E-COMMODITIES HOLDINGS LIMITED
易大宗控股有限公司

(formerly known as Winsway Enterprises Holdings Limited 永暉實業控股股份有限公司)
(Incorporated in the British Virgin Islands with limited liability)
Stock Code : 1733

2017 Annual Report

CONTENTS

Chairman's Statement

Dear shareholders and colleagues,

On the occasion of announcing the annual results of E-Commodities Holdings Limited ("**E-Commodities**") for 2017, I would like to take the opportunity to express my heartfelt gratitude for your staunch support over the years and your solid confidence in our future development. We will as usual make every effort to create more value for our shareholders and colleagues.

2017 was a year of strategic significance for E-Commodities. In 2017, the Company maintained stable profits while actively exploring and implementing strategic transformations. Our main business model is supply chain trading business, to provide supply chain services to our upstream and downstream customers. In 2017, sticking to our asset-light business model, we successfully explored valuable logistics and processing services from our core trading businesses and combined these with Internet and Internet of things ("**IoT**") technologies to weave an ecological commodity supply chain network. In future, we aim to build a commodities supply chain platform to better serve our suppliers and customers in warehousing, processing, transportation, financing and others, and to become an integrated commodity supply chain service provider with logistics, finance and Internet services, to reflect the true corporate value of the Company.

Based on the above strategic transformation roadmap, the Company has made adjustments to our business to classify it into four major segments, that is, supply chain trading, supply chain logistics, supply chain financing services, and Internet intelligent platform.

In 2018, the supply chain trading segment will continue the Company's past commodity trading to provide sales and purchases services of commodities, such as, coal, iron ore, nonferrous metal and petrochemical products, and other services to upstream and downstream customers. The Company will further develop diversified categories of commodities in parallel while providing stable and scaled trading services to customers.

In the supply chain logistics segment, the Company will establish step-by-step a commodity supply chain logistics network called "Ground Network" consisting of and driven by important seaports, ports and logistics nodes, and roads, railways and sea transportation. The unique cross-border multimodal transportation, transit and clearance operating system, as well as intelligent warehousing services of E-Commodities will cover Mongolia, Russia, Australia and Northern China, Eastern China, Central China, Northeastern China and other regions.

Chairman's Statement

The supply chain financing service segment, based on the Company's self-built supply chain financing service system, provides finance leasing, commercial factoring, trade financing, futures hedging and other financing services. In 2018, while continuing to expand the above business operations, we will establish industrial investment funds to carry out the cross-period, cross-market and cross-types future-spot hedging and basis trading through integrated operations in both spot and futures markets.

The Internet intelligent platform segment includes the development and operation of an enormous data-based transportation service platform, a supply chain financing platform, and a trading platform for diversified commodities. Through equity investment, business investment and cooperation, we have built up strategic partnerships with many professional institutions and will establish a "Sky Network" of commodity supply chain services by using artificial intelligence, big data, blockchain and IoT and many other technologies. In future, the "Sky Network" and "Ground Network" will be effectively combined to establish the linkage between the Company's various segments and to bring synergistic advantages. We will collect, integrate and analyze the data of various aspects of the commodity supply chain to achieve a combination of information flow, commodities trading flow and capital flow with the objective to become a leading integrated commodity supply chain service provider.

We believe that 2018 will be a year for E-Commodities to achieve breakthrough growth. We will continue to improve efficiency, lower costs, control risks, and make prudent investments, so as to create greater values and higher returns for our shareholders who have long relied on and supported the Company.

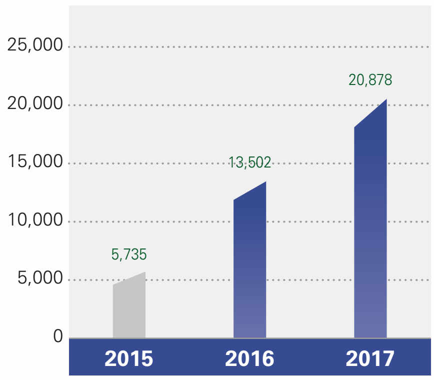
Cao Xinyi
Chairman
E-Commodities Holdings Limited

Management Discussions and Analysis of Financial Conditions and Operating Results

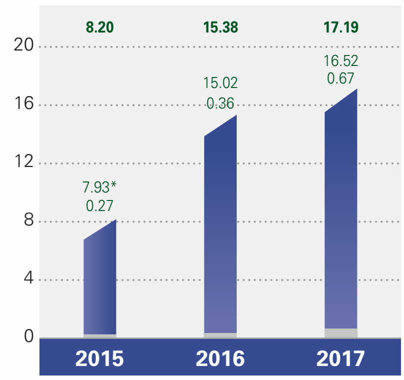
The following discussion and analysis should be read in conjunction with the Group's financial information and the notes thereto. The Group's financial information have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

I. OVERVIEW

Revenue (in HK$ million)



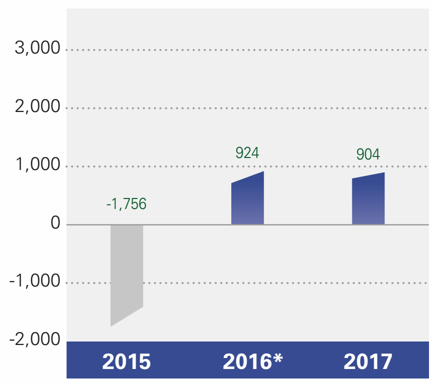
Supply Chain Trading Volumes (million tonnes)



* GCC-produced coal is not included in the coal sales volumes for 2015.

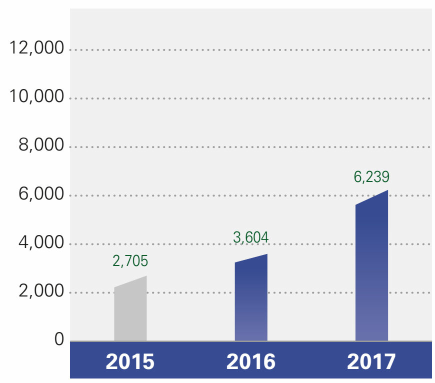
Coal Other

Adjusted Net Profit (loss) (in HK$ million)

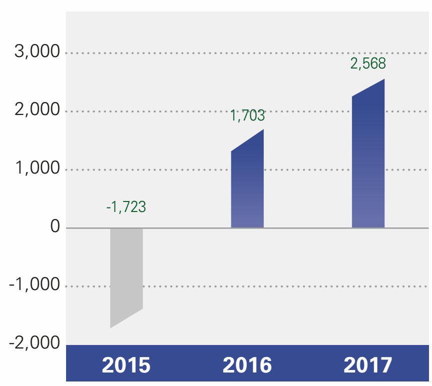


* In 2016, net profit was HK$2,872 million, excluding the gain on debt restructuring, adjusted net profit in 2016 was HK$924 million.

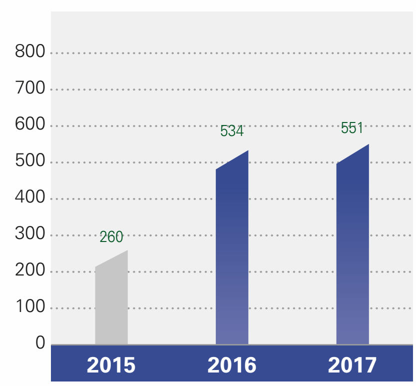
Total Assets (in HK$ million)



Total Equity (in HK$ million)



Cash Balance (in HK$ million)



Management Discussions and Analysis of Financial Conditions and Operating Results

II. FINANCIAL REVIEW

1. Revenue Overview

In 2017, our sales revenue was HK$20,878 million, a 54.63% increase compared to HK$13,502 million in 2016. The increase is primarily attributable to the increases in our supply chain trading business. In 2017, our supply chain trading volume was 17.19 million tonnes, a 11.77% increase compared to 15.38 million tonnes in 2016. In 2017, our supply chain trading revenue for coal products was HK$19,428 million, accounting for approximately 93.06% of our total sales revenue of 2017.

The Company implemented a strategic transformation in 2017 to better position our business and maximize the value of the Company and its shareholders. Based on our strategic transformation roadmap, the Company has made adjustments to our business to classify it into the four business segments, supply chain trading, supply chain logistics, supply chain financing services, and Internet intelligent platform.

(1) Supply Chain Trading

In 2017, supply chain trading business segment contributed the majority of our total revenue, accounting for HK$20,774 million, approximately 99.50% of the total sales revenue. This segment generates income by providing supply chain trading services to our end customers, covering diversified commodities of coal, petrochemical products, iron ore, nonferrous metals and others. For 2017, revenue from supply chain trading also included added value by rendering warehousing, processing and internal logistics, which is not yet separable from supply chain trading revenue. According to the strategic transformation to the four major segments, the Company targets to separate the internally rendered logistics services away from supply chain trading services, so as to recognize the revenue from internally rendered logistics services to the second business segment of supply chain logistics services.

The Company has also adjusted the business segment of supply chain trading to diversify our trading categories and expand our products lines from coal to petrochemical products, nonferrous metals, iron ore, and others since 2016 and continued such strategy in 2017. The increase in trading categories allows the Company to better adapt to different market conditions.

Management Discussions and Analysis of Financial Conditions and Operating Results

	2017	2016
	HK$'000	HK$'000
Coal	**19,428,312**	12,346,494
Petrochemical products	**846,104**	954,378
Iron ore	**273,578**	11,042
Nonferrous metals	**226,160**	–
Rendering of logistics services	**94,344**	92,093
Steel	**–**	91,311
Others	**9,461**	6,428
	20,877,959	13,501,746

In 2017, approximately 93.06% of sales revenue was generated from the sales of coal, compared to approximately 91.44% in 2016.

In 2017, our top five customers accounted for 43.70% of our total sales, whereas the same ratio was 43.13% in 2016. These customers are mainly large-scale, state-owned steel groups throughout China, being leading companies in the industry.

(2) Supply Chain Logistics

In 2017, our supply chain logistics segment generated revenue of HK$94 million, accounting for 0.45% of our total revenue. This segment is mainly providing warehousing, processing and logistics services for our supply chain trading business. Sticking to our asset-light business model, we successfully explored valuable logistics and processing services from our supply chain trading business and will combine these with Internet and IoT technologies to weave an ecological commodity supply chain network.

In the supply chain logistics segment, the Company will establish step-by-step a commodity supply chain logistics network called "Ground Network" consisting of and driven by important seaports, ports and logistics nodes, and roads, railways and sea transportation. The unique cross-border multimodal transportation, transit and clearance operating system, as well as intelligent warehousing services of E-Commodities will cover Mongolia, Russia, Australia and Northern China, Eastern China, Central China, Northeastern China and other regions.

Management Discussions and Analysis of Financial Conditions and Operating Results

(3) *Supply Chain Financing Services*

The supply chain financing service segment, based on the Company's self-built supply chain financing service system, provides financing lease, commercial factoring, trade financing, futures hedging and other financing services. In 2018, while continuing to expand the above business operations, we will establish industrial investment funds to carry out cross-period, cross-market and cross-types future-spot hedging and basis trading through integrated operations in both spot and futures markets.

(4) *Internet Intelligent Platform*

The Internet intelligent platform segment includes the development and operation of an enormous data-based transportation service platform, a supply chain financing platform, and a trading platform for diversified commodities. Through equity investment, business investment and cooperation, we have built up strategic partnerships with many professional institutions and will establish a "Sky Network" of commodity supply chain services by using artificial intelligence, big data, blockchain and IoT and many other technologies. In future, the "Sky Network" and "Ground Network" will be effectively combined to establish the linkage between the Company's various segments and to bring synergistic advantages. We will collect, integrate and analyze the data of various aspects of the commodity supply chain to achieve a combination of information flow, commodities trading flow and capital flow with the objective to become a leading integrated commodity supply chain service provider.

2. Cost of Goods Sold ("COGS")

COGS primarily consist of the purchase price, transportation costs, and processing costs. COGS in 2017 was HK$19,057 million, which was a 63.87% increase compared to HK$11,629 million in 2016. The increase was primarily attributable to the increased purchase price per tonne of coal in supply chain trading business in 2017. The procurement volume and amounts of each commodity are as follows:

	2017		2016	
	procurement volume '000 tonnes	**procurement amounts HK$'000**	procurement volume '000 tonnes	procurement amounts HK$'000
Coal	**16,184**	**16,709,151**	15,852	9,929,609
Petrochemical products	**171**	**821,559**	285	944,220
Nonferrous metals	**11**	**233,035**	–	–
Iron ore	**639**	**341,519**	79	17,849
Steel	**–**	**–**	38	93,131
	17,005	**18,105,264**	16,254	10,984,809

Management Discussions and Analysis of Financial Conditions and Operating Results

In 2017, total procurement amount was HK$18,105 million, of which, the top five suppliers accounted for 37.88%. No director of the Company or their close associate, or shareholder of the Company owns more than 5% of the issued shares in the Company, has any interest in suppliers.

3. Gross Profit

The Group recorded a gross profit of HK$1,821 million in 2017, compared to a gross profit of HK$1,872 million recorded in 2016. The decrease in gross profit was mainly due to lower profitability per tonne of coking coal in 2017, and lowered profit target due to new expansion into other non-coal commodities.

4. Distribution Costs

Distribution costs were HK$296 million in 2017, which was a 53.37% increase compared to HK$193 million in 2016. This increase was mainly due to the increase of our supply chain trading business volume. Distribution costs include fees and charges incurred for supply chain trading and related logistics and transportation costs.

5. Administrative Expenses

Administrative expenses were HK$378 million in 2017, a decrease of 28.00% over HK$525 million of administrative expenses incurred in 2016. This was mainly due to a lower annual bonus payment in 2017 and much lower professional expenses than those incurred in relation to the restructuring of the Senior Notes, which was successfully completed in mid 2017. In 2017, administrative staff costs decreased 20.33% to HK$290 million from HK$364 million in 2016.

	2017 **HK$'000**	2016 HK$'000
Staff costs	**290,196**	364,338
Reversal of provision for impairment losses on trade and other receivables	**(80,834)**	(38,434)
Others	**168,184**	198,881
Total	**377,546**	524,785

Management Discussions and Analysis of Financial Conditions and Operating Results

6. Net Finance Costs

In 2017, the Group recorded net finance costs of HK$149 million in total, compared to net finance costs of HK$148 million in 2016.

Net finance costs

	2017 **HK$'000**	2016 HK$'000
Interest income	**(3,275)**	(8,093)
Changes in fair value of derivative financial instruments	**(3,422)**	–
Finance income	**(6,697)**	(8,093)
Interest on secured bank and other loans	**50,947**	45,423
Interest on discounted bills receivable	**77,003**	21,482
Interest on senior notes	**–**	76,816
Interest on convertible bonds	**12,251**	–
Total interest expense	**140,201**	143,721
Bank charges	**9,503**	1,174
Foreign exchange loss, net	**6,089**	11,572
Finance costs	**155,793**	156,467
Net finance costs	**149,096**	148,374

7. Net profit and earnings per share

Our net profit was HK$904 million in 2017, compared to profit of HK$2,872 million in 2016, which includes a gain on debt restructuring of HK$1,948 million. Excluding the gain on debt restructuring, profit in 2016 was HK$924 million.

Basic earnings per share were HK$0.293 in 2017, compared to basic earnings per share of HK$1.488 in 2016. Diluted earnings per share were HK$0.285 in 2017, compared to diluted earnings per share of HK$1.488 in 2016. The calculation of basic earnings per share is based on profit attributable to equity shareholders of the Company of HK$904,742,000 (2016: HK$2,873,605,000) and the weighted average number of ordinary shares of 3,089,966,000 ordinary shares (2016: 1,931,279,000 shares after adjusting for the share consolidation in 2016) in issue during the year ended 31 December 2017.

Management Discussions and Analysis of Financial Conditions and Operating Results

8. Other Non-Current Assets

	2017	2016
	HK$'000	HK$'000
Loan to a third party	**79,373**	120,260
Less: impairment losses	**(79,373)**	(120,260)
	–	–

In 2009, the Company agreed to provide a loan to Moveday Enterprises Limited ("**Moveday**") to purchase additional vehicles to meet with the increasing volume of coal procured by the Group in Mongolia, and Moveday agreed to use the trucks purchased through financing provided by the Company for the provision of transportation services to the Group during the term of the agreement. Pursuant to a loan agreement entered into on 10 April 2010 (as subsequently amended by a supplemental deed on 15 September 2010) and the strategic alliance agreement, the Company agreed to lend Moveday up to US$40 million solely for the purpose of purchasing vehicles for transporting coal purchased by the Group in Mongolia. The loan to Moveday was provided on an unsecured basis, at an interest rate of LIBOR plus 3% and repayable over five years in equal annual installments of US$8 million, commencing from 18 months after the receipt of the loan (being 31 December 2012) by Moveday, with interest payable semi-annually in arrears. The entire loan amount was fully drawn down in 2010. As Moveday is a third party and the loan to Moveday was an unsecured loan, the Group did not have an interest in or control over the cash flows or other assets of Moveday other than in accordance with the terms of the loan agreement (as amended).

In 2013, the Group entered into another supplemental agreement with Moveday to modify the repayment terms of the remaining outstanding principal of US$32 million. Pursuant to the supplemental agreement, the remaining outstanding principal was repayable on 31 December from 2013 to 2015 with an amount of US$4 million plus a floating repayment amount. The floating repayment amount was calculated based on the volume of coals transported (maximum of 12 million tonnes) by Moveday for the Group and up to US$6 million during each year. Apart from the repayment terms, all the other terms of the loan were not changed and Moveday was obliged to repay the entire outstanding principal on or before 31 December 2016.

In October 2015, Moveday informed the Group that they could not repay the outstanding principal and interest as scheduled in the above-mentioned supplemental agreement due to the financial difficulty encountered.

For the year ended 31 December 2015, the Group made an impairment provision of $120,189,000 against the remaining outstanding loan balance as at 31 December 2015 based on the communication with management of Moveday about the adverse financial and operating circumstances of Moveday in 2015.

Management Discussions and Analysis of Financial Conditions and Operating Results

On 30 April 2016, the transportation agreement entered into by the Group and Moveday expired and the Group determined not to renew such agreement and engaged another third party company to provide such transportation services to the Group (the third party company may use Moveday as sub-contractor for transportation at its discretion).

During the year ended 31 December 2017, the Group has recovered loan principal of US$5.34 million (equivalent to approximately $41,692,000) from Moveday, including an offsetting of the outstanding loan principal of US$0.73 million (equivalent to approximately $5,770,000) against the Group's payables. The outstanding loan balance as at 31 December 2017 was US$10.16 million (equivalent to approximately $79,373,000) (31 December 2016: US$15.50 million (equivalent to approximately $120,260,000)).

As at 31 December 2017, the Group continues to make an impairment provision of $79,373,000 (31 December 2016: $120,260,000) taking into account the existence of uncertainties relating to the future financial and operating circumstances of Moveday.

