due but not impaired relate to several independent customers that have a good track record with the Group. The Directors are of the opinion that no provision for impairment is necessary in respect of these past due balances as such receivables were substantially collected subsequently.

Trade receivables of USD55,037,000 (2016: USD30,149,000) were pledged to banks to secure bank loans (note 20(a)).

NOTES TO FINANCIAL STATEMENTS

31 December 2017

17. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2017 USD'000	2016 USD'000
Cash and bank balances	**9,209**	85,966
Less: pledged deposits*	**(7,124)**	(11,044)
Cash and cash equivalents	**2,085**	74,922

* As at the end of the reporting period, (i) bank deposits of USD4,865,000 (2016: USD5,790,000) were pledged to secure short-term bank loans granted to the Group (note 20(a)); and (ii) bank deposits of USD2,259,000 (2016: USD5,254,000) were pledged for the issuance of irrevocable letter of credit to the Group's suppliers.

The Group's cash and bank balances at the end of each reporting period can be further analysed as follows:

	2017 USD'000	2016 USD'000
Cash and bank balances denominated in:		
HKD	**254**	9,188
USD	**8,947**	76,762
Other currencies – RM and RMB	**8**	16
	9,209	85,966

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

18. TRADE PAYABLES

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

	2017 USD'000	2016 USD'000
Within 3 months	**26,052**	24,192
6 months to 12 months	**–**	2
Over 1 year	**26**	74
	26,078	24,268

Trade payables are non-interest-bearing and are normally settled within 1 month.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

19. OTHER PAYABLES AND ACCRUALS

	2017 USD'000	2016 USD'000
Due to the ultimate holding company (note 32(c))	**60,000**	50,000
Advances received from customers	**–**	676
Other payables and accruals	**3,503**	2,031
	63,503	52,707

All other payables of the Group are non-interest-bearing and unsecured.

20. INTEREST-BEARING BANK AND OTHER BORROWINGS

		2017			2016		
	Notes	**Effective interest rate (%)**	**Maturity**	**USD'000**	Effective interest rate (%)	Maturity	USD'000
Current							
Bank loans – secured	(a)	**2.29-3.89**	**2018**	**55,999**	3.02-3.18	2017	30,137
Bank loans – unsecured	(d)			**–**	1.70	2017	3,522
Hire purchase arrangements – secured	(b)	**2.36-2.47**	**2018**	**18**	2.36-2.54	2017	25
Hire purchase arrangements – unsecured	(c)			**–**	–	2017	31
				56,017			33,715
Non-current							
Hire purchase arrangements – secured	(b)	**2.36-2.47**	**2019-2020**	**7**	2.36-2.47	2018-2020	23
				56,024			33,738

NOTES TO FINANCIAL STATEMENTS

31 December 2017

20. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Analysed into:

	2017 **USD'000**	2016 USD'000
Bank loans repayable:		
Within one year	**55,999**	33,659
Hire purchase arrangements repayable:		
Within one year	**18**	56
In the second year	**6**	17
In the third to fifth years, inclusive	**1**	6
	25	79
	56,024	33,738

Notes:

(a) As at 31 December 2017, the bank loans of China Bright HK, an indirect wholly-owned subsidiary of the Company, were secured by the pledged bank balances of USD4,865,000 (2016: USD5,790,000) (note 17) and by certain trade receivables of USD55,037,000 (2016: USD30,149,000) (note 16), and were guaranteed by the Company at nil consideration.

(b) The Group acquired certain of its motor vehicles through hire purchase arrangements, which are classified as finance leases and have remaining lease terms ranging from one to five years. As at 31 December 2017, payables relating to the hire purchase arrangements were secured by the corresponding motor vehicles acquired with an aggregate carrying amount of USD6,000 (2016: USD6,000) (note 11(a)).

(c) During the year ended 31 December 2015, the Group disposed of certain of its machinery through hire purchase arrangements with remaining lease terms ranging from one to two years. As at 31 December 2016, the remaining payables relating to the hire purchase arrangements were unsecured, interest-free and to be paid according to the payment schedules stated in the supplementary contracts of the hire purchase arrangements.

(d) As at 31 December 2016, the balance representing interest-bearing bank loans of USD3,522,000 of China Bright HK, an indirect wholly-owned subsidiary of the Company, were guaranteed by the Company at nil consideration.

(e) Except for the hire purchase arrangements which were denominated in RM and the issued notes with carrying amount of USD20,882,000 which was denominated in HKD, all borrowings were denominated in USD.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

20. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

At 31 December 2017, the total future minimum lease payments under hire purchase arrangements and their present values were as follows:

	Minimum lease payments 2017 USD'000	Minimum lease payments 2016 USD'000	**Present value of minimum lease payments 2017 USD'000**	Present value of minimum lease payments 2016 USD'000
Amounts payable:				
Within one year	**19**	58	**18**	56
In the second year	**6**	17	**6**	17
In the third to fifth years, inclusive	**1**	6	**1**	6
Total minimum hire purchase payments	**26**	81	**25**	79
Future finance charges	**(1)**	(2)		
Total net hire purchase payables	**25**	79		
Portion classified as current liabilities	**(18)**	(56)		
Non-current portion	**7**	23		

NOTES TO FINANCIAL STATEMENTS

31 December 2017

21. NOTES

	Notes	2017 USD'000	2016 USD'000
Current:			
Note 1 – redemption falling due within one year	(a)	**20,882**	–
Non-current:			
Note 1 – redemption falling due after one year	(a)	**–**	20,213
Note 2 – redemption date falling due after one year	(b)	**19,810**	–
		19,810	20,213
Total		**40,692**	20,213

Notes:

(a) On 20 September 2016, the Company entered into a subscription agreement with an independent third party institution (the "Noteholder 1") pursuant to which the Company issued the 12% senior guaranteed notes (the "Note 1") in the principal amount of HKD164,865,750 (equivalent to approximately USD21,270,000) with a final redemption date falling 18 months after the date of issue. The net proceeds amounted to approximately USD20,000,000 as at the issue date. The interest should be payable quarterly.

The major terms and conditions of the Note 1 are as follows:

(i) The event of defaults under the Note 1 include, among other things:

– the Company or a wholly-owned subsidiary(ies) of the Company does not remain the direct or indirect beneficial owner of not less than 100% of the issued share capital of (a) China Bright HK; and (b) Pacific Mining, free and clear of any lien, charge, encumbrance, security interest, restriction on voting or transfer or any other claim of any third party;

– the ratio of the total liabilities of the Company to the total assets of the Company exceeds a specified ratio;

– Mr. Li Yang fails to remain as the controlling shareholder (as defined in the Listing Rules) of the Company, or Mr. Li Yang ceases to be the chairman of the Company; and

NOTES TO FINANCIAL STATEMENTS

31 December 2017

21. NOTES (continued)

Notes: (continued)

(a) (continued)

(i) The event of defaults under the Note 1 include, among other things: (continued)

– trading in the Company's shares on the The Stock Exchange of Hong Kong Limited is suspended for more than five (5) consecutive trading days or twenty (20) trading days in any period of twelve (12) months or the closing price per share of the Company shall be less than a specified price during five (5) consecutive trading days.

Upon and at any time after the occurrence of the event of defaults, the Noteholder 1 may give notice to the Company that one or more of the Note 1 shall become immediately due and repayable with all accrued interest.

(ii) Redemption option

The Company may not redeem the Note 1 prior to the final redemption date without the prior written consent of the holders of the Note 1.

(iii) Guarantees

The Note 1 were guaranteed by Cosmo Field, Capture Advantage, Mr. Li Yang and Mr. Li Dongming, who is the father of Mr. Li Yang (note 32 (d)).

The Note 1 recognised in the consolidated statement of financial position are calculated as follows:

	USD'000
Nominal value of the Note 1	21,270
Issue costs	(1,270)
Fair value at date of issuance	20,000
Effective interest recognised for the year (note 6)	929
Interest paid or payable	(716)
Carrying amount at 31 December 2016 and 1 January 2017	20,213
Effective interest recognised for the year (note 6)	3,426
Interest paid or payable	(2,587)
Exchange realignment	(170)
Carrying amount at 31 December 2017	20,882

NOTES TO FINANCIAL STATEMENTS

31 December 2017

21. NOTES (continued)

Notes: (continued)

(b) On 19 October 2017, the Company entered into a subscription agreement with an independent third party institution (the "Noteholder 2") pursuant to which the Company issued the 7% fixed coupon guaranteed notes (the "Note 2") in the principal amount of USD20,000,000 with a maturity date of two years from the date of issue. The net proceeds amounted to approximately USD19,800,000 as at the issue date. The interest should be payable semi-annually.

The major terms and conditions of the Note 2 are as follows:

(i) The event of defaults under the Note 2 include, among other things:

– Declare, make or pay dividend or other distribution without the prior written consent of the Noteholder 2;

– Any event occurs which has effect of change of control (within the meaning of the Codes on Takeovers and Mergers and Share Buy-backs issued by the Hong Kong Securities and Futures Commission) of the Company, its subsidiaries or Cosmo Field;

– Mr. Li Yang disposes or encumbers any of the Company's shares held by him, ceases to be the single largest shareholder of the Company, or ceases to hold, directly or indirectly, such number of the Company's shares, representing 55% of the entire issued share capital of the Company; and

– There is suspension of trading of the Company's shares on The Stock Exchange of Hong Kong Limited for five (5) consecutive trading days or more for any reason or cessation of trading of the Company's shares on The Stock Exchange of Hong Kong Limited for any reason.

Upon and at any time after the occurrence of the event of defaults, the Noteholder 2 may give notice to the Company that all or any part of the Note 2 shall become immediately due and repayable with all accrued interest.

(ii) Redemption option

The Company may not redeem the Note 2 prior to the final redemption date without the prior written consent of the holders of the Note 2.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

21. NOTES (continued)

Notes: (continued)

(b) (continued)

(iii) Guarantees and securities

The Note 2 were guaranteed by Cosmo Field and Mr. Li Yang and secured by an aggregate of 172,352,000 shares of the Company (note 32 (d)).