KPMG, our auditors, issued a qualified opinion in relation to the outstanding loan due from Moveday of US$10.16 million (equivalent to approximately HK$79.37 million) and a limitation in the scope of audit relating to the impairment loss provision of HK$79.37 million on the outstanding loan. This qualified opinion was issued on the basis that KPMG was unable to obtain sufficient, appropriate audit evidence to evaluate the reasonableness of the assumptions adopted by the Directors due to (i) the unstable and uncertain market conditions, (ii) the unstable political situation in Mongolia and (iii) the lack of clear indication as to the estimated timing for full repayment of the outstanding loan from Moveday, they were unable to evaluate the reasonableness of the assumption made by the Directors in estimating the expected timing and amount of future cash flows arising from the loan.

Management Discussions and Analysis of Financial Conditions and Operating Results

The Group has made a full impairment provision against the loan to Moveday balance since 2015 in accordance with the applicable accounting standards. At that time, due to (i) the global coal market remained weak; (ii) the political situation in Mongolia was unstable; (iii) the Mongolian coal business was almost stagnant; and (iv) Moveday was unable to maintain its daily operation and has no cash flow, therefore, the management and audit committee of the Company considered it should make full impairment provision against such loan balance. Given the market conditions improved in the second half of 2016, and the Company has made great efforts in negotiations with Moveday to collect the outstanding loan due by following up with Moveday on a regular basis, as a result, Moveday has made (i) the repayment of approximately US$1.94 million outstanding principal and interest on June 29, 2017, (ii) approximately US$2.67 million outstanding principal and interest on 27 September, 2017, and (iii) approximately US$0.73 million payables owed by the Company to Moveday was set off against the outstanding loan amount by the end of 2017.

Albeit the market conditions improved in the second half of 2016, as the political situation in Mongolia was unstable in the second half of 2017 that caused decrease in volume of cross border customs clearance between China and Mongolia, which had adversely impacted Moveday's operation, therefore, there was no indication as to the estimated timing for full repayment of the outstanding loan from Moveday, and as at date of this annual report, Moveday did not make further repayment since the partial repayments in the third quarter of 2017. As a result, the management and audit committee of the Company agreed to that the following indicators should be used as the basis for impairment reversals, including (i) the coal market conditions; (ii) the volume of cross border customs clearance between China and Mongolia; and (iii) whether Moveday has sufficient cash flows and its ability to repay the outstanding loan balance.

The Company will continue to pay close attention to changes in Sino-Mongolian relations and the customs clearance volume at ports, and keep monitoring Moveday's operations. At the same time, it will continue to send staff to conduct on-site communication with Moveday and observation of the transportation situation. In the event of any improvement in the above indicators, they will actively coordinate with Moveday's management in respect of the repayment of outstanding loan, and will arrange communication and discussion on the repayment arrangements between the managements of the Company and Moveday on a monthly basis. In the event of (i) the coal market continues to recover, the customs clearance volume have steadily increased for more than two quarters, and (ii) Moveday has made regular cash repayments for two consecutive quarters, the management and the audit committee of the Company will consider reversing the provision for impairment. The auditors will assess the possibility to remove the qualification if sufficient audit evidence obtained to support the Company's accounting treatment in the next financial period under the Company's approach as described above, or remove the qualified opinion upon full repayment of the outstanding loan balance by Moveday. The assessment to remove the qualified opinion by the auditors will be based upon the satisfaction of all the following conditions, including (i) the volume of China-Mongolia customs clearance have steadily increased; (ii) the relevant institutions in the industry continue to be optimistic about the development of the industry; and (iii) there is a regular repayment records from Moveday.

Management Discussions and Analysis of Financial Conditions and Operating Results

9. Convertible Bonds Payables

On 14 September 2017, the Company issued convertible bonds ("**Convertible Bonds**") in the aggregate principal amount of US$40,000,000 together with 118,060,606 units of warrants ("**Warrants**") to Lord Central Opportunity VII Limited ("**Subscriber**"). The Convertible Bonds bear a nominal interest rate at 5% per annum payable semi-annually. The maturity date of the Convertible Bonds is 14 September 2022. The Convertible Bonds are convertible into ordinary shares of the Company at the option of the holders of the Convertible Bonds at any time after their issue date and up to the maturity date at a conversion price of HK$0.862 per share, subject to adjustments.

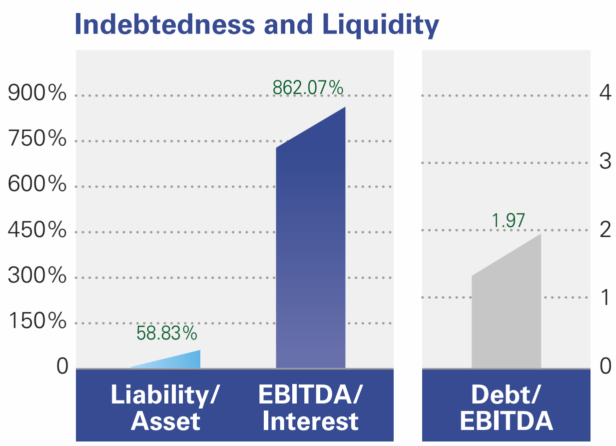
At any time after the second anniversary of the issue date until the maturity date, the holder of Convertible Bonds may, by issuing a redemption notice in writing to the Company, require the Company to redeem all or part of the outstanding principal amount of the Convertible Bonds at the redemption amount equal to such amount representing an internal rate of return of 10% on the principal amount of on the outstanding Convertible Bonds to be redeemed (inclusive of interest received but excluding default interest), calculated from the issue date up to the date on which the Company completes the redemption.

In the meantime, the Subscriber was entitled to 118,060,606 Warrants which are exercisable any time from the issue date and up to the fifth anniversary after the issue date of 14 September 2017, at a subscription price of HK$0.948 per share, subject to adjustments.

Management Discussions and Analysis of Financial Conditions and Operating Results

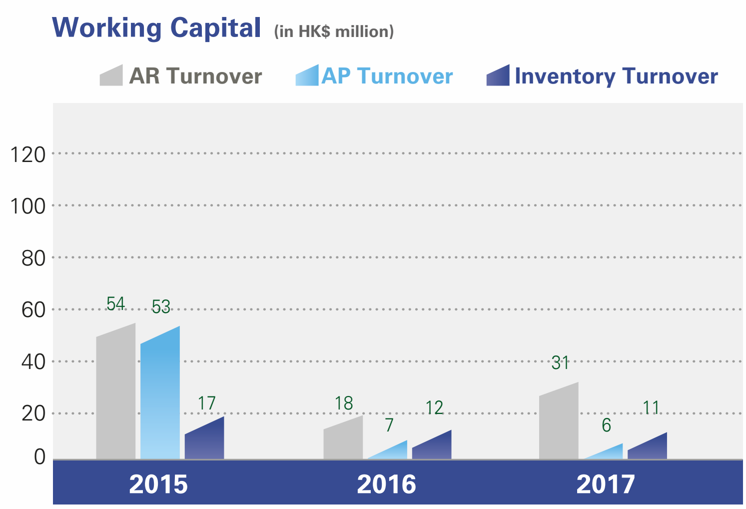
10. Indebtedness and Liquidity

The total amount of bank loans owed by the Group at the end of 2017 was HK$2,075 million. Interest rates on these loans range from 1.96% to 7.84% per annum, whereas the range in 2016 was from 2.80% to 7.84%. The Group's gearing ratio at the end of 2017 was 58.83%, which was a slight increase compared to 52.74% at the end of 2016. The Group calculates the gearing ratio on the basis of total liabilities divided by total assets.



11. Working Capital

Our accounts receivable turnover days, accounts payable turnover days, and inventory turnover days were 31 days, 6 days, and 11 days, respectively, in 2017. As a result, the overall cash conversion cycle was approximately 36 days in 2017, which was 13 days longer than the Group's cash conversion cycle realised in 2016.



Management Discussions and Analysis of Financial Conditions and Operating Results

12. Contingent Liabilities

The Company's existing subsidiaries, namely Glorious Gold Holdings Limited, Million Super Star Limited, E-Commodities Japan Co., Ltd.* (株式会社イー·コモディティティーズジャパン), E-Commodities Holdings Private Limited, E-Commodities (HK) Holdings Limited, Cheer Top Enterprises Limited, Legend York Star Limited, Color Future International Limited, Standard Rich Inc Limited, King Resources Holdings Limited, Eternal International Logistics Limited, Royce Petrochemicals Limited and E-Commodities International Development(HK) Limited, have provided guarantees for the Convertible Bonds and Warrants issued on 14 September 2017. The guarantees will be released upon the full and final payment and performance of all obligations of the Company under the Convertible Bonds and Warrants.

13. Pledge of Assets

At 31 December 2017, bank loans amounting to HK$24,298,000 (2016: HK$27,035,000) have been secured by bank deposits placed in banks with an aggregate carrying value of HK$24,300,000 (2016: HK$27,901,000).

At 31 December 2017, bank loans amounting to HK$1,167,894,000 (2016: HK$176,721,000) have been secured by bills receivable with recourse with an aggregate carrying value of HK$1,167,894,000 (2016: HK$176,721,000).

At 31 December 2017, bank loans amounting to HK$480,311,000 (2016: HK$nil) have been secured by a bills receivable pledge with an aggregate carrying value of HK$208,678,000 (2016: HK$nil) and bank deposits placed in banks with an aggregate carrying value of HK$292,356,000 (2016: HK$nil).

At 31 December 2017, bank loans amounting to HK$366,118,000 (2016: HK$520,412,000) have been secured by land use rights with an aggregate carrying value of HK$319,055,000 (2016: HK$389,756,000) and a bills receivable pledge with an aggregate carrying value of HK$24,524,000 (2016: HK$nil).

At 31 December 2017, bank loan amounting to $35,889,000 (2016: $33,537,000) has been secured by a credit guarantee with a guarantee amount of $35,889,000 (2016: $33,537,000) to a subsidiary of the Group.

At 31 December 2017, bills payable amounting to HK$224,306,000 (2016: HK$11,514,000) have been secured by restricted bank deposits placed in banks, land use rights and properties with an aggregate carrying value of HK$49,350,000 (2016: HK$11,514,000).

Management Discussions and Analysis of Financial Conditions and Operating Results

14. Contingent Value Rights

Under the restructuring of the senior notes issued by the Company in April 2011, certain contingent value rights ("**CVRs**") were issued to the holders of the senior notes on 28 June 2016 and 7 October 2016, which would give rise to a one-off payment in the amount of US$10 million to such holders upon the occurrence of the triggering event according to the terms and conditions of the CVRs. The maturity date of the CVRs is the date falling 5 years from the date of the issue of the CVRs (the "**CVR Maturity Date**"). The Company had the right to choose to use cash or shares (at the prevailing 30-day volume-weighted average price prior to the settlement date, the "**CVR Settlement Price**") to settle the CVRs on the settlement date as provided in the relevant instruments for the CVRs.

On 28 March 2017, as a result of the occurrence of the triggering event, the Company issued a notice (the "**Notice**") to the relevant holders of the senior notes indicating that the Company would settle the CVRs in full on the settlement date (the "**Settlement Date**"), 30 April 2017, at the face value recorded on each CVR certificate by the issue of new shares of the Company (the "**CVR Shares**").

On 30 April 2017, the Company issued 64,131,037 CVR Shares at the CVR Settlement Price of HK$1.2129 per CVR Share. All CVRs which were settled in full by the Company were cancelled and such CVRs may not be reissued or resold.

The Company applied to and obtained permission from the Stock Exchange for the listing of, and permission to deal in, the CVR Shares allotted and issued in accordance with the terms of the CVRs. The CVR Shares were accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from 30 April 2017, the commencement date of dealings of the CVR Shares on the Stock Exchange.

The CVR Shares issued upon the settlement were fully paid and free from any encumbrance and in all respects rank pari passu with the shares of the Company in issue on the Settlement Date, 30 April 2017.

Management Discussions and Analysis of Financial Conditions and Operating Results

15. Cash Flow

In 2017, our operating cash outflow was HK$393 million compared to HK$382 million cash inflow during the same period last year. The net cash outflow of operating activities was mainly due to HK$1,224 million net cash received from discounted bills receivable with recourse right and loans pledged with bills receivable, both of which have been accounted as financing activities, though the bills receivables were received from sales.

In 2017, the Group received a cash outflow from investing activities of HK$690 million compared to HK$404 million cash inflow during 2016. The cash outflow from investing activities in 2017 was generated mainly from the payment for purchase of PP&E and intangible assets and increase in restricted bank deposits as collateral for the banking facilities in respect of Group borrowings, issuance of bills and letters of credit by the Group.

The Group had a cash inflow from financing activities of HK$1,090 million in 2017 compared to a HK$504 million cash outflow from financing activities in 2016. The difference is mainly due to an increase of net proceeds from bank and other loans. Among the proceeds from bank and other loans the Group received from financing activities in 2017, HK$1,224 million was net cash received from discounted bills receivable with recourse rights and loans pledged with bills receivable.

III. RISK FACTORS

The operation of the Group involves certain risks, some of which are beyond our control. The risks set out below are those that E-Commodities currently believes may materially affect its performance and/or financial condition. However, this should not be taken as an exhaustive list as there may be additional risks and uncertainties not currently known to E-Commodities, or those which are currently deemed to be immaterial, but may become material in the future and which may adversely affect the Group's business, results of operations, financial condition and prospects.

1. Volatility of Commodities Prices

The market prices of commodities are volatile and are affected by numerous factors that are beyond our control. These include international supply and demand, the level of consumer product demand, international economic trends, global or regional political events and international events, as well as a range of other market forces. The combined effects of any or all of these factors on commodities prices are impossible for us to predict. There can be no assurance that global and domestic commodities prices will continue to remain at a profitable level. Under the circumstances that our business fails to remain at a profitable level, there would be material and adverse effect on our financial condition.

Management Discussions and Analysis of Financial Conditions and Operating Results

2. Dependence Upon the Steel Industry

In 2017, the revenue of the Company was mainly generated from supply chain trading services of coking coal products, which is heavily dependent on the demand for coking coal from steel mills and coke plants in China. The steel industry's demand for metallurgical coal is affected by a number of factors including the cyclical nature of that industry's business, technological developments in the steel-making process and the availability of substitutes for steel such as aluminum, composites and plastics. In 2017, prices of steel products remained at a high level, which had a material positive effect on the Group's performance.

3. Liquidity risk

Our policy is to regularly monitor the Group's liquidity requirements and compliance with lending covenants, to ensure that the Group maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. After the completion of the debt restructuring, the Group made great efforts to maintain existing financing facilities and expand to new facilities in banks, state-owned companies, and other financial institutions to satisfy capital requirements of the Group in line with its booming trading businesses.

4. Currency risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to payables, cash balances and bank loans that are denominated in a foreign currency. The currencies giving rise to this risk are primarily United States dollars and Renminbi. Depreciation or appreciation of these foreign currencies against Renminbi and United States dollars, respectively would affect the financial position and operating result of the Group.

5. Fair value measurement

Certain of the Group's financial assets and liabilities are carried at fair value. Fair value of forward exchange contracts of derivative financial instruments held by the Group is determined by discounting the contractual forward price and deducting the current spot rate. The discount rate used is derived from the relevant government yield curve as at the end of the reporting period plus an adequate constant credit spread.

Management Discussions and Analysis of Financial Conditions and Operating Results

IV. EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

Over 32.45% of the Group's turnover in 2017 were denominated in Renminbi. Over 84.24% of the Group's purchase cost, and some of our operating expenses, are denominated in US dollars. Fluctuations in exchange rates may adversely affect the value of the Group's net assets, earnings or any declared dividends as Renminbi is translated or converted into US dollars or Hong Kong dollars. Any unfavourable movement in the exchange rate may lead to an increase in the costs of the Group or a decline in sales, which could materially affect the Group's results of operations.

V. FINAL DIVIDENDS

A final dividend in cash of HK0.034 per share, totalling approximately HK$106 million, has been declared for the year ended 31 December 2017. The final dividend would be payable to the shareholders of the Company subject to the approval of the shareholders of Company at the forthcoming annual general meeting. The final dividend is expected to be paid on or around Tuesday, 31 July 2018. The dates for closure of register of members of the Company for ascertaining shareholders' entitlement to the final dividend will be further announced.

VI. HUMAN RESOURCES

1. Employee Overview

The Group has maintained a performance-oriented compensation system that balances each individual position's internal and external value. The Group also signs formal employment contracts with all employees and participates in all required social security schemes following applicable regional and/or national laws and regulations.

As at 31 December 2017, there were 254 full-time employees in the Group (excluding 650 dispatch staff from domestic subsidiaries). Due to business growth, there was an approximately 25.74% head count increase in 2017. The breakdown of employee categories is as follows:

Functions	**2017** No. of Employees	**2017** Percentage	2016 No. of Employees	2016 Percentage
Management, Administration & Finance	**143**	**56%**	123	61%
Front-line Production & Production Support & Maintenance	**43**	**17%**	21	10%
Sales & Marketing	**55**	**22%**	39	19%
Others (incl. Projects, Coal Washing Plant, Transportation)	**13**	**5%**	19	10%
Total	**254**	**100%**	202	100%

Management Discussions and Analysis of Financial Conditions and Operating Results

2. **Employee Education Overview**

Qualifications	2017 No. of Employees	2017 Percentage	2016 No. of Employees	2016 Percentage
Master & above	**48**	**19%**	47	23%
Bachelor	**103**	**41%**	70	35%
Diploma	**49**	**19%**	50	25%
High-School, Technical School & below	**54**	**21%**	35	17%
Total	**254**	**100%**	202	100%

3. **Training Overview**

The Group considers training as an invaluable process to provide employees with information, new skills, and professional development opportunities. During the year ended 31 December 2017, the Company held various training programs totaling 1,866 hours, and over 1,048 attendances were recorded of these programs.

The Group also holds an orientation program for newly admitted employees. The program covers modules such as, among other things, introduction to corporate culture, brief of Group regulations and understanding of safety and operational guidelines.

The Group has also sponsored professional training programs such as an EMBA program, Chartered Professional Accountant program, Hong Kong Chartered Secretary program, and so forth to employees and management staff at different levels.

Training Overview

Training Courses	2017 No. of hours	2017 No. of participants	2016 No. of hours	2016 No. of participants
Safety	**750**	**558**	197	41
Management & Leadership	**715**	**344**	470	97
Operation Excellence	**401**	**146**	74	15
Total	**1,866**	**1,048**	741	153

Management Discussions and Analysis of Financial Conditions and Operating Results

VII. HEALTH, SAFETY AND ENVIRONMENT

We pay great attention to the health and safety of employees, and understand the importance of protection of environment. In 2017, the Company increased investment on safety management, established a safety examination, supervision and administration system for our Mongolia business department, and enhanced the awareness of safety of all staff in respect of the safety control of our washing plant. We focused on removing hidden health and safety dangers, and conducted top-down supervision. Lost Time Injury Frequency Rate, Fatality Incident Rate (FTIR) and Total Recordable Case Frequency (TRCF) are the key indicators to measure how we realize our commitment. There was no environmental accident or occupational health and safety accident during 2017. The key works of the Company on the health and safety of employees in 2017 were mainly on safety education training, safety activities, strengthening emergency drills, clarifying safety responsibility and system improvement, carrying out safety self-check and safety inspection in the Group companies, establishing safety inspection norms, stepping up efforts in identifying potential dangers and inspection on the effect of rectification, effectively conducting chemicals management and special operation safety management.

Profile of Directors and Senior Management

EXECUTIVE DIRECTORS

Ms. Cao Xinyi (曹欣怡), aged 35, is an executive Director, the chairman of the Board, and the company secretary of the Company. Ms. Cao joined the Company in 2009. She has long-term experience capital operations, company market value management, and business operations of the Company since joining the Company. Before joining the Company in 2009, Ms. Cao worked at PricewaterhouseCoopers from 2005 to 2009. Ms. Cao is also a director and chairman of 20 subsidiaries of the Company, namely (1) Inner Mongolia Haotong, (2) E-Commodities (Beijing) Supply Chain Management Co., Ltd. (易大宗(北京)供應鏈管理有限公司), (3) Beijing Shacong E-commerce Co., Ltd. (北京沙聰電子商務有限公司), (4) Cheer Top Enterprises Limited, (5) Color Future International Limited, (6) Royce Petrochemicals Limited, (7) King Resources Holdings Limited, (8) Reach Goal Management Ltd, (9) Lucky Colour Limited, (10) Eternal International Logistics Limited, (11) Million Super Star Limited, (12) E-Commodities International Development (HK) Ltd, (13) E-Commodities (HK) Holdings Limited, (14) E-Commodities Logistics Co., Ltd., (15) Wisdom Elite Inc. Limited, (16) Standard Rich Inc Limited, (17) Rise Deal Enterprises Limited, (18) Great Trend Enterprises Limited, (19) Glorious Gold Holdings Limited and (20) Prospect Time Inc Limited. Ms. Cao is currently an independent non-executive director of Kuang Chi Science Limited (光啟科學有限公司), a company listed on the main board of the Hong Kong Stock Exchange (Stock Code: 0439). She graduated from the City University of Hong Kong with a bachelor's degree in Business Administration in 2005. Ms. Cao is a member of the Hong Kong Institute of Certified Public Accountants.

Mr. Wang Wengang (汪文剛), aged 51, is an executive Director and the chief executive officer of the Company with effect from 18 July 2016. Mr. Wang served as the deputy general manager of Minmetals South-East Asia Corporation Pte. Ltd. in May 2014 and the general manager of Minmetals South-East Asia Corporation Pte. Ltd. from January 2016 to April 2016. From 1996, he was the manager of the cement department of China National Minerals Import & Export Company (中國礦產進出口公司) under China Minmetals Corporation, a deputy general manager of Minmetals Ningbo Trading Company (五礦寧波貿易公 司), the general manager of Minmetals Ningbo Bonded Zone Company (五礦寧波保税區公司), a director of Minmetals Korea Co. Ltd. (韓國五礦株式會社) and head of its raw material department, the general manager of the coal department of China National Minerals Co., Ltd. and a deputy director of the raw material business department and general manager of the coal department of Minmetals Development Co., Ltd.. From 5 September 2012 to 4 September 2015, he was a director of Beijing Haohua Energy Resource Co Ltd (601101. SS), a company listed on the Shanghai Stock Exchange. Mr. Wang is the director and general manager of subsidiaries of the Company, namely E-Commodities Holdings Private Limited, Nantong Million Super Star Coking Coal Co., Ltd. (南通萬之星焦煤有限公司). Mr. Wang graduated from Shanghai University of International Business and Economics in 1989 with a bachelor's degree and received an MBA degree from Macau University of Science and Technology in 2008 and an EMBA degree from Guanghua School of Management, Peking University in 2009.

Profile of Directors and Senior Management

Mr. Wang Yaxu (王雅旭), aged 46, is an executive Director and the chief financial officer of the Company. Mr. Wang Yaxu joined the Group in 1995, where he was mainly responsible for financial management. He then became an employee of the Company in 2007 upon the Company's establishment and is responsible for the accounting and the financial management of the Group. He is also a director of certain subsidiaries of the Company, namely, Ejina Qi Ruyi Winsway Energy Co., Ltd. (額濟納旗如意永暉能源有限公司), Inner Mongolia Haotong, Erlianhaote Hootong Energy Co., Ltd. (二連浩特浩通能源有限公司), Shannan Rongtai Energy Co., Ltd (山南市榮泰能源有限公司), Inner Mongolia Minghua Clean Energy Co., Ltd, (內蒙古明華清潔能源有限公司) and a supervisor of Yingkou Haotong Mining Co., Ltd. (營口浩通礦業有限公司), Urad Zhongqi Yiteng Mining Co., Ltd. (烏拉特中旗毅騰礦業有限責任公司), Urad Zhongqi Tengshengda Energy Co., Ltd. (烏拉特中旗騰盛達能源有限責任公司), Bayannur Hutie Ruyi Logistics Co., Ltd. (巴彥淖爾市呼鐵如意物流有限公司), Ejina Qi Haotong Energy Co., Ltd. (額濟納旗浩通能源有限公司), Manzhouli Haotong Energy Co., Ltd. (滿洲裡浩通能源有限公司), Baotou-city Haotong Energy Co., Ltd. (包頭市浩通能源有限責任公司), Ulanqab Haotong Energy Co., Ltd. (烏蘭 察布市浩通能源有限責任公司), Erlian Winsway Mining Co., Ltd. (二連永暉礦業有限公司), Erlian Junrong Winsway Mining Co., Ltd. (二連均榮礦業有限公司), Nantong Million Super Star Coking Coal Co., Ltd. (南通萬之星焦煤有限公司), Nantong Haotong Energy Co., Ltd. (南通浩通能源有限公司), Beijing Shacong E-Commerce Inc. Ltd. (北京沙聰電子商務有限公司) and Longkou Winsway Energy Co., Ltd. (龍口市永暉能源有限公司), Nantong E-Commodities Supply Chain Management Co., Ltd. (南通易大宗供應鏈管理有限公司), Suzhou Wisdom Elite Energy Co., Ltd. (蘇州智暉智業能源有限公司), Shanghai Richway Energy Co., Ltd. (上海富多達能源有限公司), Tianjin RongZe TongLi Trading Co., Ltd. (天津榮澤同利貿易有限公司), Nantong Liheng Energy Co., Ltd. (南通利恒能源有限公司), E-Commodities (Changsha) Enterprises Co., Ltd. (易大宗(長沙)實業有限公 司). E-Commodities (Tianjin) Commercial Factoring Co., Ltd. (天津易大宗商業保理有限公司) and Baofeng Finance Lease (Beijing) Co., Ltd. (寶豐融資租賃(北京)有限公司). Mr. Wang obtained a bachelor's degree in industrial management and engineering from Beijing University of Chemical Technology, and graduated with an EMBA degree from Beijing Jiaotong University in 2011.

Mr. Li Jianlou (李建樓), aged 55, is an executive director and Vice President of the Company. Mr. Li joined the Group since 1992 and is in charge of coal transport management. He has abundant experience in logistics transportation and management. Mr. Li was the general manager of Nanjing Jinhui Petroleum Storage and Transportation Co., Ltd.* (南京金暉石油倉儲運輸有限公司), vice president of Manzhouli Haitie Yonghui Storage & Transportation Co., Ltd.* (滿洲里海鐵永暉儲運有限公司), managing director of Qinhuangdao Yonghui Petroleum Storage and Transportation Co., Ltd.* (秦皇島永暉石油儲運有限公司), managing director of Huludao Jinhui Petroleum Storage and Transportation Co., Ltd.* (葫蘆島錦暉石油儲運有限公司), deputy general manager of Beijing Chemical Industry Group (北京化工集團), etc.. Mr. Li became an employee of E-Commodities upon its establishment in 2007. He also serves as the director and chairman in the following subsidiaries of the Company: Inner Mongolia Hutie Winsway Logistics Co., Ltd.* (內蒙古呼鐵永暉物流有限公司), Erlianhaote Haotong Energy Co., Ltd.* (二連浩特浩通能源有限公司), Ejina Qi Ruyi Winsway Energy Co., Ltd.* (額濟納旗如意永暉能源有限公司), Bayannur Hutie Ruyi Logistics Co., Ltd.* (巴彥淖爾市呼鐵如意物流有限公司), Inner Mongolia Huayuan Logistics Company Limited* (內蒙古華遠現代物流有限責任公司), Shenhua Ganquan Railway Co., Ltd.* (神華甘泉鐵路有限責任公司) and Xigan Railway Co., Ltd.* (西甘鐵路有限責任公司). Mr. Li studied at Children School of China Institute of Atomic Energy (中國科學院原子能研究所子弟學校) from 1969 to 1980. He held position in Beijing Textile Bureau (北京市紡織局) from 1980 to 1992. In 2012, Mr. Li obtained an MBA degree from Beijing Jiaotong University.

Profile of Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Mr. Guo Lisheng (郭力生), aged 53, is a non-executive Director with effect from 18 July 2016. He is also a director and the general manager of Minmetals South-East Asia Corporation Pte. Ltd. since May 2016. From 1993, he was the general manager of China Gulf Building Material Co., Ltd., a director and deputy general manager of Minmetals (U.K.) Ltd., a deputy general manager of Minmetals Steel Co., Ltd., the executive vice president of Minmetals Inc., a deputy general manager of the mineral resources department of China Minmetals Corporation and a deputy general manager of Minmetals Exploration & Development Co., Ltd. and the president of China Metais E Minerais (Brasil) Ltd.. Mr. Guo graduated from Xiamen University with a bachelor's degree in Economics specializing in international trade in 1984, and became a Senior International Business Engineer in 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Yuk Keung (吳育強), aged 53, was re-appointed as an independent non-executive Director on 15 February 2017. Mr. Ng is currently an executive director and the chief financial officer of Kingsoft Corporation Limited (Stock Code: 3888), a company listed on the Hong Kong Stock Exchange. Mr. Ng worked with PricewaterhouseCoopers for over 12 years from 1988 to 2001. From 2001 to 2003, Mr. Ng was the Chief Financial Officer of the International School of Beijing, an academic institution in Beijing, China. He subsequently joined Australian Business Lawyers, a law firm in Australia in 2003 and was later appointed as a consultant in 2004 responsible for advising on accounting matters. From 2004 to 2006, he was the deputy chief financial officer, a joint company secretary and the qualified accountant of Irico Group Electronics Company Limited (stock code: 0438), a company listed on the Hong Kong Stock Exchange. From 2006 to 2010, Mr. Ng was a vice-president, the chief financial officer, the company secretary and the qualified accountant of China Huiyuan Juice Group Limited. From 2010 to 2012, Mr. Ng was an executive director and the chief financial officer of China NT Pharma Group Company Limited (Stock Code: 1011), a company listed on the Hong Kong Stock Exchange. From February 2007 to October 2011, Mr. Ng was the independent non-executive director of Xinjiang Xinxin Mining Industry Co., Ltd. (Stock Code: 3833), a company listed on the Hong Kong Stock Exchange. Mr. Ng graduated from The University of Hong Kong with a bachelor's degree in Social Sciences in 1988 and a master's degree in Global Business Management and E-commerce in 2002. He is a professional accountant and a fellow member of both the Hong Kong Institute of Certified Public Accountants and the

Profile of Directors and Senior Management

Association of Chartered Certified Accountants, and a member of the Institute of Chartered Accountants in England and Wales. Set out below are the current appointments in other listed companies on the Hong Kong Stock Exchange and the New York Stock Exchange (as the case may be) which Mr. Ng has undertaken:

Position	Name of the listed company	Stock Code
Executive director and CFO	Kingsoft Corporation Limited	3888
Interim CFO and non-executive director	Cheetah Mobile Inc.	NYSE: CMCM
Honorary adviser	China Huiyuan Juice Group Limited	1886
Independent non-executive director	Sany Heavy Equipment International Holdings Company Limited	631

Mr. Wang Wenfu (王文福), aged 51, was re-appointed as an independent non-executive Director on 15 February 2017. Mr. Wang has extensive experience in the mining industry, with international business development, cross-border mergers and acquisitions, business network establishment and international trading expertise. Before Mr. Wang joined our Group as an independent non-executive Director in 2010, he worked for Aluminum Corporation of China Ltd. ("**CHALCO**") (Stock Code: 2600), a company listed on the Hong Kong Stock Exchange, Shanghai Stock Exchange and the New York Stock Exchange since 2004, and was mainly responsible for the development of CHALCO's overseas business, cross border mergers and acquisitions, foreign investment and risk management. He also acted as the President of Chinalco Overseas Holding Ltd., Director and President of Chalco Hong Kong Ltd., Chairman of Chalco Australia Pty. Ltd. and Chief Representative of CHALCO's operations in Vietnam and Indonesia. Mr. Wang graduated from the Department of Linguistics of Kunming University of Science and Technology in 1987. He also obtained a Master of Business Administration degree from Monash University in 1995 and a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia in 2002.

Profile of Directors and Senior Management

Mr. Gao Zhikai (高志凱), aged 56, is an independent non-executive Director with effect from 18 July 2016. Mr. Gao is currently the chairman of China Energy Security Institute, a vice president of Center for China and Globalization, a non-executive Director of Huanxi Media Group Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 1003) and a non-executive independent director of Baytacare Pharmacetical Co., Ltd (Stock Code: 8197). Mr. Gao is also a current affairs commentator with CCTV News and appears regularly on BBC, CNN, Channel News Asia, Al Jazeera, NHK, RT, and other major news media. Mr. Gao has extensive work experience in diplomacy, legal affairs, securities regulation, investment bank, equity investment, corporate management and charity. Mr. Gao was an interpreter for Mr. Deng Xiaoping and other Chinese leaders in the 1980s and worked in the Ministry of Foreign Affairs of the People's Republic of China. He also worked in the Secretariat of the United Nations and the Hong Kong Securities and Futures Commission. Mr. Gao has held senior positions in Morgan Stanley, China International Capital Corporation and Daiwa Securities. He has also held senior corporate positions in PCCW, Henderson Group and CNOOC Limited. Mr. Gao was previously the general counsel to Saudi Aramco and other companies. Mr. Gao obtained a Juris Doctor degree from Yale Law School and a master degree in Political Science from Yale Graduate School, a master degree in English Literature from Beijing University of Foreign Studies, and a bachelor degree in English Literature from Suzhou University. Mr. Gao is a licensed attorney-at-law in the State of New York, USA.

SENIOR MANAGEMENT

Mr. Chen Zhi (陳智), aged 54, is a Vice President of the Group with profound experience of over 30 years in the petrochemical industry. He used to work for Sinopec Corp. for over 10 years and has been working for Winsway Group for 18 years. Through this working experience, he has become an industry recognized expert in energy and commodities trading and related value-added business. He established an extensive and sum network with end-customers, petrochemical products suppliers, banks, and shipping companies. He obtained a Master Degree in Business Administration from Beijing Jiaotong University in 2012.

Ms. Di Jingmin (邸京敏), aged 46, is a Vice President of the Company. Ms. Di joined the Group Company in 1995 and serves as the deputy general manager of the resources coordination center, general manager of the management center and general manager of storage and logistics department of the Group Company. She was also the director in several joint ventures of storage and logistics cooperated by the Company and Railway. She became an employee of E-Commodities in 2007 upon its establishment and set up investment and assets department and legal affairs department. Currently, Ms. Di is mainly responsible for the comprehensive management of human resources and management platform of the Group. Ms. Di is also a director and Vice President of the Company's subsidiary in many regions, such as E-Commodities (Beijing) and Inner Mongolia Haotong of the Group. Ms. Di graduated from Beijing University of Chemical Technology with a bachelor's degree in management engineering in 1995 and subsequently obtained a Master of Laws degree from the Chinese Academy of Social Sciences in 2009.

Profile of Directors and Senior Management

Mr. Wang Genshe (王根社), aged 57, is the Vice President of the Company. He joined the Group in 2016 and is responsible for the construction and management of commodities logistics ecological business. He has abundant experience in coal mining & distribution and transportation management. Mr. Wang joined Shenhua Group in 1985 and successively serves as the deputy director of Wanshuiquan Coal Yard of Huaneng Clean Coal Distribution Branch* (華能精煤運銷分公司萬水泉煤場), head of cargo loading division and director of resources coordination room of Shenhua Clean Coal Distribution Branch* (神華精煤運銷分公司), deputy general manager of Baotou Branch of Shenhua Coal Trading Company Limited, general manager of Tianjin Branch, general manager of Beijing Coal Blending Company* (北京配煤公司) and general manager of Shenhua Hong Kong International Trading Co., Ltd.* (神華香港國際貿易有限公司), and acted as the adviser of Shenhua Trading Group from 2015 to 2016. Mr. Wang was awarded as the Outstanding Entrepreneur of Beijing for consecutive four years from 2009 to 2012, and served as the CPPCC member of Beijing and member of the Standing Committee of the CPPCC of Changping District. Mr. Wang graduated from Inner Mongolia Normal University in 1990 and subsequently obtained a bachelor degree from Party School of the Central Committee of CPC in 2004.

Mr. Yang Junjie (楊俊傑), aged 55, is the Vice President of the Company. He joined the Group in 2017 and is responsible for the construction and management of commodities logistics ecological business. He has abundant experience in railway transportation and trucking. Mr. Yang successively serves as the chief engineer of Diversified Business Corporation affiliated to the Hohhot Railway Bureau (呼和浩特鐵路局多種經營總公司), executive vice president of Diversified Operation Management Center to the Hohhot Railway Bureau (呼和浩特鐵路局多元經營管理中心), general manager and deputy secretary of Party Committee of Inner Mongolia Hutie Foreign Economic and Technological Cooperation Group Co., Ltd.* (內蒙古呼鐵對外經濟技術合作集團公司), president and deputy secretary of Party Committee of Hutie Investment Development Centre (呼鐵投資發展中心) and head of the Operation & Development Division to the Hohhot Railway Bureau (呼和浩特鐵路局經營開發處). He was awarded as the Outstanding Entrepreneur of Inner Mongolia Autonomous Region in 2008. Mr. Yang obtained a bachelor degree of computer science from Shanghai Railway College (上海鐵道學院, currently known as the Tongji University) in 1986.

Mr. Liu Dong (柳冬), aged 53, is the Vice President of the Company. He joined the Group in 2017 and is responsible for the construction and management of commodities logistics ecological business. He has abundant experience in railway transportation and resources coordination management. Mr. Liu served as the resources coordination officer, director of scheduling, vice section head and the section head of the resource coordination office under the resource coordination division of the transportation command center of the MOR (currently known as the China Railway Corporation). Mr. Liu graduated from the Party School of the Central Committee of the CPC majored in economic management in 1998.