The Note 2 recognised in the consolidated statement of financial position are calculated as follows:

	USD'000
Nominal value of the Note 2	20,000
Issue costs	(200)
Fair value at date of issuance	19,800
Effective interest recognised for the year (note 6)	290
Interest paid or payable	(280)
Carrying amount at 31 December 2017	19,810

(c) According to the relevant subscription agreement, the original final redemption date of the Note 1 falls on 19 March 2018 and on that date, the Company entered into a letter agreement (the "Letter Agreement") with the holder of the Note 1 pursuant to which the holder of the Note 1 has agreed to extend the final redemption date of the Note 1 from 19 March 2018 to 19 May 2018, with interest to be accrued on the principal balance of the Note 1 at a rate of 22% per annum from (and including) 20 March 2018 to (and including) the actual date of redemption of the Note 1 in full. According to the Letter Agreement, the Company shall make a payment of USD2,000,000 to the holder of the Note 1 on or before 29 March 2018 to be applied first to interest accrued due as at the date of such payment and thereafter to reduce the principal balance of the Note 1.

As referred to note 21(a)(i) above, one of the events of default under the Note 1 is that the ratio of the total liabilities of the Company to the total assets of the Company (the "Debt Ratio") exceeds a specified ratio. As at 31 December 2017, the Debt Ratio has exceeded the specified ratio under the terms of the Note 1. According to the Letter Agreement, the holder of the Note 1 has agreed to waive the condition regarding the Debt Ratio with respect to the Company's audited financial statements for the year ended 31 December 2017.

22. NON-CASH TRANSACTION

During the year ended 31 December 2017, other receivable of USD2,300,000 in respect of termination of acquisition of a 60% equity interest in a company (note 13(c)) was settled through the Group's purchases of iron ore products from Red Sun.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

23. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows from financing activities.

	Interest payable included in other payables and accruals USD'000	Bank loans USD'000	Hire purchase arrangements USD'000	Notes USD'000	Due to the ultimate holding company USD'000	Total liabilities from financing activities USD'000
At 1 January 2017	207	33,659	79	20,213	50,000	104,158
Changes from financing cash flows:						
Net increase in bank borrowings	–	22,340	–	–	–	22,340
Capital element of hire purchase arrangement payments	–	–	(62)	–	–	(62)
Proceeds from issue of notes	–	–	–	20,000	–	20,000
Notes issue expenses	–	–	–	(200)	–	(200)
Loans advanced from the ultimate holding company	–	–	–	–	10,000	10,000
Interest paid	(702)	–	–	(2,867)	–	(3,569)
Other changes:						
Interest on bank and other borrowings recognised for the year	1,701	–	–	–	–	1,701
Effective interest of notes recognised for the year	–	–	–	3,716	–	3,716
Foreign exchange adjustments	–	–	8	(170)	–	(162)
At 31 December 2017	1,206	55,999	25	40,692	60,000	157,922

NOTES TO FINANCIAL STATEMENTS

31 December 2017

24. DEFERRED TAX

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

Deferred tax assets

	Fair value adjustments arising from acquisition of subsidiaries USD'000	Tax losses and unabsorbed capital allowances USD'000	Total USD'000
At 1 January 2016	12	230	242
Exchange differences	(1)	(9)	(10)
At 31 December 2016 and 1 January 2017	11	221	232
Deferred tax charged to profit or loss during the year (note 9)	–	(207)	(207)
At 31 December 2017	11	14	25

The Group has tax losses arising in Malaysia of approximately USD6,828,000 (2016: USD10,170,000) and in Singapore of approximately USD12,000 (2016: USD12,000) that are available indefinitely for offsetting against future taxable profits of the subsidiaries in which the losses arose. Deferred tax assets have not been recognised in respect of the tax losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

24. DEFERRED TAX (continued)

Deferred tax liabilities

	Fair value adjustments arising from acquisition of subsidiaries USD'000	Depreciation allowance in excess of related depreciation USD'000	Fair value revaluation of available-for-sale investments USD'000	Total USD'000
At 1 January 2016	2,913	55	–	2,968
Deferred tax credited to profit or loss during the year (note 9)	(122)	(8)	–	(130)
Deferred tax charged to reserves during the year	–	–	1,471	1,471
Exchange differences	(116)	–	–	(116)
At 31 December 2016 and 1 January 2017	2,675	47	1,471	4,193
Deferred tax credited to profit or loss during the year (note 9)	–	(19)	–	(19)
Deferred tax credited to reserves during the year	–	–	(19)	(19)
Exchange differences	282	–	–	282
At 31 December 2017	2,957	28	1,452	4,437

25. PROVISION FOR REHABILITATION

	2017 USD'000	2016 USD'000
At the beginning of year	**353**	327
Unwinding of discount (note 6)	**27**	26
At the end of year	**380**	353

The provision is related to mine site rehabilitation, and is based on the best estimate for future expenditure to be made by the Group, discounted to its net present value at a rate of 6.4% (2016: 6.4%). The discount rate adopted reflects the current market assessments of the time value of money and the risks specific to the provision. Subsequently, the provision for rehabilitation will increase each year by the accretion of interest due to the passage of time which is recognised as interest expense.