Profile of Directors and Senior Management

Mr. Mei Haibin (梅海斌), aged 54, is the Vice President of the Company. He joined the Group in 2016 and is responsible for supply chain trading of coal within China market. He has abundant experience in coal mining, processing, procurement and sales. Mr. Mei acted as the deputy chief engineer of Tangjiazhuang Coal Production (唐家莊礦生產), deputy general manager in production of coal products division under the Kailuan Group Co., Ltd.* (開灤集團有限責任公司), deputy general manager, chief engineer in production of Kailuan Energy Chemical Co., Ltd., and successively served as the executive director, general manager of Shanxi Zhongtong Investment Co., Ltd.* (山西中通投資有限公司), vice chairman of Shanxi Jiexiu Changyuan Coal Co., Ltd.* (山西介休倡源煤炭有限責任公司), director, general manager of Canadian Kailuan Dehua Mines Co., Ltd. (加拿大開灤德華礦業有限公司), director of Canada Zhonghe Investment Ltd.(加拿大中和投資公司) and chairman of Canadian Bullmoose Mines Co.,Ltd. (加拿大布爾莫斯礦業有限公司). Mr. Mei graduated from mining engineering at Chongqing University, China and obtained a bachelor degree in 1986, and obtained a master degree and senior engineer in mining engineering from China University of Mining and Technology in 2001.

* *For identification purpose only*

Corporate Governance Report

The Board is committed to upholding a high standard of corporate governance practices and business ethics in the firm belief that they are essential for maintaining and promoting investors' confidence and furthering Shareholders' interests. The Board reviews the Company's corporate governance practices from time to time in order to meet the expectations of stakeholders and comply with increasingly stringent regulatory requirements, and to fulfil its commitment to excellence in corporate governance.

Set out below is a detailed discussion of the corporate governance practices adopted and observed by the Company during the year ended 31 December 2017.

CORPORATE GOVERNANCE

The Board has adopted the CG Code set out in Appendix 14 of the Listing Rules as its own set of corporate governance guidelines, with the additional requirement of at least 7 days' prior notice for Board meetings other than regular Board meetings (for which at least 14 days' notice is required) to give all Directors greater opportunity to attend.

The Board believes that throughout the year ended 31 December 2017, the Company has adopted, applied and complied with the code provisions under the CG Code ("**Code Provisions**") with which listed issuers are expected to comply.

THE BOARD

The Board is the principal decision-making body of the Company. The powers and duties of the Board include convening Shareholders' meetings and reporting the Board's work at Shareholders' meetings, implementing resolutions passed at Shareholders' meetings, determining the Company's business plans and investment plans, formulating the annual budget and final accounts, formulating proposals for profit distributions and for the increase or reduction of registered capital as well as exercising other powers, functions and duties as conferred by the Memorandum and Articles. The Board has given clear directions to the senior management as to the matters that must be approved by the Board before decisions are made on behalf of the Company.

Corporate Governance Report

The Board consists of eight Directors, comprising four executive Directors, one non-executive Director and three independent non-executive Directors. The Board considers that it has maintained a balanced composition of executive directors and non-executive directors (including independent non-executive directors). The non-executive Director and three independent non-executive Directors participate actively in the formulation of the Company's policies and seek to represent the interests of the Shareholders as a whole. During the year ended 31 December 2017 and up to the date of this report, the composition of the Board is as follows:

Executive Directors

Ms. Cao Xinyi (Chairman)
Mr. Wang Wengang
Ms. Zhu Hongchan (resigned on 29 Mar 2018)
Mr. Wang Yaxu
Mr. Li Jianlou (appointed on 30 Mar 2018)

Non-executive Directors

Mr. Guo Lisheng

Independent non-executive Directors

Mr. Ng Yuk Keung
Mr. Wang Wenfu
Mr. Gao Zhikai

During the year ended 31 December 2017, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors, the number of which must represent at least one-third of its Board, with at least one independent non-executive Directors possessing appropriate professional qualifications or accounting or related financial management expertise.

Biographical details of the Directors and senior management of the Company are set out in the section headed "Profile of Directors and Senior Management" on pages 22 to 28 of this annual report.

Corporate Governance Report

The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Company's business. There was no material financial, business, family or other relevant relationship among members of the Board.

During 2017, 4 full board meetings and 3 general meetings were held. The following is the attendance record of the board meetings held by the Board during 2017:

Name of Director	Attendance/ Number of general meetings attended	Attendance/ Number of board meetings attended
Executive Directors		
Cao Xinyi (Chairman)	3/3	4/4
Wang Wengang	1/3	4/4
Zhu Hongchan (resigned on 29 March 2018)	0/3	4/4
Wang Yaxu	0/3	4/4
Li Jianlou (appointed on 30 March 2018)	–	–
Non-executive Directors		
Guo Lisheng	0/3	4/4
Independent non-executive Directors		
Ng Yuk Keung	0/3	4/4
Wang Wenfu	0/3	4/4
Gao Zhikai	0/3	4/4

Sufficient notice convening the board meetings was given to the Directors setting out the matters to be discussed. All Directors were given an opportunity to include matters in the agenda for the board meetings and have access to the secretary to the Board to ensure that all Board procedures and all applicable rules and regulations were followed. At the meeting, the Directors were provided with the relevant documents to be discussed and approved. The secretary to the Board is responsible for keeping minutes for the board meetings.

Each of Ms. Cao Xinyi and Mr. Wang Yaxu have entered in to service contracts, respectively, as the executive Director for a term of three years with effect from 28 October 2015. Mr. Wang Wengang has entered in to a service contract as an executive Director for a term of three years with effect from 18 July 2016. Each of Mr. Guo Lisheng and Mr. Gao Zhikai entered into an appointment letter, as the non-executive Director and an independent non-executive Director, respectively, for a term of three years with effect from 18 July 2016. Mr. Ng Yuk Keung and Mr. Wang Wenfu were re-appointed as independent non-executive Directors for a term from 15 February 2017 to 31 May 2018.

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The chairman of the Board, Ms. Cao Xinyi, has executive responsibilities and provides leadership to the Board in terms of establishing policies and business direction. She ensures that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. She also ensures that all Directors are properly briefed on issues to be discussed at board meetings. Mr. Wang Wengang, the chief executive officer, is responsible for overseeing the day-to-day management of the Group's business.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The three independent non-executive Directors are persons of high calibre, with academic and professional qualifications in the fields of accounting, law, banking and business management. With their experience gained from senior positions held in other companies, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each independent non-executive Director has given an annual confirmation of his independence to the Company, and the Company considers these Directors to be independent under Rule 3.13 of the Listing Rules.

The participation of the independent non-executive Directors in the Board brings independent judgment on the issues relating to the Group's strategy, conflicts of interest, connected transactions and management process in order to ensure that the interests of all Shareholders have been duly considered.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry of all the Directors of the Company, each Director confirmed that he/she has complied with the required standard set out in the Model Code throughout the year ended 31 December 2017.

APPOINTMENT AND RE-ELECTION OF THE DIRECTORS

According to the Memorandum and Articles, at each annual general meeting one-third of the Directors are subject to retirement by rotation or, if the number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from the office and shall be eligible for re-election. Every Director shall be subject to retirement at an annual general meeting at least once every three years. Any other appointment, resignation, removal or re-designation of Director will be disclosed in a timely manner to the Shareholders by announcement and shall include in such announcement the reasons given by the Director for his/her resignation.

On 29 March 2018, Ms. Zhu Hongchan tendered her resignation as an executive director of the Company as she would like to focus on the coking coal business of the Group and devote more time to the development thereof. Following her resignation, Ms. Zhu will remain her position as an employee of the Company.

Corporate Governance Report

On 30 March 2018, Mr. Li Jianlou was appointed as an executive Director of the Company for a term of 3 years commencing from 30 March 2018. Mr. Li Jianlou will hold his office until the next following annual general meeting of the Company, at which he will be subject to re-election in accordance with the Articles of Association. For further details, please refer to the announcements of the Company dated 29 March 2018.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the CG Code on 7 September 2010 and revised the written terms of reference on 5 January 2016. The primary duties of the audit committee are to assist the Board in providing an independent view of the effectiveness of the Company's financial reporting process, internal control and risk management system of the Group, overseeing the audit process and acting as the key representative body for overseeing the Group's relations with the external auditor and performing other duties and responsibilities as assigned by the Board from time to time. The audit committee currently comprises the three independent non-executive Directors, Mr. Ng Yuk Keung (Chairman), Mr. Wang Wenfu and Mr. Gao Zhikai.

For the year ended 31 December 2017, the audit committee held 2 meetings, at which members of the audit committee reviewed and discussed with the external auditors and the management of the Group's interim financial results and reports in respect of the first half year of 2017, and the annual financial results and reports in respect of the year ended 31 December 2017, and are of the opinion that such financial statements have complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosure has been made.

Corporate Governance Report

The attendance records of the audit committee for the year ended 31 December 2017 are set out below:

Name of Director	Attendance/ Number of Meetings
Mr. Ng Yuk Keung	2/2
Mr. Wang Wenfu	2/2
Mr. Gao Zhikai	2/2

AUDITORS' REMUNERATION

For the year ended 31 December 2017, the fees paid/payable in respect of audit and non-audit services provided by KPMG, the Group's external auditors, are set out below:

Service	Sum (HK$'000)
Audit services	5,411
Other services	14
	5,425

The audit committee is responsible for making recommendations to the Board as to the appointment, re-appointment and removal of the external auditors, which is subject to the approval by the Board and at the general meetings of the Company by the Shareholders.

INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

The Company provided each newly appointed Director with formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are updated on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities from time to time. The Company will arrange training and professional development for Directors as and when necessary. Individual Directors also participated in courses relating to the roles, functions and duties of a listed company director or further enhancement of their professional development by way of attending training courses or reading relevant materials.

Corporate Governance Report

During the year ended 31 December 2017, the Directors confirmed that they have participated in training and continuous professional development activities and a summary is provided as follows:

Name of Director	Type of continuous professional development programmes
Executive Directors	
Ms. Cao Xinyi (Chairman)	1,2,3
Mr. Wang Wengang	1,2,3
Ms. Zhu Hongchan (resigned on 29 March 2018)	1,2,3
Mr. Wang Yaxu	1,2,3
Mr. Li Jianlou (appointed on 30 March 2018)	–
Non-executive Directors	
Mr. Guo Lisheng	1,2,3
Independent non-executive Directors	
Mr. Ng Yuk Keung	1,2,3
Mr. Wang Wenfu	1,2,3
Mr. Gao Zhikai	1,2,3

Notes:

1. Reading materials and updates relating to the latest developments of the Listing Rules and other applicable regulatory requirements.

2. Attending seminars/training workshops offered by external professionals and/or experts.

3. Internal group discussions on updates relating to general economy, business trend, corporate governance, directors' duties and the latest development of the Listing Rules and other applicable regulatory requirements.

Corporate Governance Report

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company deploys appropriate and sufficient resources to prepare audited accounts. Senior management is required to present and explain the financial reporting and matters that materially affect or may have a material impact on the financial performance and operations of the Company to the audit committee and the Board and respond to the queries and concerns raised by the audit committee and the Board to their satisfaction. The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the financial statements include applicable disclosure required by the Listing Rules and by the Hong Kong Companies Ordinance. The reporting responsibility of the external auditors of the Company on the financial statements of the Group is set out in the independent auditor's report on pages 53 to 61 of this annual report.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 7 September 2010 with written terms of reference in compliance with the CG Code. The remuneration committee currently comprises two independent non-executive Directors, namely, Mr. Wang Wenfu (Chairman) and Mr. Ng Yuk Keung and one executive Director, Ms. Cao Xinyi. The primary duties of the remuneration committee are to review and formulate remuneration policies for the Directors and senior management, to make recommendations on the remuneration package of the Directors and senior management and to evaluate and make recommendations on employee benefit arrangements.

The remuneration committee held 2 meetings during the year ended 31 December 2017, at which the members of the committee reviewed the remuneration and bonus plan of the Directors and senior management with reference to their duties, responsibilities, experience, qualifications and performance. No Director took part in any discussion about his/her own remuneration.

The attendance records of the remuneration committee for the year ended 31 December 2017 are set out below:

Name of Director	Attendance/ Number of Meetings
Mr. Wang Wenfu	2/2
Mr. Ng Yuk Keung	2/2
Ms. Cao Xinyi	2/2

Details of the Directors' remuneration are set out in note 9 to the financial statements.

Corporate Governance Report

NOMINATION AND CORPORATE GOVERNANCE COMMITTEE

The Company established a nomination and corporate governance committee on 7 September 2010 with written terms of reference as recommended under the CG Code. The nomination and corporate governance committee comprises two independent non-executive Directors, namely, Mr. Gao Zhikai (Chairman) and Mr. Ng Yuk Keung and one executive Director, Ms. Cao Xinyi. The primary function of the nomination and corporate governance committee is to formulate and implement the nomination policy laid down by the Board to oversee the composition, structure and evaluation of the Board and its committees and to develop, recommend to the Board and oversee the implementation of corporate governance principles and policies.

The nomination and corporate governance committee held 2 meetings during the year ended 31 December 2017, at which the members of the committee reviewed and discussed the composition and structure of the Board and also evaluated the performance of the Board and its committees.

The attendance records of the nomination and corporate governance committee for the year ended 31 December 2017 are set out below:

Name of Director	Attendance/ Number of Meetings
Mr. Gao Zhikai	2/2
Mr. Ng Yuk Keung	2/2
Ms. Cao Xinyi	2/2

HEALTH AND SAFETY AND ENVIRONMENTAL COMMITTEE

The Company established a health and safety and environmental committee on 7 September 2010 with written terms of reference. The health and safety and environmental committee comprises two non- executive Directors, Mr. Gao Zhikai and Mr. Wang Wenfu and one executive Director Mr. Wang Yaxu (Chairman). The primary function of the health and safety and environmental committee is to advise and assist the Board with respect to health, safety and environmental matters.

The health and safety and environmental committee held 2 meetings during the year ended 31 December 2017, at which the members of the committee reviewed and discussed health and safety strategy and implementation plan of the Company.

Corporate Governance Report

The attendance records of the health and safety and environmental committee for the year ended 31 December 2017 are set out below:

Name of Director	Attendance/ Number of Meetings
Mr. Gao Zhikai	2/2
Mr. Wang Wenfu	2/2
Mr. Wang Yaxu	2/2

INTERNAL CONTROL

The internal control system has been designed to safeguard the assets of the Group, maintain proper accounting records, and to ensure execution with appropriate authority and compliance of the relevant laws and regulations.

The Board is responsible for maintaining and reviewing the effectiveness of the Group's risk management and internal control system. During the year ended 31 December 2017, the Board carried out an annual review of the implemented system and procedures, including areas covering financial, operational and legal compliance controls and risk management functions. The internal control system is implemented to minimize the risks to which the Group is exposed and used as a management tool for the day-to-day operation of the business. The system can only provide reasonable but not absolute assurance against misstatements or losses. For the year ended 31 December 2017, the Board considers that the Group's internal control system was adequate and effective and that the Company complied with the CG Code with respect to its internal controls.

COMPANY SECRETARY

Ms. Cao Xinyi, the company secretary and also an executive Director and chairman of the Board, supports the Board and each of the Board committees by ensuring good information flow and that policies and procedures of the Board and the relevant Board committees are followed. Ms. Cao advises the Board on governance matters and facilitates the induction and professional development of Directors. As the company secretary, Ms. Cao also plays an essential role in the relationship between the Company and its Shareholders, including assisting the Board in discharging its obligations to the Shareholders pursuant to the Listing Rules.

In compliance with Rule 3.29 of the Listing Rules, Ms. Cao confirmed that she has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2017.

Corporate Governance Report

CONVENING AND PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS BY SHAREHOLDERS

According to the Articles of Association, Shareholders who request for the convening of an extraordinary general meeting shall comply with the following procedures:

- General meetings may be convened on the written requisition of any two or more Shareholders deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office, specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the nominal value of the issued Shares which carries the right of voting at general meetings of the Company.

- General meetings may also be convened on the written requisition of any one Shareholder which is a recognized clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office, specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the nominal value of issued shares in the Company which carries the right of voting at general meetings of the Company.

- If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

PROCEDURES BY WHICH ENQUIRIES MAY BE PUT TO THE BOARD

Shareholders may send their enquiries and concerns to the Board by addressing them to the company secretary or relevant personnels by mail to the Company's principal place of business in Hong Kong at the following address:

Suites 2104-05,
Hutchison House
10 Harcourt Road
Hong Kong

The company secretary and relevant personnels shall, on a regular basis, report the Shareholder's enquiries and concerns to the Board and/or relevant Board committees of the Company and where appropriate, respond to such enquiries.

Corporate Governance Report

AMENDED AND RESTATED MEMORANDUM OF ASSOCIATION AND ARTICLES OF ASSOCIATION OF THE COMPANY

The Memorandum of Association was amended by deleting clause 7.4 of the Memorandum of Association in its entirety. The above amendment to the Memorandum of Association was approved by the Shareholders at the extraordinary general meeting of the Company held on 6 September 2017.

Report of the Directors

Dear Shareholders,

The Board is pleased to present its report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2017 prepared in accordance with IFRSs.

PRINCIPAL ACTIVITIES

The Company was incorporated in the British Virgin Islands as a limited liability company on 17 September 2007. The Shares were listed on the Main Board of the Hong Kong Stock Exchange on 11 October 2010.

The Group are principally engaged in the processing and trading of coal and other products and providing logistics services throughout the commodity supply chain. Details of the Company's principal subsidiaries as at 31 December 2017 are set out in note 17 to the financial statements set out in this annual report.

OPERATING RESULTS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss in pages 62 to 63 of this annual report.

An analysis of the Group's performance for the year is set out in pages 4 to 21 of this annual report.

DISTRIBUTABLE RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 67 of this annual report.

As at 31 December 2017, there is no reserves available for distribution to Shareholders (31 December 2016: nil).

Subject to the BVI Business Companies Act 2004, the Company may declare final dividends in any currency, but no dividend may be declared in excess of the amount recommended by the Board. The Articles of Association provide that dividends may be declared and paid out if the Directors are satisfied, on reasonable grounds, that, immediately after the payment of the dividends, the value of the Company's assets will exceed its liabilities and the Company will be able to pay its debts as they fall due.

The reserves of the Group available for distribution depend on the dividend distributable by the Company's subsidiaries. Regulations in the PRC currently permit distribution by way of dividends by the PRC subsidiaries only out of accumulated profits as determined in accordance with the PRC generally accepted accounting principles. These distributable profits differ from those that are reflected in the Group's financial statements prepared in accordance with the IFRSs.

Report of the Directors

DIVIDENDS

A final dividend in cash of HK$0.034 per share has been declared for the year ended 31 December 2017.

The Company will dispatch a circular containing, among other things, further information relating to the proposed distribution of final dividend and the forthcoming annual general meeting as soon as possible.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 174 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group for the year ended 31 December 2017 are set out in note 13 to the financial statements set out in this annual report.

SHARE CAPITAL

The Company's Shares are without par value. Details of the movements in number of authorised and issued Shares of the Company during 2017 are set out in note 35(c) to the financial statements set out in this annual report.

LOANS AND BORROWINGS

Details of the loans and borrowings of the Group are set out in note 27 and 28 to the financial statements set out in this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

Most of the Group's products are sold to steel mills in China. For the year ended 31 December 2017, sales to the Group's five largest customers accounted for 43.70% of the total revenue of the Group. The largest customer was accounted for 16.26% of the total revenue of the Group.

For the year ended 31 December 2017, total procurement amount of commodities was HK$18,105 million, of which, the top five suppliers accounted for 37.88%. The largest supplier accounted for 13.95% of the total procurement amount.

Save as disclosed above, at no time during the year had the Directors, their associates or any Shareholder (who to the knowledge of the Directors own(s) more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

Report of the Directors

DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

The Directors of the Company during the year and up to the date of this annual report are as follows:

Name	Position
Executive Director	
Ms. Cao Xinyi	Executive Director and Chairman of the Board
Mr. Wang Wengang	Executive Director and Chief Executive Officer
Ms. Zhu Hongchan (resigned on 29 March 2018)	Executive Director
Mr. Wang Yaxu	Executive Director
Mr. Li Jianlou (appointed on 30 March 2018)	Executive Director
Non-executive Director	
Mr. Guo Lisheng	Non-executive Director
Independent Non-executive Director	
Mr. Ng Yuk Keung	Independent Non-executive Director
Mr. Wang Wenfu	Independent Non-executive Director
Mr. Gao Zhikai	Independent Non-executive Director

Biographical details of the current Directors and the senior management of the Company are set out in the section headed "Profile of Directors and Senior Management" on pages 22 to 28 in this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Li Jianlou has entered in to a service contract as an executive director of the Company for a term of three years commencing from 30 March 2018. He is proposed for re-election at the forthcoming annual general meeting.

Excluding above mentioned, none of the Directors who are proposed for re-election at the forthcoming annual general meeting has entered into any service agreements with the Company or any other member of the Group which is not determinable within one year without payment of compensation other than statutory compensation.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 38 to the consolidated financial statements, none of the Directors and Controlling Shareholders of the Company had a material beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

CONNECTED TRANSACTION

The Company did not have any connected transactions which need to be disclosed during the year ended 31 December 2017.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Directors and senior management of the Company receive compensation in the form of fees, salaries, allowances, share-based incentive payments, benefits in kind and/or discretionary bonuses relating to the performance of the Group. The Company also reimburses Directors and senior management for expenses which are necessarily and reasonably incurred for providing services to the Company or discharging their duties in relation to the operations of the Company. When reviewing and determining the specific remuneration packages for executive Directors, the remuneration committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the Director, employment elsewhere in the Group and desirability of performance-based remuneration.

Details of the remuneration of the Directors are set out in note 9 to the financial statements set out in this annual report.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that each of the independent non-executive Directors is independent in accordance with the guidelines set out in the Listing Rules.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

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

Name of Director	Name of corporation	Nature of interest	Aggregate number of Shares or underlying Shares	Approximate percentage of interest in the corporation[1]
Cao Xinyi	The Company	Beneficial owner	3,485,097	0.11%
Wang Wengang	The Company	Beneficial owner	3,553,567	0.11%
Wang Yaxu	The Company	Beneficial owner	2,613,830	0.08%
Zhu Hong Chan (resigned on 29 March 2018)	The Company	Beneficial owner	18,545,990	0.59%

Note:

1. The percentage shareholding of the Company is calculated on the basis of 3,157,298,356 Shares in issue as at 31 December 2017, as the denominator.

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

Report of the Directors

SHARE-BASED INCENTIVE PLANS

Restricted Share Unit Scheme

Under the restricted share unit scheme ("**RSU Scheme**") adopted by the Company on 11 June 2012, the Company may grant restricted share unit awards ("**RSU Awards**") to directors (including executive directors, non-executive directors and independent non-executive directors), officers and full-time employees of the Company or any of its subsidiaries. An RSU Award gives a participant in the RSU Scheme a conditional right when the RSU Award vests to obtain either Shares (existing Shares in issue or new Shares to be issued by the Company) or an equivalent value in cash with reference to the value of the Shares on or about the date of vesting, as determined by the Board in its absolute discretion. The Board may determine the vesting criteria, conditions and the time when the RSU Awards will vest.

The purposes of the RSU Scheme are to retain and motivate its participants to make contributions to the long-term growth and profits of the Company with a view to achieving the objective of increasing the value of the Group and to promote a greater alignment of interests between the participants and the Shareholders of the Company. The Board will select participants to receive RSU Awards under the RSU scheme at its discretion.

As at 31 December 2017, 32,486,488 RSUs were granted by the Company, in which, 26,623,925 RSUs were granted to Directors as a part of the remuneration package of the service contract of such Directors. The details of RSUs granted to the Directors are set out below:

	RSUs granted as at 1 January 2017	RSUs granted as at 19 January 2017	RSUs granted as at 20 July 2017	RSUs vested during the year	RSUs lapsed/ cancelled during the year	RSUs held as at 31 December 2017
CAO Xinyi	0	1,476,978	2,008,119	1,476,978	0	2,008,119
WANG Wengang	0	1,476,978	2,008,119	1,476,978	0	2,008,119
ZHU Hongchan (resigned on 29 March 2018)	0	1,476,978	17,069,012[1]	1,476,978	0	17,069,012[1]
WANG Yaxu	0	1,107,741	1,506,089	1,107,741	0	1,506,089
Others	0	1,846,325	4,016,238	1,846,325	0	4,016,238
Total	0	7,385,000	25,101,488	7,385,000	0	25,101,488

Note:

1. The total number of RSUs granted to Ms. Zhu Hongchan includes 2,008,119 RSUs for the Shares comprised in her service contract and 15,060,893 RSUs for part of her 2016 year-end bonus equivalent to USD1.5 million.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2017, Shareholders who had interests or short positions in the Shares or underlying Shares 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 were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of Shareholder	Name of Corporation	Nature of Interest	Aggregate number of Shares[1]	Approximate percentage of interest in the corporation[8]
Wang Yihan[2]	The Company	Interest of corporation controlled by the substantial shareholder	1,500,080,608 (L)	47.51%
Famous Speech Limited	The Company	Beneficial Owner	1,500,080,608 (L)	47.51%
Wang Xingchun[3][4]	The Company	Interest of corporation controlled by the substantial shareholder	75,912,505 (L)	
		Interest of any parties to an agreement to acquire interests in a particular listed corporation required to be disclosed under section 317 of the SFO	1,500,080,608 (L)	
		Total	1,575,993,113 (L)	49.92%

Report of the Directors

Name of Shareholder	Name of Corporation	Nature of Interest	Aggregate number of Shares[1]	Approximate percentage of interest in the corporation[8]
Winsway Group Holdings[3][5]	The Company	Interest of corporation controlled by the substantial shareholder	75,912,505 (L)	
		Interest of any parties to an agreement to acquire interests in a particular listed corporation required to be disclosed under section 317 of the SFO	1,500,080,608 (L)	
		Total	1,575,993,113 (L)	49.92%
China Minmetals Corporation[6]	The Company	Interest of corporation controlled by the substantial shareholder	1,503,195,952 (L)	47.61%
Magnificent Gardenia Limited[6]	The Company	Interest of any parties to an agreement to acquire interests in a particular listed corporation required to be disclosed under section 317 of the SFO	1,500,080,608 (L)	47.51%
Lord Central Opportunity VII Limited	The Company	Beneficial Owner	479,081,488 (L)[7]	15.17%
Pacific Alliance Asia Opportunity Fund L.P.	The Company	Interest of corporation controlled by the substantial shareholder	479,081,488 (L)[7]	15.17%
Pacific Alliance Group Asset Management Limited	The Company	Interest of corporation controlled by the substantial shareholder	479,081,488 (L)[7]	15.17%
Pacific Alliance Investment Management Limited	The Company	Interest of corporation controlled by the substantial shareholder	479,081,488 (L)[7]	15.17%
Pacific Alliance Group Limited	The Company	Interest of corporation controlled by the substantial shareholder	479,081,488 (L)[7]	15.17%
PAG Holdings Limited	The Company	Interest of corporation controlled by the substantial shareholder	479,081,488 (L)[7]	15.17%

Report of the Directors

Notes:

1. The letter "L" denotes the person's long position in such securities and the letter "S" denotes the person's short position in such securities.

2. Ms. Wang directly controls Famous Speech Limited ("**Famous Speech**") and is deemed to be interested in the 1,500,080,608 Shares held by Famous Speech.

3. Mr. Wang Xingchun, other members of Mr. Wang's Group and Famous Speech have entered into an agreement which is covered by s.317 and s.318 of SFO and each of Mr. Wang's Group is deemed to be interested in the 1,500,080,608 Shares held by Famous Speech by virtue of s.317 of the SFO.

4. Mr. Wang Xingchun indirectly holds the entire issued share capital of Winsway International Petroleum & Chemicals and Winsway Resources Holdings and is deemed to be interested in the 10,405,321 Shares and 65,507,184 Shares held by Winsway International Petroleum & Chemicals and Winsway Resources Holdings, respectively.

5. Winsway Group Holdings indirectly holds, through Great Start the entire issued share capital of Winsway International Petroleum & Chemicals and directly holds the entire issued share capital of Winsway Resources Holdings and is deemed to be interested in the 10,405,321 Shares and 65,507,184 Shares held by Winsway International Petroleum & Chemicals and Winsway Resources Holdings, respectively. Mr. Wang Xingchun is the sole director of Winsway Group Holdings.

6. China Minmetals Corporation ("**China Minmetals**") was deemed to be interested in 1,503,195,952 Shares. 3,115,344 of such Shares were held by certain other companies that were controlled directly or indirectly by China Minmetals, and China Minmetals was deemed to be interested in another 1,500,080,608 Shares because Magnificent Gardenia Limited, a corporation controlled by it, entered into an agreement which is covered by s.317 and s.318 and is deemed to be interested in the 1,500,080,608 Shares held by Famous Speech by virtue of s.317 of the SFO.

7. Pursuant to a subscription agreement between, among others, the Company and Lord Central Opportunity VII Limited dated 1 June 2017, assuming the conversion rights attaching to the convertible bonds are exercised in full at the adjusted conversion price of HK$0.862 per conversion share, and the rights attaching to the warrants are exercised in full at the adjusted subscription price of HK$0.948 per warrant share, 479,081,488 shares of the Company will fall to be issued to Lord Central Opportunity VII Limited. Lord Central Opportunity VII Limited is owned by Pacific Alliance Asia Opportunity Fund L.P. as to 90%. Pacific Alliance Group Asset Management Limited is the general partner of Pacific Asia Opportunity Fund L.P.. The entire issued share capital of Pacific Alliance Group Asset Management Limited is owned by Pacific Alliance Investment Management Limited. Pacific Alliance Investment Management Limited is owned by Pacific Alliance Group Limited as to 90%, which in turn is owned by PAG Holdings Limited as to 99.17%.

8. The percentage shareholding of the Company is calculated on the basis of 3,157,298,356 Shares in issue, as at 31 December 2017, as the denominator and the number of Shares that each substantial shareholder is interested in as the numerator.

Save as disclosed above, as of 31 December 2017, the Company had not been notified by any persons (other than the Directors or chief executives of the Company) who had interests or short positions representing 5% or more of the issued share capital 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 were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Report of the Directors

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, no contracts of significance (as that term is used in Appendix 16 of the Listing Rules) in relation to the business of the Group, to which the Company, its holding companies, its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Save as disclosed in this annual report, no contracts of significance for the provision of services to the Company or any of its subsidiaries by a Controlling Shareholder of the Company or any of its subsidiaries subsisted at the end of year or at any time during the year.

Save as disclosed in this annual report, no contracts of significance between the Company or any of its subsidiaries and a Controlling Shareholder of the Company or any of its subsidiaries subsisted at the end of the year or at any time during the year.

AUDIT COMMITTEE

The audit committee consists of three independent non-executive Directors, Mr. Ng Yuk Keung (Chairman), Mr. Wang Wenfu and Mr. Gao Zhikai.

The audit committee has reviewed, together with the management of the Company, the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has reviewed the financial statements of the Group for the year ended 31 December 2017.

PRE-EMPTIVE RIGHTS

There are no applicable provisions for pre-emptive rights under the Articles of Association or the BVI Business Companies Act 2004 under which the Company is incorporated.

Report of the Directors

MODEL CODE FOR SECURITIES TRANSACTIONS

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

CODE OF CORPORATE GOVERNANCE PRACTICE

The Company has adopted the CG Code. Throughout the year ended 31 December 2017, save as disclosed in the Corporate Governance Report in this annual report, the Company has complied with all the applicable code provisions as set out in the CG Code. For details of the corporate governance practice of the Company, please refer to the Corporate Governance Report on pages 29 to 40 of this annual report.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group in the ordinary course of business are set out in note 38 to the financial statement set out in this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief, as at the date of this annual report, the Company has maintained sufficient public float as required under the Listing Rules.

Report of the Directors

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Repurchase of shares

As at 31 December 2017, the Company had a total of 3,157,298,356 Shares in issue. The Company repurchased a total of 35,424,000 Shares on the Hong Kong Stock Exchange during the year ended 31 December 2017. Such repurchased Shares were cancelled in January 2018, and the total number of Shares in issue was reduced accordingly.

Details of the repurchases are summarised as follows:

Year of the repurchase	Total number of Shares repurchased	Repurchased price per Share Highest (HK$)	Lowest (HK$)	Aggregate consideration (HK$)
2017	35,424,000	0.790	0.711	26,334,000

Issue of Consideration Shares under General Mandate

On 18 January 2017 (after trading hours), the Company and Minghua Group entered into the Exclusive Services Agreement, under which the Company and its subsidiaries have been granted by Minghua Group the exclusive right to the provision of logistics services and other services by Minghua Group thereunder. The Company agreed to pay to Minghua Group the exclusive right fee in the amount of RMB100 million, which was satisfied by the Company through the issue of approximately 93,016,667 consideration shares, at an issue price of HK$1.2 per share to Minghua Group. For further details, please refer to the Company's announcement dated 18 January 2017.

Except as disclosed above, neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2017.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they may incur or sustain in or about the execution of their duty in their offices or otherwise in relation thereto. Such permitted indemnity provision has been in force throughout the year ended 31 December 2017. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Company for the year ended 31 December 2017.

Independent Auditor's Report

Independent auditor's report to the shareholders of E-Commodities Holdings Limited
(incorporated in the British Virgin Islands with limited liability)

QUALIFIED OPINION

We have audited the consolidated financial statements of E-Commodities Holdings Limited (formerly known as "**Winsway Enterprises Holdings Limited**") ("**the Company**") and its subsidiaries ("**the Group**") set out on pages 62 to 169, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, 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, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, 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 ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

As disclosed in note 21 to the consolidated financial statements, as at 31 December 2017, the Group had an outstanding loan due from Moveday Enterprises Limited ("**Moveday**") of US$10.16 million (equivalent to approximately $79,373,000) (31 December 2016: US$15.50 million (equivalent to approximately $120,260,000)) after recovery of loan principal of US$5.34 million (equivalent to approximately $41,692,000) during the year ended 31 December 2017. As at 31 December 2017, the Group continues to make an impairment provision of $79,373,000 (31 December 2016: $120,260,000) taking into account the existence of uncertainties relating to the future financial and operating circumstances of Moveday, but not the possibility of any further recovery that may be achieved in future through re-negotiation of the terms of the loan or alternative forms of settlement in kind. In our auditor's reports on the Group's financial statements for the years ended 31 December 2015 and 31 December 2016, we reported a limitation in the scope of our audit relating to this impairment loss provision, as we were unable to obtain sufficient appropriate audit evidence to evaluate the reasonableness of the assumptions adopted by the directors of the Company in estimating the expected timing and amounts of future cash flows arising from the loan. This matter has not been resolved and therefore we continue to be unable to reach a conclusion as to whether the directors' judgement in this matter is appropriate and, therefore, whether the amount of this impairment provision is, or is not, in accordance with the applicable accounting framework. Any decrease in the impairment losses recognised against the loan balance due from Moveday would affect the net assets of the Group as at 31 December 2017 and could also affect the Group's profit for the year then ended, the opening balance of accumulated losses as at 1 January 2017, net assets as at 31 December 2016 and profit for the year then ended and the related disclosures in the consolidated financial statements.

Independent Auditor's Report

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("**the Code**") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the British Virgin Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for qualified opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Assessment of the Group's ability to continue as a going concern

Refer to note 2 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
The consolidated financial statements have been prepared on a going concern basis. In adopting the going concern basis of preparation of the consolidated financial statements, the directors have reviewed the Group's cash flow projections prepared by management. The cash flow projections were based on management's estimation of future cash inflows/outflows, including revenue from the processing and trading of coal and other products and the rendering of logistics services, gross margins, operating expenses, capital expenditure, finance costs, working capital requirements and the availability of borrowing facilities.	Our audit procedures relating to the assessment of the Group's ability to continue as a going concern included the following: • obtaining the Group's cash flow projections covering a period of not less than twelve months from the reporting period end date and challenging these key assumptions used in preparing the projections (including future coal selling prices, future coal procurement prices, future sales volumes, future production volumes and costs, future operating expenses, future planned capital expenditure and the availability of borrowing facilities) based on historical production information together with market and other externally available information;

Independent Auditor's Report

The Key Audit Matter	How the matter was addressed in our audit
The assumptions and estimations were based on the Group's business performance for the year ended 31 December 2017 and management's expectations of developments in the coal market. In preparing the cash flow projections, management assumed that the recovery in the coal market during the year ended 31 December 2017 would continue and, on that basis, developed assumptions relating to future coal selling prices, fluctuations in future coal procurement prices and future sales volumes. We identified the assessment of going concern as a key audit matter because the assessment involves consideration of future events which are inherently uncertain and because the assessment requires the exercise of significant management judgment in assessing future cash inflows/outflows which could be subject to potential bias.	• evaluating the consistency, where appropriate, of the application of the key assumptions adopted in the cash flow projections with reference to other audit procedures performed, in particular the assessment of the impairment of assets; • evaluating the sensitivity of the projected available cash by considering downside scenarios together with reasonably plausible changes to the key assumptions and considering whether there were any indicators of management bias in the selection of the assumptions; • inspecting the facility agreements for the Group's long-term loans to identify any financial covenants or similar terms and assessing the implication of these on the Group's liquidity; • assessing the disclosures in the consolidated financial statements in relation to the going concern basis of accounting with reference to the requirements of the prevailing accounting standards.

Independent Auditor's Report

Recognition of revenue

Refer to note 4 to the consolidated financial statements and the accounting policies on page 96.