NOTES TO FINANCIAL STATEMENTS

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26. SHARE CAPITAL

Shares

	2017 USD'000	2016 USD'000
Authorised:		
3,000,000,000 (2016: 3,000,000,000) ordinary shares of HK$0.01 each	**3,867**	3,867
Issued and fully paid:		
1,500,000,000 (2016: 1,500,000,000) ordinary shares of HK$0.01 each	**1,934**	1,934

27. RESERVES

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

(a) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the constitutional documents and the Companies Law of the Cayman Islands, the share premium is distributable as dividend on the condition that the Company is able to pay its debts when they fall due in the ordinary course of business at the time the proposed dividend is to be paid.

(b) Capital reserve

Capital reserve represented: (i) differences arising from acquisition of non-controlling interests and reserve arising from the waiver of debts by the former shareholders of the Company in prior years of USD13,825,000; (ii) the difference between the nominal amount of USD15,000,000 and the fair value of USD13,887,000 of the interest-free loan granted by the ultimate holding company during the year ended 31 December 2015. At origination, the Group calculated its present value using the current market rate for similar instruments, the difference between the loan nominal amount and the present value of USD1,131,000 is treated as equity contribution from the ultimate holding company and credited to the capital reserve account.

(c) Contributed surplus

Contributed surplus represented the difference between the nominal value of shares of the subsidiary acquired pursuant to the Group's reorganization in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited and the previous nominal value of the Company's shares issued in exchange therefor.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

28. DIVIDENDS

No dividends have been paid or declared (2016: Nil) by the Company for the year.

29. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

30. OPERATING LEASE ARRANGEMENTS – THE GROUP AS LESSEE

The Group leases certain of its motor vehicles and office under operating lease arrangements, with leases negotiated for terms ranging from two to five years.

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

	2017 **USD'000**	2016 USD'000
Within one year	**180**	308
In the second to fifth years, inclusive	**358**	418
	538	726

31. OTHER COMMITMENTS

In addition to the operating lease commitments detailed in note 30 above, the Group had the following commitments at the end of the reporting period:

(a) Mining fee

The Group has agreed to pay Gema Impak a mining fee of RM40 per tonne of iron ore products extracted from Ibam Mine and sold by Capture Advance.

(b) Service fee

Pursuant to the mining sub-contract in relation to Ibam Mine entered into between the Group and the mining contractor, a third party, which has been renewed on 26 December 2016 and continues to be effective until the expiry of the mining lease or any renewal thereof, whichever is later unless otherwise determined by mutual consent of the parties to the mining sub-contract, the mining contractor shall mine and produce iron ore products at Ibam Mine using the machinery or equipment provided by the Group. If the production volume is less than 30 thousand tonnes, the service fee for the mining contractor is RM60 per tonne of iron ore produced, if the production volume exceeds 30 thousand tonnes per month, the service fee should be re-negotiated and agreed between the Group and the mining contractor.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

32. RELATED PARTY TRANSACTIONS AND BALANCES

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

	2017 **USD'000**	2016 USD'000
Interest-free loans advanced from the ultimate holding company	**10,000**	50,000
Repayment of a loan to the ultimate holding company	**–**	(15,000)

The above loans from the ultimate holding company were unsecured and interest-free. See note 32(c) below for details.

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

	2017 **USD'000**	2016 USD'000
Short term employee benefits	**1,062**	745
Post-employment benefits	**19**	–
Total compensation paid to key management personnel	**1,081**	745

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

(c) Outstanding balances with related parties:

As at 31 December 2017, the Group had interest-free loans from the ultimate holding company, Cosmo Field, of USD60,000,000 (note 19). Cosmo Field granted unsecured interest-free loans of USD40,000,000 and USD20,000,000 to the Group pursuant to the shareholder loan agreements entered into between the Group and Cosmo Field dated 27 September 2016 and 22 December 2016, respectively, which were due on demand for repayment before 27 September 2018.

As at 31 December 2016, the Group had interest-free loans from the ultimate holding company, Cosmo Field, of USD50,000,000 (note 19). Cosmo Field granted unsecured interest-free loans of USD40,000,000 and USD10,000,000 to the Group pursuant to the shareholder loan agreements entered into between the Group and Cosmo Field dated 27 September 2016 and 22 December 2016, respectively, which were due on demand for repayment before 26 September 2017.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

32. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(d) Notes guaranteed by related parties:

The Note 1 issued during the year ended 31 December 2016 were guaranteed by the following related parties for nil consideration: (i) Cosmo Field; (ii) Mr. Li Yang, who acts as the chairman and chief executive officer of the Company, as well as the controlling shareholder of the Company; and (iii) Mr. Li Dongming who is the father of Mr. Li Yang (note 21(a)(iii)).

The Note 2 issued during the year ended 31 December 2017 were guaranteed by Cosmo Field and Mr. Li Yang for nil consideration (note 21(b)(iii)).

33. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

	2017 **USD'000**	2016 USD'000
Financial assets		
Available-for-sale financial assets	**23,808**	23,884
Loans and receivables		
Trade receivables	**194,476**	91,918
Other receivables	**15,105**	16,256
Pledged deposits	**7,124**	11,044
Cash and cash equivalents	**2,085**	74,922
	242,598	218,024
Financial liabilities		
At amortised cost		
Trade payables	**26,078**	24,268
Other payables	**61,460**	50,000
Interest-bearing bank and other borrowings	**56,024**	33,738
Notes	**40,692**	20,213
	184,254	128,219

NOTES TO FINANCIAL STATEMENTS

31 December 2017

33. FINANCIAL INSTRUMENTS (continued)

Financial Risk Management Objectives and Policies

The financial assets of the Group mainly include cash and cash equivalents, pledged deposits, trade receivables, other receivables and available-for-sale investments which arise directly from its operations. Financial liabilities of the Group mainly include interest-bearing bank and other borrowings, notes, an amount due to the ultimate holding company, trade payables and other payables.

Risk management is carried out by the finance department which is led by the Group's executive directors. The Group's finance department identifies and evaluates financial risks in close co-operation with the Group's operating units. The main risks arising from the Group's financial instruments are credit risk, liquidity risk and foreign currency risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders. The board of directors regularly reviews these risks and they are summarised below.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. In addition, for the sales of iron ore products and other commodities, a letter of credit is generally received to cover the payment risk.

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

As disclosed in note 4, the Group sells all of the products to a small number of customers. As a result, it faces a high level of concentration of credit risk. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by analysis by customer/counterparty. In addition, the Group's exposure to credit risk is also influenced by the individual characteristics of each customer and default risk of the industry in which the customers operate. During the year, the Group generated its revenue mainly from the sales of iron ore products and other commodities to the steel and non-ferrous metal manufacturers and/or their respective purchase agents in China and other trading companies. In this regard, the Group is exposed to the concentration of credit risk in the steel and non-ferrous metal industry.

At 31 December 2017, the Group had a concentration of credit risk as 79.1% (2016: 86.3%) of the Group's trade receivables were due from the Group's top 5 customers.

The Group maintains strict control over its outstanding receivables and senior management regularly reviews the overdue balances.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

33. FINANCIAL INSTRUMENTS (continued)

Financial Risk Management Objectives and Policies (continued)

Liquidity risk

The Group monitors its exposure to a shortage of funds by considering the maturity of both its financial instruments and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank loans and hire purchase arrangements.

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

	2017					
	On demand USD'000	Less than 3 months USD'000	3 to less than 12 months USD'000	1 to 5 years USD'000	Beyond 5 years USD'000	Total USD'000
Interest-bearing bank and other borrowings	–	47,016	9,370	7	–	56,393
Notes	–	21,889	1,400	21,400	–	44,689
Trade payables	–	26,078	–	–	–	26,078
Other payables	60,900	–	560	–	–	61,460
	60,900	94,983	11,330	21,407	–	188,620

	2016					
	On demand USD'000	Less than 3 months USD'000	3 to less than 12 months USD'000	1 to 5 years USD'000	Beyond 5 years USD'000	Total USD'000
Interest-bearing bank and other borrowings	31	33,837	20	24	–	33,912
Notes	–	638	1,949	21,895	–	24,482
Trade payables	76	24,192	–	–	–	24,268
Other payables	51,819	–	–	–	–	51,819
	51,926	58,667	1,969	21,919	–	134,481

NOTES TO FINANCIAL STATEMENTS

31 December 2017

33. FINANCIAL INSTRUMENTS (continued)

Financial Risk Management Objectives and Policies (continued)

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of each reporting period to a reasonably possible change in the RM exchange rate, with all other variables held constant, of the Group's profit before tax.

	Increase/ (decrease) in RM rate	**Increase/ (decrease) in profit before tax**
	%	USD'000
2017		
If the US dollar weakens against RM	**5**	**269**
If the US dollar strengthens against RM	**(5)**	**(269)**
2016		
If the US dollar weakens against RM	5	954
If the US dollar strengthens against RM	(5)	(954)

Fair values

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, other receivables, trade payables, other payables and accruals, interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

The following methods and assumptions were used to estimate the fair values:

NOTES TO FINANCIAL STATEMENTS

31 December 2017

33. FINANCIAL INSTRUMENTS (continued)

Fair values(continued)

Assets measured at fair value:

(i) Fair value hierarchy

	Recurring fair value measurement using		
	Significant observable inputs (Level 2)	**Significant unobservable inputs (Level 3)**	**Total**
	USD'000	USD'000	USD'000
Unlisted available-for-sale equity investments			
– As at 31 December 2017	**–**	**23,808**	**23,808**
– As at 31 December 2016	13,000	10,884	23,884

(ii) Transfer between Level 2 and Level 3 fair value hierarchy

As at 31 December 2017, the Group transfers its unlisted available-for-sale investment amounting to approximately US$13,056,000 from Level 2 to Level 3 fair value hierarchy. As at 31 December 2017, the fair value determined under market approach is based on significant unobservable inputs which include price to total assets of comparable public companies with adjustments made to the estimated market prices to reflect condition and utility of the investment relative to market comparatives. As at 31 December 2016, the fair value of such investment was determined with reference to the cost of acquisition of such investment paid by the Group.