The Key Audit Matter	How the matter was addressed in our audit
The Group has the following principal sources of revenue: – the trading of coal and other products under framework contracts signed with certain third party companies pursuant to which those third party companies act as agents of the Group to sign sales and purchase contracts with customers and suppliers whilst the Group is responsible for identifying customers and suppliers and negotiating and determining the price, quantity of the commodities and transportation and payment terms with both customers and suppliers respectively (the "**Framework Contracts**"); – the importing, processing and trading of coal sourced from Mongolia; and – the rendering of logistics services.	Our audit procedures to assess the recognition of revenue included the following: • assessing the design, implementation and operating effectiveness of key internal controls over the recognition of revenue; • inspecting significant new sales contracts entered into during the year to obtain an understanding of the contract terms, in particular, those relevant to the timing and value of revenue recognition with reference to the Group's revenue recognition accounting policies; • considering the Group's revenue recognition accounting policies, including those for the trading of coal under the Framework Contracts, with reference to the requirements of the prevailing accounting standards; • selecting a sample of sales transactions recorded during the reporting period and just after the end of the reporting period and comparing the details with the underlying sales invoices, sales contracts and relevant documentation evidencing the date of delivery and acceptance of the goods or services, such as bills of lading, shipping documents, proof of delivery and proof of acceptance, to assess whether the related revenue has been recognised in the appropriate accounting period in accordance with the Group's revenue recognition accounting policies;

Independent Auditor's Report

The Key Audit Matter	How the matter was addressed in our audit
These sources of revenue have differing trade terms and revenue recognition criteria and the accounting systems handle a high volume of individual transactions all of which increase the risk that errors may be made in the recognition of revenue. We identified recognition of revenue as a key audit matter because revenue is a key performance measure for the Group and a key driver of the gross margin which increases the risk that revenue may be manipulated to meet targets and expectations and because the volume of transactions and differing trade terms increase the risk of errors in the recognition of revenue.	• requesting confirmations from the Group's customers, on a sample basis, to confirm the sales transaction amounts and quantities sold during the reporting period and investigating the reasons for any differences between the amounts confirmed and the amounts in the Group's accounting records by discussion with management and inquiry with related customers; for unreturned confirmations, we inspected the entire population of the sales transactions with the associated customers by comparing the details with underlying sales invoices, sales contracts and relevant documentation evidencing the date of delivery and acceptance of the goods or services, such as bills of lading, shipping documents, proof of delivery and proof of acceptance; • inspecting manual adjustments to revenue during the reporting which met certain risk–based criteria and inquiring of management the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation.

Independent Auditor's Report

Assessing impairment of assets in respect of coal processing factories and logistics facilities and associated land use rights

Refer to note 13 and 15 to the consolidated financial statements and the accounting policies on page 113 and 116.

The Key Audit Matter	How the matter was addressed in our audit
In recent years, the coal industry has been operating under pressure of depressed coal price. Although signs of price recovery have been noted in the year of 2016 and 2017, uncertainties in respect of coal business prospects continue to exist, and the coal processing factories and logistics facilities built for handling coal have been operating at low utilisation levels. The Group recorded impairment losses of $596,107,000 and $176,302,000 on property, plant and equipment, and other non-current assets respectively during the year ended 31 December 2015 in respect of coal processing factories and logistic facilities due to the unfavourable future prospects of the coal business and production suspension or low utilisation of the coal processing factories and logistic facilities. During the year ended 31 December 2016, the Group recorded a reversal of property, plant and equipment of $4,248,000 in respect of one of the coal processing factories in Inner Mongolia Autonomous Region due to the increase in utilisation. During the year ended 31 December 2017, certain of the Group's coal processing factories and logistic facilities were still suspended or in low utilisation due to their remote locations. As such, during the year ended 31 December 2017, the Group recorded additional impairment losses of $32,787,000 in respect of lease prepayments for land use rights of one of the coal processing factories in Liaoning Province, while property, plant and equipment and other assets in the relevant cash generating unit had been fully impaired in prior years.	Our audit procedures to assess the impairment of assets in respect of coal processing factories and logistics facilities and associated land use rights included the following: • evaluating management's identification of cash generating units ("**CGUs**"), the allocation of assets to the identified CGUs, the identification of indicators of impairment and the methodology applied by management in the calculation of CGUs' recoverable amounts with reference to the requirements of the prevailing accounting standards, taking into account business changes during the year; • assessing and challenging the key assumptions underlying discounted cash flow forecasts (including future coal prices, future logistics service prices, future production and logistics service volumes and costs, future capital and operating costs and future inflation) by comparison with historical information and internal business plans approved by the board of directors together with market and other externally available information;

Independent Auditor's Report

The Key Audit Matter	How the matter was addressed in our audit
The impairment losses were determined based on the recoverable amount of each cash generating unit, which is the higher of its value in use based on cash flow forecasts prepared by management covering a five-year period according to financial forecasts prepared by management, and its fair value less costs of disposal based on fair value assessment using market-based approach by comparing prices at which other similar assets transacted in similar areas on an arm's length basis. We identified the assessment of impairment of assets in respect of coal processing factories and logistics facilities and associated land use rights as a key audit matter because the assessment of impairment involves the exercise of significant management judgement, particularly in relation to the determination of the key assumptions underlying the discounted cash flows and valuation assessment which could be subject to management bias.	• comparing the prices at which other similar assets transacted in similar areas, which are applied in the fair value assessment of the CGUs with externally available information; • performing sensitivity analyses of the key assumptions underlying the discounted cash flows forecasts and fair value assessment in order to assess the potential impact of a range of possible outcomes and considering whether there was any evidence of management bias in the selection of assumptions.

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

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon. We obtained the Management Discussion and Analysis prior to the date of this auditor's report and expect the remaining other information to be made available to us after that date.

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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, then we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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 are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are 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, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism 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.

Independent Auditor's Report

- 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.

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 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 Cheung Tsz Chung.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22 March 2018

Consolidated Statement of Profit or Loss

for the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	Note	2017 $'000	2016 $'000
Revenue	4	**20,877,959**	13,501,746
Cost of sales		**(19,056,550)**	(11,629,480)
Gross profit		**1,821,409**	1,872,266
Other revenue	5	**5,126**	21,413
Distribution costs		**(295,504)**	(192,789)
Administrative expenses		**(377,546)**	(524,785)
Other operating expenses, net	6	**(236)**	(14,586)
Reversal of impairment of non-current assets	7(c)	**8,905**	4,248
Profit from operations		**1,162,154**	1,165,767
Finance income		**6,697**	8,093
Finance costs		**(155,793)**	(156,467)
Net finance costs	7(a)	**(149,096)**	(148,374)
Gain on debt restructuring	29	**–**	1,948,451
Share of (loss)/profit of an associate		**(275)**	896
Profit before taxation		**1,012,783**	2,966,740
Income tax	8	**(108,737)**	(94,425)
Profit for the year		**904,046**	2,872,315
Profit attributable to:			
Equity shareholders of the Company		**904,742**	2,873,605
Non-controlling interests		**(696)**	(1,290)
Profit for the year		**904,046**	2,872,315
Earnings per share	12		
Basic (HK$)		**0.293**	1.488
Diluted (HK$)		**0.285**	1.488

The notes on pages 71 to 169 form part of these financial statements. Details of dividends payable to equity shareholders of the Company are set out in note 35(b).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	2017 $'000	2016 $'000
Profit for the year	**904,046**	2,872,315
Other comprehensive income for the year (after tax and reclassification adjustments):		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation	**152,760**	(101,705)
Total comprehensive income for the year	**1,056,806**	2,770,610
Total comprehensive income attributable to:		
Equity shareholders of the Company	**1,053,356**	2,772,222
Non-controlling interests	**3,450**	(1,612)
Total comprehensive income for the year	**1,056,806**	2,770,610

The notes on pages 71 to 169 form part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2017
(Expressed in Hong Kong dollars)

	Note	**At 31 December 2017 $'000**	At 31 December 2016 $'000
Non-current assets			
Property, plant and equipment, net	13	**340,465**	212,210
Construction in progress	14	**8,350**	890
Lease prepayments	15	**476,791**	462,380
Intangible assets	16	**104,953**	4,354
Interest in an associate	18	**17,019**	16,142
Other investments in equity securities	20	**125,348**	117,134
Other non-current assets	21	**–**	–
Receivables under finance leases	22	**3,828**	–
Total non-current assets		**1,076,754**	813,110
Current assets			
Inventories	23	**621,352**	583,006
Trade and other receivables	24	**3,386,636**	1,609,483
Receivables under finance leases	22	**1,914**	–
Restricted bank deposits	25	**601,335**	63,889
Cash and cash equivalents	26	**550,615**	534,395
Total current assets		**5,161,852**	2,790,773
Current liabilities			
Secured bank and other loans	27	**2,146,288**	724,168
Trade and other payables	33	**1,012,755**	873,000
Obligations under finance leases	31	**4,233**	2,625
Income tax payable	34(a)	**137,990**	128,972
Total current liabilities		**3,301,266**	1,728,765
Net current assets		**1,860,586**	1,062,008
Total assets less current liabilities		**2,937,340**	1,875,118

The notes on pages 71 to 169 form part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2017
(Expressed in Hong Kong dollars)

	Note	**At 31 December 2017 $'000**	At 31 December 2016 $'000
Non-current liabilities			
Secured bank and other loans	27	**–**	33,537
Convertible bonds payables	28	**226,122**	–
Deferred income	30	**138,826**	132,301
Obligations under finance leases	31	**4,064**	6,011
Total non-current liabilities		**369,012**	171,849
NET ASSETS		**2,568,328**	1,703,269
CAPITAL AND RESERVES			
Share capital	35(c)	**5,849,015**	5,681,512
Reserves	35(d)	**(3,172,463)**	(3,844,264)
Total equity attributable to equity shareholders of the Company		**2,676,552**	1,837,248
Non-controlling interests		**(108,224)**	(133,979)
TOTAL EQUITY		**2,568,328**	1,703,269

Approved and authorised for issue by the board of directors on 22 March 2018.

	)	
Cao Xinyi	)	
	)	*Directors*
Wang Yaxu	)	
	)	

The notes on pages 71 to 169 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company									
	Share capital $'000 (note 35(c))	Statutory reserve $'000 (note 35(d))	Employee share trusts $'000 (note 35(c))	Other reserve $'000 (note 35(d))	Exchange reserve $'000 (note 35(d))	Treasury shares $'000 (note 35(d))	Accumulated loss $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 January 2016	4,992,337	185,833	(3,000)	(13,781)	75,810	–	(6,828,000)	(1,590,801)	(132,367)	(1,723,168)
Changes in equity for 2016:										
Total comprehensive income for the year	–	–	–	–	(101,383)	–	2,873,605	2,772,222	(1,612)	2,770,610
Shares issued under rights issue	390,526	–	–	–	–	–	–	390,526	–	390,526
Transaction costs attributable to issue of shares under rights issue	(6,980)	–	–	–	–	–	–	(6,980)	–	(6,980)
Scheme shares issued under debt restructuring	305,629	–	–	–	–	–	–	305,629	–	305,629
Purchase of own shares	–	–	–	–	–	(15,390)	–	(15,390)	–	(15,390)
Contribution to employee share trusts	–	–	(18,387)	–	–	–	–	(18,387)	–	(18,387)
Equity settled share-based transactions	–	–	–	730	–	–	–	730	–	730
Expiry of share options granted under share option scheme	–	–	–	(8,949)	–	–	8,949	–	–	–
Appropriation to statutory reserve	–	21,293	–	–	–	–	(21,293)	–	–	–
Disposal of subsidiaries	–	(301)	–	–	–	–	–	(301)	–	(301)
Balance at 31 December 2016 and 1 January 2017	5,681,512	206,825	(21,387)	(22,000)	(25,573)	(15,390)	(3,966,739)	1,837,248	(133,979)	1,703,269

The notes on pages 71 to 169 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company									
	Share capital $'000 (note 35(c))	Statutory reserve $'000 (note 35(d))	Employee share trusts $'000 (note 35(c))	Other reserve $'000 (note 35(d))	Exchange reserve $'000 (note 35(d))	Treasury shares $'000 (note 35(d))	Accumulated loss $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 January 2017	5,681,512	206,825	(21,387)	(22,000)	(25,573)	(15,390)	(3,966,739)	1,837,248	(133,979)	1,703,269
Changes in equity for 2017:										
Total comprehensive income for the year	–	–	–	–	148,614	–	904,742	1,053,356	3,450	1,056,806
Purchase of own shares (note 35(c)(i))	(15,390)	–	–	–	–	(10,944)	–	(26,334)	–	(26,334)
Contribution to employee share trusts	–	–	(40,883)	–	–	–	–	(40,883)	–	(40,883)
Grant of restricted share units to employees (note 35(c)(v))	–	–	30,583	(3,421)	–	–	–	27,162	–	27,162
Shares issued for exclusive services agreement (note 16)	105,108	–	–	–	–	–	–	105,108	–	105,108
Shares issued for settlement of contingent value rights (note 35(c)(ii))	77,785	–	–	–	–	–	–	77,785	–	77,785
Appropriation to statutory reserve	–	4,813	–	–	–	–	(4,813)	–	–	–
Dividends declared (note 35(b)(ii))	–	–	5,758	–	–	48	(362,696)	(356,890)	–	(356,890)
Contribution from non-controlling interests	–	–	–	–	–	–	–	–	22,305	22,305
Balance at 31 December 2017	5,849,015	211,638	(25,929)	(25,421)	123,041	(26,286)	(3,429,506)	2,676,552	(108,224)	2,568,328

Consolidated Cash Flow Statement

for the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	Note	2017 $'000	2016 $'000
Operating activities			
Profit before taxation		**1,012,783**	2,966,740
Adjustments for:			
Depreciation		**29,064**	26,082
Amortisation of lease prepayments		**11,415**	10,901
Amortisation of intangible assets	7(a)	**5,993**	723
Interest income		**(3,275)**	(8,093)
Interest expenses		**140,201**	143,721
Net realised and unrealised gain on derivative financial instruments		**(4,532)**	(9,805)
Equity settled share-based transactions		**–**	730
Loss on disposal of property, plant and equipment and intangible assets, net	6	**318**	9,290
Share of loss/(profit) of an associate		**275**	(896)
Reversal of impairment losses on non-current assets		**(8,905)**	(4,248)
Gain on debt restructuring	29	**–**	(1,948,451)
Foreign exchange loss, net		**6,089**	11,572
		1,189,426	1,198,266
Increase in inventories		**(36,241)**	(398,221)
Increase in trade and other receivables		**(1,670,440)**	(727,759)
Decrease in trading securities		**–**	613
Increase in trade and other payables		**225,754**	310,031
Income tax paid		**(101,626)**	(1,410)
Net cash (used in)/generated from operating activities		**(393,127)**	381,520

The notes on pages 71 to 169 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	Note	2017 $'000	2016 $'000
Investing activities			
Payment for purchase of property, plant and equipment, construction in progress, lease prepayments and intangible assets		**(166,196)**	(75,127)
Repayment of loan from a third party		**35,922**	–
Proceeds from sale of property, plant and equipment		**962**	2,436
(Increase)/decrease in restricted bank deposits		**(537,446)**	435,215
Proceeds from settlement of derivative financial instruments		**7,422**	3,159
Interest received		**3,275**	37,838
Net cash outflow from acquisition of subsidiaries	36	**(34,102)**	–
Net cash (generated from)/used in investing activities		**(690,163)**	403,521
Financing activities			
Proceeds from bank and other loans		**4,282,024**	1,028,576
Repayment of bank and other loans		**(2,956,860)**	(1,419,308)
Proceeds from issuing convertible bonds		**315,760**	–
Payment for debt restructuring	29	**–**	(388,194)
Proceeds from issue of new shares under rights issue		**–**	390,526
Payment of issuing expenses under right issue		**–**	(6,980)
Capital element of finance leases rentals paid		**(3,272)**	(687)
Interest element of finance leases rentals paid		**(577)**	–
Collection of receivables under finance lease		**(5,742)**	–
Interests paid		**(139,244)**	(73,751)
Dividends paid to equity shareholders of the Company		**(356,890)**	–
Contribution from non-controlling interests		**22,305**	–
Purchase of own shares		**(26,334)**	(15,390)
Contribution to employee share trusts		**(40,883)**	(18,387)
Net cash generated from/(used in) financing activities		**1,090,287**	(503,595)

The notes on pages 71 to 169 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	Note	**2017** **$'000**	2016 $'000
Net increase in cash and cash equivalents		**6,997**	281,446
Cash and cash equivalents at 1 January	26(a)	**534,395**	259,574
Effect of foreign exchange rate changes		**9,223**	(6,625)
Cash and cash equivalents at 31 December	26(a)	**550,615**	534,395

Significant non-cash transactions:

During the year, the Group and Minghua Energy Group Co., Ltd. ("**Minghua Group**") has entered into an agreement under which the Group has been granted by Minghua Group the exclusive right to the use of the logistics services in its logistic park in the Inner-Mongolia Autonomous Region (see note 16). Pursuant to the agreement, the Company paid Minghua Group the exclusive right fee which was satisfied by the issue of 93,016,667 ordinary shares of the Company.

During the year, as a result of the occurrence of the triggering event of the contingent value rights ("**CVRs**") (see note 29), the Company has settled the CVRs in full at the face value recorded on each CVR certificate through the issue of 64,131,037 ordinary shares.

During the year ended 31 December 2016, the Group has completed the debt restructuring of senior notes for which the outstanding senior notes including accrued interest amounted to approximately $2,721,014,000 was settled by cash consideration of approximately $388,194,000, an issue of 565,979,778 scheme shares and certain contingent value rights (see note 29).

The notes on pages 71 to 169 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 CORPORATE INFORMATION

E-Commodities Holdings Limited (formerly known as "**Winsway Enterprises Holdings Limited**") (the "**Company**") was incorporated in the British Virgin Islands ("**BVI**") on 17 September 2007 with limited liability under the Business Companies Act of the British Virgin Islands (2004).The Company has changed the name to E-Commodities Holdings Limited with effect from 23 August 2016. The Company and its subsidiaries (together referred to as the "**Group**") are principally engaged in the processing and trading of coal and other products and providing logistics services throughout the commodity supply chain.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These 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 Standards ("**IASs**") and Interpretations issued by the International Accounting Standards Board ("**IASB**") and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "**Group**") and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– derivative financial instruments (see note 2(i)).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the financial statements (Continued)

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is different from the functional currency of the Company and its principal subsidiaries. The Company's functional currency is United Stated dollars ("**US$**"). As the Company is a listed company in Hong Kong, the directors of the Company consider that it is appropriate to present the consolidated financial statements in HK$.

The directors have reviewed the Group's cash flow projections prepared by management. The cash flow projections were based on management's estimation of future cash inflows/outflows, including revenue from the processing and trading of coal and other products and the rendering of logistics services, gross margins, operating expenses, capital expenditure, finance costs, working capital requirements and the availability of borrowing facilities. The assumptions and estimations were based on the Group's business performance for the year ended 31 December 2017 and management's expectations of developments in the coal market. In preparing the cash flow projections, management assumed that the recovery in the coal market during the year ended 31 December 2017 would continue and, on that basis, developed assumptions relating to future coal selling prices, fluctuations in future coal procurement prices and future sales volumes.

The directors are of the opinion that, assuming the cash flow projections can be achieved, the Group would have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the directors are of the opinion that it is appropriate to prepare these financial statements on the going concern basis. Management is not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 26(b) to satisfy the new disclosure requirements introduced by the amendments to IAS 7, Statement of cash flows: Disclosure initiative, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries and non-controlling interests (Continued)

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 2(q) or (r) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(h)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 2(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(m)).

(e) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Associates and joint ventures (Continued)

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(g) and (m)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to $nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associate and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(h)).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see note 2(d)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arise is tested annually for impairment (see note 2(m)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

(g) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Goodwill (Continued)

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(m)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(h) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in equity securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends earned on these investments as these are recognised in accordance with the policies set out in note 2(w)(iii).

Investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(m)). Dividend income from equity securities is recognised in profit or loss in accordance with the policies set out in notes 2(w)(iii).

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Derivative financial instruments

Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met. Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(j) Property, plant and equipment

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(m)).

Construction in progress represents other property, plant and equipment under construction and equipment pending installation, and is initially recognised in the statement of financial position at cost less impairment losses (see note 2(m)). The construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

The cost of self-constructed items of other property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(y)).

Gains or losses arising from the retirement or disposal of an item of other property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of other property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	10 to 20 years
Plant and machinery	3 to 20 years
Motor vehicles	4 to 5 years
Office and other equipment	2 to 10 years
Railway special assets	8 to 50 years

Where parts of an item of other property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation with finite useful lives, and impairment losses (see note 2(m)). Amortisation is recognised in profit or loss on a straight-line basis over the assets' useful lives. The following other intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Software	10 years
Exclusive services agreement	20 years

Both the period and method of amortisation are reviewed annually.

(l) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2 (j). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2 (m). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Leased assets (Continued)

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease (land use rights) is amortised on a straight-line basis over the period of the lease term.

(m) Impairment of assets

(i) Impairment of investments in equity securities and receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets (Continued)

(i) Impairment of investments in equity securities and receivables (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(m)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(m)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets (Continued)

(i) Impairment of investments in equity securities and receivables (Continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of the each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– construction in progress;

– lease prepayments;

– intangible assets;

– goodwill; and

– investments in subsidiaries in the Company's statement of financial position.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets (Continued)

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(m)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(n) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method less allowance for impairment of doubtful debts (see note 2(m)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Convertible bonds

(i) Convertible bonds that contain an equity component

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component. At initial recognition the liability component of the convertible bonds is measured at fair value based on the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. The equity component is initially recognised at the difference between the fair value of the convertible bonds as a whole and the fair value of the liability component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds. The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

(ii) Other convertible bonds

Convertible bonds which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible note are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Convertible bonds (Continued)

(ii) Other convertible bonds (Continued)

The derivative component is subsequently remeasured in accordance with derivative financial instruments. The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the note is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(q) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

Costs or fees incurred in relation to unsubstantial modification of the terms of interest-bearing borrowings adjust the carrying amount of interest-bearing borrowings and are amortised over the remaining term of the modified borrowing.

(r) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(v)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(s) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Obligations for contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in relevant jurisdictions are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(ii) Share-based payments

The fair value of share options and restricted share units granted to employees is recognised as an employee cost with a corresponding increase in the other reserve within equity. The fair value of share options is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. The fair value of restricted share units is measured at grant date using the market price of the Company's shares. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options and restricted share units, the total estimated fair value of the options and restricted share units is spread over the vesting period, taking into account the probability that the options and restricted share units will vest.

During the vesting period, the number of share options and restricted share units that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the other reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options and restricted share units that vest (with a corresponding adjustment to the other reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount related to share options is recognised in the other reserve until either the option is exercised (when it is transferred to the share capital account) or the option expires (when it is released directly to retained earnings). The equity amount related to restricted share units is recognised in other reserve until the restricted share units become vested and is transferred to employee share trusts.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Income tax (Continued)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "**holder**") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(v)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Provisions and contingent liabilities

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

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and other sales taxes and is after deduction of any trade discounts.

(ii) Rendering of services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in profit or loss over the useful life of the assets.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into HK$ at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired, are translated into HK$ at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(y) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Related parties

(a) A person, or a close member of that person's family, is related to the Group if 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 the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities 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).

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type of class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

The Group's financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of these financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing these financial statements. The principal accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of these financial statements.

(i) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value, if any. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(ii) Impairment of assets

If circumstances indicate that the carrying amount of an asset may not be recoverable, this asset may be considered "impaired", and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to the level of sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales revenue and amount of operating costs.

In relation to trade and other receivables and loan to a third party, a provision for impairment is made and an impairment loss is recognised in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoices or the loan agreement. Management uses judgement in determining the probability of insolvency or significant financial difficulties of the debtor.

An increase or decrease in the above impairment loss would affect the net profit in future years.

(iii) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

(iv) Allowance for diminution in value of inventories

If the costs of inventories fall below their net realisable values, an allowance for diminution in value of inventories is recognised. Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Management bases the estimates on all available information, including the current market prices of the products, and historical operating costs. If the actual selling prices were to be lower or the costs of completion were to be higher than estimated, the actual allowance for diminution in value of inventories could be higher than estimated.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(v) Estimated impairment of trade and other receivables

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers and other debtors to make the required payments. The Group bases the estimates on the aging of the receivable balance, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the customers and debtors were to deteriorate, actual write-offs would be higher than estimated.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The Group is principally engaged in the processing and trading of coal and other products and providing logistics services throughout the commodity supply chain. Revenue represents the sales value of goods sold, net of value added tax and other sales taxes and is after any trade discounts, and revenue from rendering of logistics services. The amount of each significant category of revenue is as follows:

	2017 **$'000**	2016 $'000
Coal	**19,428,312**	12,346,494
Petrochemical products	**846,104**	954,378
Iron ore	**273,578**	11,042
Nonferrous metals	**226,160**	–
Rendering of logistics services	**94,344**	92,093
Steel	**–**	91,311
Others	**9,461**	6,428
	20,877,959	13,501,746

Among the Group's revenue from the trading of coal and other products, $5,842,028,000 (2016: $6,971,869,000) was traded under framework contracts signed with certain third party companies pursuant to which those third party companies act as agents of the Group to sign sale and purchase contracts with customers and suppliers whilst the Group is responsible for identifying customers and suppliers and negotiating and determining the price, quantity of the commodities and transportation and payment terms with customers and suppliers, respectively (the "**Framework Contracts**").

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(a) Revenue (Continued)

The Group's customer base is diversified and includes two customers (2016: one) with whom transactions have exceeded 10% of the Group revenues.

Details of concentration of credit risk arising from the largest and the largest five customers are set out in note 37(a).

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

– Processing and trading of coal and other products: this segment manages and operates coal processing plants and generates income from processing and trading of coal and other products to external customers.

– Logistics services: this segment constructs, manages and operates logistics parks and generates income from rendering of logistics services to external customers within the People's Republic of China ("**PRC**").

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets, intangible assets and current assets with the exception of interests in an associate. Segment liabilities include trade and other payables, obligations under finance leases, deferred income and secured bank and other loans managed directly by the segments.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

(i) Segment results, assets and liabilities (Continued)

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. However, other than reporting inter-segment sales of coal products and logistics services, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income and "depreciation and amortisation" is regarded as including reversal of impairment of non-current assets and reversal of provision/provision for impairment losses on trade and other receivables.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

(i) Segment results, assets and liabilities (Continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below.

	Processing and trading of coal and other products		Logistics services		Total	
	2017	2016	**2017**	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Revenue from external customers	**20,783,615**	13,409,653	**94,344**	92,093	**20,877,959**	13,501,746
Inter-segment revenue	**–**	–	**15,323**	38,442	**15,323**	38,442
Reportable segment revenue	**20,783,615**	13,409,653	**109,667**	130,535	**20,893,282**	13,540,188
Reportable segment profit (adjusted EBITDA)	**1,110,512**	1,148,014	**8,375**	12,777	**1,118,887**	1,160,791
Interest income	**3,177**	8,007	**98**	86	**3,275**	8,093
Interest expense	**(130,629)**	(132,324)	**(9,572)**	(11,397)	**(140,201)**	(143,721)
Depreciation and amortisation	**(43,913)**	(35,374)	**(2,559)**	(2,332)	**(46,472)**	(37,706)
Reversal of impairment of non-current assets	**8,905**	4,248	**–**	–	**8,905**	4,248
Reversal of provision/(Provision) for impairment losses on trade and other receivables	**78,685**	40,951	**2,149**	(2,517)	**80,834**	38,434
Share of (loss)/profit of an associate	**–**	–	**(275)**	896	**(275)**	896
Reportable segment assets	**6,418,472**	3,939,153	**126,453**	111,706	**6,544,925**	4,050,859
Additions to non-current segment assets during the year	**279,584**	44,290	**1,415**	572	**280,999**	44,862
Reportable segment liabilities	**3,475,809**	1,768,723	**379,817**	466,037	**3,855,626**	2,234,760

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

(ii) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities

	2017	2016
	$'000	$'000
Revenue		
Reportable segment revenue	**20,893,282**	13,540,188
Elimination of inter-segment revenue	**(15,323)**	(38,442)
Consolidated revenue	**20,877,959**	13,501,746
Profit		
Reportable segment profit	**1,118,887**	1,160,791
Depreciation and amortisation	**(46,472)**	(37,706)
Reversal of impairment of non-current assets	**8,905**	4,248
Reversal of provision for impairment losses on trade and other receivables	**80,834**	38,434
Share of (loss)/profit of an associate	**(275)**	896
Net finance costs	**(149,096)**	(148,374)
Gain on debt restructuring	**–**	1,948,451
Consolidated profit before taxation	**1,012,783**	2,966,740

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

(ii) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities (Continued)

	At 31 December 2017 $'000	At 31 December 2016 $'000
Assets		
Reportable segment assets	**6,544,925**	4,050,859
Interest in an associate	**17,019**	16,142
Elimination of inter-segment receivables	**(323,338)**	(463,118)
Consolidated total assets	**6,238,606**	3,603,883
Liabilities		
Reportable segment liabilities	**3,855,626**	2,234,760
Current tax payable	**137,990**	128,972
Elimination of inter-segment payables	**(323,338)**	(463,118)
Consolidated total liabilities	**3,670,278**	1,900,614

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

(iii) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets ("**specified non-current assets**"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets, and the location of operations, in the case of interests in an associate.

	Revenues from external customers	
	2017	2016
	$'000	$'000
The PRC (including Hong Kong and Macau)	**19,221,864**	12,623,428
Japan	**711,167**	135,924
Turkey	**550,050**	–
Korea	**173,605**	214,344
Vietnam	**–**	160,565
Netherlands	**–**	156,001
India	**–**	111,282
Others	**221,273**	100,202
	20,877,959	13,501,746

	Specified non-current assets	
	At 31 December 2017	At 31 December 2016
	$'000	$'000
The PRC (including Hong Kong and Macau)	**1,061,286**	812,857
Other countries	**15,468**	253
	1,076,754	813,110

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

5 OTHER REVENUE

	2017	2016
	$'000	$'000
Government grants	**5,126**	21,413

6 OTHER OPERATING EXPENSES, NET

	2017	2016
	$'000	$'000
Loss on disposal of property, plant and equipment and intangible assets	**(318)**	(9,290)
Net realised and unrealised gain on derivative financial instruments	**1,110**	9,805
Penalty	**(666)**	(15,748)
Others	**(362)**	647
	(236)	(14,586)

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after (crediting)/charging:

(a) Net finance costs

	2017 $'000	2016 $'000
Interest income	**(3,275)**	(8,093)
Changes in fair value on derivative financial instruments (note 28)	**(3,422)**	–
Finance income	**(6,697)**	(8,093)
Interest on secured bank and other loans*	**50,947**	45,423
Interest on discounted bills receivable	**77,003**	21,482
Interest on senior notes (note 29)	**–**	76,816
Interest on convertible bonds (note 28)	**12,251**	–
Total interest expense	**140,201**	143,721
Bank charges	**9,503**	1,174
Foreign exchange loss, net	**6,089**	11,572
Finance costs	**155,793**	156,467
Net finance costs	**149,096**	148,374

* During the year ended 31 December 2017, the Group entered into several financing arrangements with a third party company in the form of sale and buyback arrangements. Pursuant to these arrangements, during the year ended 31 December 2017, certain subsidiaries of the Group sold coal at an average price of approximately $947/tonne (2016: $664/tonne) with a total amount of $289,244,000 (31 December 2016: $377,381,000) with transfer of rights of coal inventories of 305,486 tonnes (2016: 568,000 tonnes) to that third party company.

At the same time, other subsidiaries of the Group purchased the same quantity of coal at an average price of approximately $970/tonne (2016: $684/tonne) with a total amount of $296,474,000 (2016: $388,326,000) from that third party company with a term of 90-120 days (2016: 45 days) to be settled afterwards and the rights to the corresponding coal inventories were transferred back to the Group upon settlement.

During the year ended 31 December 2017, interest expense of $7,230,000 (31 December 2016: $10,945,000) has been charged to the Company's consolidated statement of profit or loss in relation to these sale and buyback arrangements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

7 PROFIT BEFORE TAXATION (CONTINUED)

(b) Staff costs

	2017	2016
	$'000	$'000
Salaries, wages, bonus and other benefits	**327,922**	404,272
Contributions to defined contribution retirement plan	**6,574**	6,866
Equity settled share-based payment expenses	**–**	730
	334,496	411,868

(c) Other items

	2017	2016
	$'000	$'000
Amortisation#		
– lease prepayments	**11,415**	10,901
– intangible assets	**5,993**	723
Depreciation#	**29,064**	26,082
Provision for impairment losses		
– trade and other receivables (note 24(b))	**–**	120,622
– other receivables (note 24(d))	**–**	81
Reversal of provision for impairment losses		
– trade and other receivables (note 24(b))	**(64,452)**	(39,054)
– other receivables (note 24(d))	**(16,382)**	(120,083)
(Reversal of impairment loss)/Impairment losses		
– property, plant and equipment (note 13)	**–**	(4,248)
– lease prepayments (note 15)	**32,787**	–
– loan to a third party (note 21)	**(41,692)**	–
Operating lease charges, mainly relating to buildings	**8,142**	6,410
Auditors' remuneration		
– audit services	**5,411**	5,484
– other services	**14**	1,391
Cost of inventories	**18,997,927**	11,578,836

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

7 PROFIT BEFORE TAXATION (CONTINUED)

(c) Other items (Continued)

Cost of inventories includes $44,300,000 (2016: $34,856,000) and $31,062,000 (2016: $3,912,000) for the year ended 31 December 2017 relating to staff costs, depreciation and amortisation which amount is also included in the respective total amount disclosed separately above or in note 7(b) for each type of these expenses.

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statements of profit or loss represents:

	2017	2016
	$'000	$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**26,135**	27,536
Current tax – Outside of Hong Kong		
Provision for the year	**82,584**	66,548
Under – provision in respect of prior years	**18**	341
	108,737	94,425

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

The provision for Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year.

The provision for PRC current income tax is based on a statutory rate of 25% (2016: 25%) of the assessable profit as determined in accordance with the relevant income tax rules and regulations of the PRC.

Taxation for other overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

(b) Reconciliation between tax expense and accounting profit/loss at applicable tax rates:

	2017	2016
	$'000	$'000
Profit before taxation	**1,012,783**	2,966,740
Notional tax on profit before taxation, calculated at the rates applicable to profit in the jurisdictions concerned	**229,381**	228,537
Tax effect of non-deductible expenses	**977**	4,661
Tax effect of utilisation of previously unrecognised tax losses	**(106,225)**	(148,537)
Tax effect of unused tax losses and other temporary differences not recognised	**(15,414)**	9,423
Under – provision in respect of prior years	**18**	341
Actual tax expense	**108,737**	94,425

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

9 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance, and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2017		
	Directors' fees $'000	**Salaries, allowances and benefits in kind $'000**	**Total $'000**
Executive directors			
Cao Xinyi	–	11,688	11,688
Zhu Hongchan	–	76,087	76,087
Wang Yaxu	–	14,025	14,025
Wang Wengang	–	12,264	12,264
Non-executive directors			
Guo Lisheng	–	–	–
Independent non-executive directors			
Gao Zhikai	779	–	779
Ng Yuk Keung	844	–	844
Wang Wenfu	844	–	844
Total	2,467	114,064	116,531

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

9 DIRECTORS' EMOLUMENTS (CONTINUED)

	2016		
	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Total $'000
Executive directors			
Cao Xinyi	–	20,772	20,772
Zhu Hongchan	–	142,002	142,002
Wang Yaxu	–	23,049	23,049
Feng Yi (appointed on 16 November 2015)**	–	1,401	1,401
Wang Wengang (appointed on 18 July 2016)	–	11,576	11,576*
Non-executive directors			
Lu Chuan (resigned on 18 July 2016)	–	–	–
Guo Lisheng (appointed on 18 July 2016)	–	–	–*
Independent non-executive directors			
James Downing (resigned on 18 July 2016)	1,164	–	1,164
Gao Zhikai (appointed on 18 July 2016)	352	–	352*
Ng Yuk Keung	1,552	–	1,552
Jay Hambro (resigned on 18 July 2016)	1,164	–	1,164
Wang Wenfu	1,552	–	1,552
Total	5,784	198,800	204,584

* The directors' emoluments for these directors who were appointed during 2016 included all remunerations paid to, or receivable by, these directors during the year ended 31 December 2016.