As at 31 December 2017, the Group does not have any financial assets transferred from Level 3 to Level 2 fair value hierarchy.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

33. FINANCIAL INSTRUMENTS (continued)

Fair values (continued)

Assets measured at fair value (continued):

(iii) Fair value measurements using significant unobservable inputs (Level 3)

The following table presents changes in Level 3 items for the years ended 31 December 2017 and 2016:

	2017	2016
	USD'000	USD'000
At 1 January	**10,884**	–
Transfer into Level 3 (note)	**13,056**	10,884
Total losses for the year included in other comprehensive income	**(132)**	–
At 31 December	**23,808**	10,884

Note: The Group's policy is to recognise the transfer into Level 3 as of the date of the event or change in circumstances that caused the transfer.

(iv) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements.

Description	**Fair value at 31 December**		**Valuation technique**	**Unobservable inputs**	**Relationship with fair values**
	2017	2016			
	US$'000	US$'000			
Unlisted equity securities	**23,808**	10,884	Market approach	Price to total assets ratio ranged from 1.24 to 2.78 (2016: 2.06)	Increase in price to total assets ratio will result in increase in fair values.
				Discount for lack of marketability (DLOM) ranged from 18% – 20% (2016: 17%)	Increase in DLOM will result in decrease in fair values.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

33. FINANCIAL INSTRUMENTS (continued)

Fair values (continued)

Assets measured at fair value (continued):

(v) Valuation processes

The management of the Group is responsible to determine the appropriate valuation techniques and inputs for fair value measurements. In estimating the fair value of a financial asset or a financial liability, the Group uses market-observable data to the extent it is available. When Level 1 or Level 2 inputs are not available, the Group engaged independent qualified external valuers to perform the valuation. The management of the Group works closely with qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or raise new capital from its investors.

No changes were made in the objectives, policies or processes for managing capital during the year.

The Group is currently funding its capital expenditure through internal generated funds from its operations and new bank borrowings and loans from related parties. The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. The Group's policy is to keep the gearing ratio between 20% and 50% over the long term. Net debt is defined as interest-bearing bank loans and other loans, notes and an amount due to the ultimate holding company, net of cash and bank balances and it excludes liabilities incurred for working capital purposes.

As at 31 December 2017, the gearing ratio was 57.8% (2016: 14.9%).

NOTES TO FINANCIAL STATEMENTS

31 December 2017

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2017	2016
	USD'000	USD'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**153,252**	125,354
Deferred tax assets	**12**	–
	153,264	125,354
CURRENT ASSETS		
Cash and cash equivalents	**4**	3
CURRENT LIABILITIES		
Other payables and accruals	**1,049**	71
Notes	**20,882**	–
Due to the ultimate holding company	**60,000**	50,000
Total current liabilities	**81,931**	50,071
NET CURRENT LIABILITIES	**(81,927)**	(50,068)
Total assets less current liabilities	**71,337**	75,286
NON-CURRENT LIABILITIES		
Notes	**19,810**	20,213
Net assets	**51,527**	55,073
EQUITY		
Issued capital	**1,934**	1,934
Reserves (note)	**49,593**	53,139
Total equity	**51,527**	55,073

NOTES TO FINANCIAL STATEMENTS

31 December 2017

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

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

	Share premium account USD'000	**Retained earnings** USD'000	**Total** USD'000
At 1 January 2016	47,541	6,436	53,977
Total comprehensive loss for the year	–	(838)	(838)
At 31 December 2016 and 1 January 2017	47,541	5,598	53,139
Total comprehensive loss for the year	–	(3,546)	(3,546)
At 31 December 2017	47,541	2,052	49,593

35. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with current year's presentation.

36. EVENTS AFTER THE REPORTING PERIOD

As disclosed in note 21(c), the original final redemption date of the Note 1 in the aggregate of the principal and accrued interest amount of approximately USD21,889,000 falls on 19 March 2018 and on that date, the Company entered into the Letter Agreement with the relevant note holder to extend the final redemption date of the Note 1 from 19 March 2018 to 19 May 2018. In addition, pursuant to the Letter Agreement, the Company shall make a payment of USD2,000,000 to the relevant noteholder on or before 29 March 2018 to be applied first to interest accrued due as at the date of such payment and thereafter to reduce the principal balance of the Note 1.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the directors on 29 March 2018.

FIVE YEAR SUMMARY OF FINANCIAL INFORMATION

Financial results	**For the year ended 31 December**				
(USD'000)	**2017**	2016	2015	2014	2013
Continuing operations					
REVENUE	**1,104,616**	1,240,674	550,168	152,304	110,372
Cost of sales	**(1,088,089)**	(1,226,963)	(535,266)	(136,928)	(69,263)
Gross profit	**16,527**	13,711	14,902	15,376	41,109
Other income	**3,398**	3,738	2,735	2,576	52
Selling and distribution expenses	**(770)**	(180)	(120)	(7,605)	(8,500)
Administrative expenses	**(8,684)**	(5,379)	(5,072)	(4,136)	(6,052)
Other expenses	**(1,012)**	(3,466)	(9,361)	(2,574)	(1,314)
Finance costs	**(5,444)**	(2,836)	(355)	(678)	(91)
Profit/(loss) before tax from continuing operations	**4,015**	5,588	2,729	2,959	25,204
Income tax expense	**(600)**	(1,243)	(2,112)	(753)	(5,459)
Profit/(loss) for the year	**3,415**	4,345	617	2,206	19,745
Other comprehensive income/(loss)					
Changes in fall value of available-for-sale investments	**(76)**	5,884	–	–	–
Income tax effect	**19**	(1,471)	–	–	–
	(57)	4,413	–	–	–
Exchange differences on translation of foreign operations	**1,828**	(178)	(2,870)	(1,409)	(1,532)
Other comprehensive income/(loss) for the year	**1,771**	4,235	(2,870)	(1,409)	(1,532)
Total comprehensive income/(loss) for the year, net of tax	**5,186**	8,580	(2,253)	797	18,213
Profit/(loss) for the year attributable to:					
Owners of the Company	**3,415**	4,345	617	2,206	19,745
Non-controlling interests	**–**	–	–	–	–
	3,415	4,345	617	2,206	19,745
Total comprehensive income/(loss) for the year attributable to:					
Owners of the Company	**5,186**	8,580	(2,253)	797	18,213
Non-controlling interests	**–**	–	–	–	–
	5,186	8,580	(2,253)	797	18,213

FIVE YEAR SUMMARY OF FINANCIAL INFORMATION

Assets and Liabilities	**As at 31 December**				
(USD'000)	**2017**	2016	2015	2014	2013
Non-current Assets	**47,857**	46,886	58,248	75,570	68,221
Current Assets	**254,584**	196,939	112,375	60,531	58,739
Total Assets	**302,441**	243,825	170,623	136,101	126,960
Non-current Liabilities	**(24,634)**	(24,782)	(17,256)	(4,216)	(4,798)
Current Liabilities	**(170,070)**	(116,492)	(59,396)	(36,792)	(18,008)
Total Liabilities	**(194,704)**	(141,274)	(76,652)	(41,008)	(22,806)
Equity attributable to owners of the Company	**107,737**	102,551	93,971	95,093	104,154

GLOSSARY

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

"AGM"	the annual general meeting of the Company
"Articles of Association" or "Articles"	the articles of association of the Company which is effective from time to time
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Audit Committee"	the audit committee of the Board
"Board of Directors" or "Board"	the board of Directors of the Company
"business day"	any day (other than Saturday, Sunday or a public holiday) on which licensed banks in Hong Kong are generally open for normal banking business
"BVI"	the British Virgin Islands
"CAA Resources", "Company", "we", "us" or "our"	CAA Resources Limited (優庫資源有限公司), a company incorporated in the Cayman Islands on 25 April 2012 under the Companies Law CAP. 22 and, except where the context otherwise requires, all of its subsidiaries or where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries were engaged in and which were subsequently assumed by it
"Capture Advance"	Capture Advance Sdn. Bhd., a company incorporated in Malaysia as a private company limited by shares on 15 November 2007 and which is wholly owned by Best Sparkle Development Limited, and an indirect wholly-owned subsidiary of the Company
"Capture Advantage"	Capture Advantage Co., Ltd. a company incorporated in the BVI with limited liability on 23 August 2010, and which is a directly wholly-owned subsidiary of the Company
"Capture Bukit Besi"	Capture Bukit Besi Sdn Bhd., a company incorporated in Malaysia as a private company limited by shares on 30 September 2013 and which is wholly owned by Best Sparkle Development Limited, and an indirect wholly-owned subsidiary of the Company

GLOSSARY

"CG Code"	Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules
"Chengdu Hande"	成都漢德投資管理有限公司 (Chengdu Hande Investment Management Co., Ltd.), a limited liability company established in the PRC on 19 November 2003, which is owned by Mr. Li Dongming, Mr. Li Yang, Mr. Wang Er and Ms. Li Xiaolan and is deemed as a connected person of our Company under the Listing Rules
"Chief Executive Officer"	the chief executive (as defined in the SFO) of the Company
"China" or "PRC"	the People's Republic of China. For the purpose of this report and for geographical reference only and except where the context requires, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended and supplemented from time to time
"Companies Ordinance"	the Companies Ordinance of Hong Kong (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"connected transaction(s)"	has the meaning ascribed thereto in the Listing Rules
"Controlling Shareholder"	has the meaning ascribed to it under the Listing Rules, and in the context of this annual report means the controlling shareholders of our Company, namely Cosmo Field and Mr. Li Yang, and Controlling Shareholder means any one of them
"Cosmo Field"	Cosmo Field Holdings Limited (宇田控股有限公司), a company incorporated in the BVI with limited liability on 26 March 2012, and which is wholly owned by Mr. Li Yang
"COSO"	The Committee of Sponsoring Organizations of the Treadway Commission, a joint initiative dedicated to the development of frameworks and guidance on enterprise risk management, international control and fraud deterrence

GLOSSARY

"Deed of Non-Competition"	a deed of non-competition entered into on 9 June 2013 between the Company and each of Mr. Li Yang and Cosmo Field, as covenantors, each of Mr. Li Yang and Cosmo Field in favour of the Company (for ourselves and for the benefit of each member of our Group) that he/it shall not, and shall procure his/its associates (other than members of our Group) not to, directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of our Group
"Director(s)"	the director(s) of the Company
"ESG"	Environment, Social and Governance as referred in Appendix 27 of the Listing Rules
"ESG Reporting Guide"	Guide on Environment, Social and Governance Reporting set out in Appendix 27 of the Listing Rules
"Gema Impak"	Gema Impak Sdn. Bhd., a company incorporated in Malaysia on 4 December 2006 with Pacific Mining holding 50% shareholding interest in Gema Impak as nominee, the details of which is set out in our announcement dated 7 November 2014
"Group", "we" or "us"	Our Company and our subsidiaries at the relevant time, or where the context refers to any time prior to our Company becoming the holding company of our current subsidiaries, our current subsidiaries and the business carried on by such subsidiaries or (as the case may be) our predecessors, and "our" shall be construed accordingly
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong

GLOSSARY

"Hua Heng"	Hua Heng Investments Limited (華恒投資有限公司), a company incorporated in the BVI with limited liability on 23 March 2012, and which is wholly owned by Mr. Yang Jun, our Shareholder
"Ibam Mine"	the mining site in respect of which the Mining Lease is granted and is located in Lot 27887 (PA 143236), Sungai Cipai, Mukim Keratong, Daerah Rompin, Pahang, Malaysia
"IFRSs"	International Financial Reporting Standards, which comprise standards and interpretations approved by International Accounting Standards Board and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect
"Independent Technical Advisor" or "Geos Mining"	Geos Mining, an Independent Third Party and the Competent Person (which has the meaning ascribed to it under Chapter 18 of the Listing Rules) appointed by our Company in respect of the Listing, and a specialist independent geological and mineral exploration consultants based in Sydney, Australia and operating in accordance with Australian laws and professional codes of ethics
"Independent Third Party(ies)"	persons or companies which are independent of and not connected with (within the meaning of the Listing Rules) any of the Directors, Chief Executive Officers, Substantial Shareholders of the Company or any of its subsidiaries and their respective associates, and "Independent Third Party" means any of them
"inferred resource"	part of the iron ore resource for which tonnage, grade and mineral content can be estimated with a low level of confidence as defined by the JORC Code
"iron ore products"	the products produced from our iron ore crushing and beneficiation facilities in the form of iron ore concentrates and iron ore fines
"JORC"	the Australasian Joint Ore Reserves Committee
"JORC Code"	the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves

GLOSSARY

"Kt"	thousand tonnes, which is weight unit of measure for iron ore either on dry basis or on wet basis
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange on 3 July 2013
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"Main Board"	the stock exchange (excluding the option markets) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
"Malaysian Companies Act 1965"	the Companies Act 1965 of Malaysia and any subsequent amendment(s) thereof
"mining volume"	the aggregate volume of produced ore volume excluding stripping rock volume
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"MOU"	memorandum of understanding
"Mt"	million tonnes, which is weight unit of measure for iron ore either on dry basis or on wet basis
"Nomination Committee"	the nomination committee of the Board
"Pacific Mining"	Pacific Mining Resources Sdn. Bhd., a company incorporated in Malaysia as a private company limited by shares on 31 August 2007, and which is wholly owned by Best Sparkle Development Ltd., and an indirect wholly-owned subsidiary of our Company
"probable reserves"	the economically mineable part of an indicated resource, and in some circumstances, a measured resource, as defined by the JORC Code, which includes diluting materials and allowances for losses which may occur when the material is mined
"Project Ibam"	the mining project carried out at the Ibam Mine pursuant to the Mining Agreement

GLOSSARY

"Prospectus"	the prospectus dated 30 June 2013 issued by the Company in connection with the Global Offering and the Listing
"Red Sun Resources"	Red Sun Resources Sdn. Bhd., a company incorporated in Malaysia as a private company limited by shares which the interest on a parcel of land located at Bukit Besi, Terengganu, Malaysia would be transferred
"Remuneration Committee"	the remuneration committee of the Board
"RM"	Malaysian Ringgit, the lawful currency of Malaysia
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) with a nominal value of HKD0.01 each in the share capital of the Company
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on 12 April 2013 "Shareholder(s)"
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under section 2 of the Companies Ordinance
"Substantial Shareholder"	has the meaning ascribed to it under the Listing Rules
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"USD", "US dollars" or "US$"	United States dollars, the lawful currency of the United States
"%"	per cent
"3W Development"	3W Development Limited, a company incorporated in Hong Kong as a private company Limited by shares on 25 February 2014 and which is an indirect wholly-owned subsidiary of the Company

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Li Yang
(Chairman and Chief Executive Officer)
Ms. Li Xiaolan
Mr. Wang Er
Ms. Xu Mijia

Independent Non-Executive Directors

Mr. Leung Yiu Cho
Dr. Li Zhongquan
Dr. Wang Ling

AUDIT COMMITTEE

Mr. Leung Yiu Cho *(Chairman)*
Dr. Wang Ling
Dr. Li Zhongquan

REMUNERATION COMMITTEE

Dr. Wang Ling *(Chairman)*
Dr. Li Zhongquan
Ms. Li Xiaolan

NOMINATION COMMITTEE

Mr. Li Yang *(Chairman)*
Dr. Wang Ling
Dr. Li Zhongquan

AUTHORISED REPRESENTATIVES

Mr. Li Yang
Mr. Chu Lok Fung Barry

COMPANY SECRETARY

Mr. Chu Lok Fung Barry, CPA (Aust.), FCPA

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STOCK CODE

02112