** Mr. Feng Yi, an executive director and vice president of the Company, passed away on 16 June 2016.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2016: four) are directors whose emoluments are disclosed in note 9. During the year ended 31 December 2017, the emoluments in respect of the other one individual (2016: one) was as follow:

	2017 **$'000**	2016 $'000
Salaries and other emoluments	**5,626**	8,342

During the year ended 31 December 2017, the emoluments of the one individual (2016: one) with the highest emoluments were within the following bands:

	2017 **Number of individuals**	2016 Number of individuals
$5,500,001 to $6,000,000	**1**	–
$8,000,001 to $8,500,000	**–**	1

11 OTHER COMPREHENSIVE INCOME

Other comprehensive income does not have any tax effect for the year ended 31 December 2017 (2016: $nil).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on profit attributable to equity shareholders of the Company of $904,742,000 (2016: $2,873,605,000) and the weighted average number of ordinary shares of 3,089,966,000 ordinary shares (2016: 1,931,279,000 shares after adjusting for the share consolidation in 2016) in issue during the year ended 31 December 2017, calculated as follows:

Weighted average number of ordinary shares (basic):

	2017 **'000**	2016 '000
Issued ordinary shares at 1 January	**3,018,559**	3,773,199
Effect of purchase of own shares (note 35(c)(i))	**(21,993)**	(1,026)
Effect of shares issued for exclusive service agreement (note 16)	**81,804**	–
Effect of shares issued for settlement of CVRs (note 29)	**43,223**	–
Effect of purchase of shares held by the employee share trusts*	**(31,627)**	(3,190)
Share consolidation	**–**	(3,584,539)
Effect of shares issued under rights issue (including issuance of anti-dilution shares)	**–**	1,237,115
Effect of bonus element on shares issued under right issue	**–**	212,813
Effect of scheme shares issued under debt restructuring	**–**	296,907
Weighted average number of ordinary shares (basic) as at 31 December	**3,089,966**	1,931,279

* The shares held by the employee share trusts are regarded as treasury shares.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

12 EARNINGS PER SHARE (CONTINUED)

(b) Diluted earnings per share

(i) Profit attributable to ordinary equity shareholders of the Company (diluted):

	2017 $'000	2016 $'000
Profit attributable to ordinary equity shareholders	**904,742**	2,873,605
Effect of potential ordinary shares		
– convertible bonds	**6,757**	–
Profit attributable to ordinary equity shareholders (diluted)	**911,499**	2,873,605

(ii) Weighted average number of ordinary shares (diluted):

	2017 '000	2016 '000
Weighted average number of ordinary shares at 31 December	**3,089,966**	1,931,279
Effect of potential ordinary shares		
– convertible bonds	**107,812**	–
Weighted average number of ordinary shares (diluted) as at 31 December	**3,197,778**	1,931,279

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

13 PROPERTY, PLANT AND EQUIPMENT, NET

(a) Reconciliation of carrying amount

	Buildings $'000	Plant and machinery $'000	Railway special assets $'000	Motor vehicles $'000	Office and other equipment $'000	Total $'000
Cost:						
At 1 January 2016	813,183	328,355	299,430	138,553	63,041	1,642,562
Additions	194	6,670	19	11,098	13,269	31,250
Transferred from construction in progress (note 14)	254	–	–	116	11,755	12,125
Disposals	(21,011)	(1,739)	–	(44,639)	(1,220)	(68,609)
Exchange adjustments	(47,897)	(23,519)	(17,389)	(7,678)	(4,525)	(101,008)
At 31 December 2016	744,723	309,767	282,060	97,450	82,320	1,516,320
At 1 January 2017	744,723	309,767	282,060	97,450	82,320	1,516,320
Additions	73,302	17,246	–	18,324	18,525	127,397
Transferred from construction in progress (note 14)	8,236	3,218	–	–	2,056	13,510
Disposals	(2,133)	(2,682)	–	(3,099)	(2,382)	(10,296)
Exchange adjustments	70,357	27,894	22,801	9,626	9,552	140,230
At 31 December 2017	894,485	355,443	304,861	122,301	110,071	1,787,161
Accumulated depreciation and impairment losses:						
At 1 January 2016	647,968	306,153	287,674	120,403	55,031	1,417,229
Charge for the year	8,908	1,667	–	10,216	5,291	26,082
Reversal of impairment loss	(3,703)	(545)	–	–	–	(4,248)
Written back on disposal	(6,634)	(812)	–	(39,778)	(890)	(48,114)
Exchange adjustments	(44,981)	(17,752)	(16,830)	(3,915)	(3,361)	(86,839)
At 31 December 2016	601,558	288,711	270,844	86,926	56,071	1,304,110
At 1 January 2017	601,558	288,711	270,844	86,926	56,071	1,304,110
Charge for the year	14,164	857	–	3,947	10,096	29,064
Written back on disposal	(85)	(1,777)	–	(2,379)	(2,253)	(6,494)
Exchange adjustments	55,412	26,856	23,981	7,902	5,865	120,016
At 31 December 2017	671,049	314,647	294,825	96,396	69,779	1,446,696
Net book value:						
At 31 December 2017	223,436	40,796	10,036	25,905	40,292	340,465
At 31 December 2016	143,165	21,056	11,216	10,524	26,249	212,210

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

13 PROPERTY, PLANT AND EQUIPMENT, NET (CONTINUED)

(a) Reconciliation of carrying amount (Continued)

At 31 December 2017, properties with an aggregate carrying value of $1,939,000 (2016: $113,035,000) have been pledged as collateral for the Group's borrowings and bills payable (see note 27 and note 33).

Reversal of impairment loss

During the year ended 31 December 2016, a reversal of impairment loss of $4,248,000 relating to one of the coal processing factories in the PRC was credited to the consolidated statement of profit or loss due to the increase of the utilisation of such coal processing factory.

The reversal of impairment has been recognised based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts prepared by management covering a five-year period. The cash flows are discounted using a discount rate of 12.00%. The discount rate used reflects specific risks relating to the relevant segments.

(b) The analysis of net book value of properties

	2017	2016
	$'000	$'000
The PRC (including Hong Kong and Macau)	**217,549**	143,165
Other countries	**5,887**	–
Aggregate net book value	**223,436**	143,165

As at 31 December 2017, the Group was in the process of applying for the ownership certificate for certain buildings with an aggregate net book value amounting to $364,000 (2016: $374,000). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy and use of the above mentioned buildings.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

13 PROPERTY, PLANT AND EQUIPMENT, NET (CONTINUED)

(c) Fixed assets held under finance leases

The Group leases office and other equipment under finance leases expiring from 1 to 3 years. At the end of the lease term the group has the option to purchase the leased equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

During the year ended 31 December 2017, additions to office and other equipment financed by new finance leases were $2,144,000 (2016: $10,753,000). At the end of the reporting period, the net book value of office and other equipment held under finance leases was $11,816,000 (2016: $10,391,000).

14 CONSTRUCTION IN PROGRESS

	2017	2016
	$'000	$'000
At 1 January	**890**	–
Additions	**20,764**	13,055
Transferred to property, plant and equipment (note 13)	**(13,510)**	(12,125)
Exchange adjustments	**206**	(40)
At 31 December	**8,350**	890

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

15 LEASE PREPAYMENTS

Lease prepayments comprise interests in leasehold land held for own use under operating leases located in the PRC as follows:

	2017	2016
	$'000	$'000
Cost:		
At 1 January	**517,513**	551,046
Additions	**26,827**	–
Exchange adjustments	**38,026**	(33,533)
At 31 December	**582,366**	517,513
Accumulated amortisation and impairment losses:		
At 1 January	**55,133**	48,523
Charge for the year	**11,415**	10,901
Impairment losses	**32,787**	–
Exchange adjustments	**6,240**	(4,291)
At 31 December	**105,575**	55,133
Net book value:		
At 31 December	**476,791**	462,380

Lease prepayments represent the net of payments for land use rights paid to the PRC authorities and the associated government grants received. The Group's land use rights were amortised on a straight-line basis over the operating lease periods of 50 years. The associated government grants were recognised as deduction of lease prepayment amortisation charge for the year over the lease periods of the relevant lease prepayments.

At 31 December 2017, land use rights with a total carrying amount of $320,109,000 (2016: $276,721,000) have been pledged as collateral for the Group's borrowings and bills payable (see note 27 and note 33).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

15 LEASE PREPAYMENTS (CONTINUED)

Impairment loss

During the year ended 31 December 2017, certain of the Group's coal processing factories and logistics facilities were still suspended or in low utilisation due to their remote locations. As such, during the year ended 31 December 2017, the Group recorded additional impairment losses of $32,787,000 in respect of lease prepayments for land use rights of one of the coal processing factories in Liaoning Province, while property, plant and equipment and other assets in the relevant cash generating unit had been fully impaired in prior years. The impairment losses were determined based on the recoverable amount of each cash generating unit, which is the higher of its value in use based on cash flow forecasts prepared by management covering a five-year period according to financial forecasts prepared by management, and its fair value less costs of disposal based on fair value assessment using market-based approach by comparing prices at which other similar assets transacted in similar areas on an arm's length basis.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

16 INTANGIBLE ASSETS

	Exclusive service agreement $'000	Software $'000	Total $'000
Cost:			
At 1 January 2016	–	8,980	8,980
Additions	–	557	557
Disposals	–	(1,462)	(1,462)
Exchange adjustments	–	(498)	(498)
At 31 December 2016	–	7,577	7,577
At 1 January 2017	**–**	**7,577**	**7,577**
Additions	**105,108**	**903**	**106,011**
Disposals	**–**	**(242)**	**(242)**
Exchange adjustments	**285**	**555**	**840**
At 31 December 2017	**105,393**	**8,793**	**114,186**
Accumulated amortisation:			
At 1 January 2016	–	4,164	4,164
Charge for the year	–	723	723
Written back on disposal	–	(1,462)	(1,462)
Exchange adjustments	–	(202)	(202)
At 31 December 2016	–	3,223	3,223
At 1 January 2017	**–**	**3,223**	**3,223**
Charge for the year	**5,254**	**739**	**5,993**
Written back on disposal	**–**	**(242)**	**(242)**
Exchange adjustments	**16**	**243**	**259**
At 31 December 2017	**5,270**	**3,963**	**9,233**
Net book value:			
At 31 December 2017	**100,123**	**4,830**	**104,953**
At 31 December 2016	–	4,354	4,354

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

16 INTANGIBLE ASSETS (CONTINUED)

On 18 January 2017, the Company and Minghua Group entered into an exclusive services agreement ("**ESA**") under which Minghua Group shall provide to the Company and its subsidiaries logistics services on an exclusive basis, including but not limited to, dispatching of coal products, weighing, loading and unloading of transport vehicles, setting the stack and loading containers. Minghua Group is a third party company which owns a logistics park in the Inner-Mongolia Autonomous Region of the PRC, which is capable of carrying out through-in and through-out transport of trains, and providing coal logistics services which allow customers to complete all necessary formalities in relation to railway transportation from certain border crossings on the PRC side of the China-Mongolia border to other points in the PRC. The fees for the provision of these services shall be paid by the Company in accordance with separate logistics service contracts to be entered into between the Company and Minghua Group in relation to such services. The term of the ESA is 20 years which commenced from 1 January 2017.

The exclusive right fee under the ESA was determined by the Company and Minghua Group taking into account the logistics services to be provided, the benefits to the Company of the exclusive right to the logistics services and the discount on the relevant service fees for the logistics services to be provided. Pursuant to the ESA, of the Company paid Minghua Group the exclusive right fee through the issue of 93,016,667 ordinary shares. The fair value of such ordinary shares was approximately $105,108,000 based on the closing price of the Company's shares as traded in The Stock Exchange of Hong Kong Limited on 14 February 2017 of $1.13 per share.

Amortisation of the exclusive right is calculated using the straight line method to allocate the cost over 20 years during the term of the ESA.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

17 INTERESTS IN SUBSIDIARIES

The following list contains only the particulars of major subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Date and place of incorporation/ establishment and place of operations	Issued and fully paid up capital	Effective percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Lucky Colour Limited ("**Lucky Colour**")	11 March 2008 British Virgin Islands ("**BVI**")	United States dollars ("**US$**")1	100%	–	Investment holding
Reach Goal Management Ltd.	2 January 2009 BVI	US$21,770,001	100%	–	Investment holding
E-Commodities (HK) Holdings Limited ("**E-Commodities (HK)**")	23 October 2009 Hong Kong	31,312,613 shares	100%	–	Investment holding
E-Commodities Australia Pty. Ltd. ("**E-Commodities Australia**")	9 November 2009 Commonwealth of Australia ("**Australia**")	Australian dollars ("**AUD**") 492,994	100%	–	Internal marketing and consulting service
E-Commodities Holdings Private Limited ("**E-Commodities Singapore**")	31 December 2009 The Republic of Singapore ("**Singapore**")	Singapore dollars ("**SGD**") 1,000,000 US$10,000,000	100%	–	Trading of commodities
E-Commodities (Beijing) Supply Chain Management Co., Ltd. ("**E-Commodities Beijing**")*	6 November 1995 PRC	US$276,500,000	–	100%	Investment holding
Colour Future International Limited ("**Colour Future**")	5 January 2005 BVI	US$21,770,001	–	100%	Trading of commodities
Urad Zhongqi Yiteng Mining Co., Ltd. ("**Yiteng**")**	7 September 2005 PRC	RMB640,000,000	–	100%	Trading of commodities and processing of coal, logistics service

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

17 INTERESTS IN SUBSIDIARIES (CONTINUED)

Name of company	Date and place of incorporation/ establishment and place of operations	Issued and fully paid up capital	Effective percentage of equity attributable to the Company Direct	Indirect	Principal activities
Inner Mongolia Haotong Energy Joint Stock Co., Ltd. ("**Inner Mongolia Haotong**")***	18 November 2005 PRC	RMB750,000,000	–	100%	Trading of commodities
Erlianhaote Haotong Energy Co., Ltd. logistics ("**Erlianhaote Haotong**")#	18 January 2007 PRC	RMB95,370,000	–	95%	Logistics service
Ejina Qi Haotong Energy Co., Ltd. ("**Ejinaqi Haotong**")**	19 May 2008 PRC	RMB260,000,000	–	100%	Trading of commodities
Baotou-city Haotong Energy Co., Ltd. ("**Baotou Haotong**")**	18 September 2008 PRC	RMB90,000,000	–	100%	Trading of commodities
Nantong Haotong Energy Co., Ltd. ("**Nantong Haotong**")**	24 February 2009 PRC	RMB6,904,900	–	100%	Trading of commodities
Yingkou Haotong Mining Co., Ltd. ("**Yingkou Haotong**")**	16 November 2009 PRC	RMB175,000,000	–	100%	Trading of commodities
Manzhouli Haotong Energy Co., Ltd. ("**Manzhouli Haotong**")***	23 December 2009 PRC	RMB200,000,000	–	100%	Trading of commodities
Ulanqab Haotong Energy Co., Ltd. ("**Ulanqab Haotong**")**	2 March 2010 PRC	RMB240,000,000	–	100%	Processing of coal and trading of commodities
Longkou Winsway Energy Co., Ltd. ("**Longkou Winsway**")***	27 April 2010 PRC	RMB180,000,000	–	100%	Trading of commodities
Ejina Qi Ruyi Winsway Energy Co., Ltd. ("**Ejina Qi Winsway**")**	30 June 2010 PRC	RMB20,000,000	–	51%	Trading of commodities

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

17 INTERESTS IN SUBSIDIARIES (CONTINUED)

Name of company	Date and place of incorporation/ establishment and place of operations	Issued and fully paid up capital	Effective percentage of equity attributable to the Company Direct	Indirect	Principal activities
Inner Mongolia Hutie Winsway Logistics Co., Ltd. ("**Inner Mongolia Hutie Winsway Logistics**")**	22 July 2010 PRC	RMB113,500,000	–	87.05%	Logistics service
Winsway Coking Coal Holdings S. à. r. l. ("**Winsway Luxemburg**")	27 September 2011 Luxemburg	Canadian dollars ("**CA$**")20,000	–	100%	Investment holding
0925165 B.C. Ltd.	15 November 2011 Canada	CA$139,472,368 US$1,593,249	–	100%	Investment holding
Nantong E-commodities Supply Chain Management Co., Ltd ("**Nantong Winsway**") **	2 April 2013 PRC	RMB50,000,000	–	100%	Investment and trading of commodities
Nantong Million Super Star Coking Coal Co., Ltd ("**Nantong Million**") *	3 July 2013 PRC	US$60,700,000	–	100%	Investment holding
Suzhou Wisdom Elite Energy Inc Ltd. ("**Suzhou Wisdom**") **	28 January 2014 PRC	US$10,000,000	–	100%	Trading of commodities
Beijing Shacong E-Commerce Inc Ltd. ("**Beijing Shacong**") **	26 March 2014 PRC	RMB5,000,000	–	100%	Internet software development
Erlian Junrong Winsway Mining Co., Ltd. ("**Erlian Junrong**") **	4 April 2014 PRC	RMB4,920,000	–	100%	Trading of commodities
Urad Zhongqi Tengshengda Energy Co., Ltd. ("**Tengshengda**") **	17 June 2014 PRC	RMB65,000,000	–	100%	Processing of coal and trading of commodities

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

17 INTERESTS IN SUBSIDIARIES (CONTINUED)

Name of company	Date and place of incorporation/ establishment and place of operations	Issued and fully paid up capital	Effective percentage of equity attributable to the Company Direct	Effective percentage of equity attributable to the Company Indirect	Principal activities
Tianjin Rongzetongli Trading Co., Ltd. ("**Rongzetongli**") **	10 December 2015 PRC	RMB283,041	–	100%	Trading of commodities
E-Commodities Mongolia LLC	29 September 2016 Mongolia	Mongolian Tugrik ("**MNT**") 1,857,831,847	–	100%	Trading of commodities
E-Commodities Japan Co., Ltd.	6 June 2016 Japan	Japanese Yen ("**JPY**")8,000,000	–	100%	Internal marketing and consulting service
Inner Mongolia Minghua Clean Energy Co., Ltd. ("**Minghua**") **	5 January 2017 PRC	RMB101,200,500	–	100%	Processing of coal and trading of commodities
Shannan RongTai Energy Co., Ltd. ("**Shannan RongTai**") **	24 November 2016 PRC	RMB50,000,000	–	75%	Financial Investment
E-commodities (Tianjing) Business Factoring Co., Ltd. ("**Tianjing Factoring**") **	1 November 2016 PRC	RMB11,484,253.69	–	100%	Factoring
Baofeng Finance Leasing (Beijing) Co., Ltd. ("**Baofeng Finance Leasing**") **	25 May 2016 PRC	0	–	100%	Finance Leasing
Donglu International Trade (Shanghai) Co.,Ltd ("**Donglu**") **	14 July 2011 PRC	RMB28,880,000	–	95%	Trading of commodities
Shanghai Xingguo International Trade Co.,Ltd ("**Xingguo**") **	9 May 2014 PRC	RMB10,110,000	–	90%	Trading of commodities

* Wholly foreign owned enterprises established under the PRC law.

** Limited liability companies established under the PRC law.

*** Sino-foreign equity joint ventures established under the PRC law.

A Sino-foreign cooperative joint venture established under the PRC law.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

18 INTEREST IN AN ASSOCIATE

Details of the Group's interest in the associate are as follows:

				Proportion of ownership interest			
Name of associate	Form of business structure	Place of incorporation and business	Particulars of paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Bayannao'er City Hutie Ruyi Logistics Co., Ltd.	Incorporated	PRC	RMB50,000,000	24%	–	24%	Logistics service in the PRC

The associate is accounted for using the equity method in the consolidated financial statements.

Summarised financial information of the associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	2017 $'000	2016 $'000
Gross amounts of the associate		
Current assets	**12,268**	59,319
Non-current assets	**73,234**	22,327
Current liabilities	**14,590**	14,389
Equity	**70,912**	67,257
Revenue	**31,808**	5,537
Profit for the year	**(1,145)**	3,734
Other comprehensive income (loss)	**4,800**	(4,476)
Total comprehensive income (loss)	**3,655**	(742)
Reconciled to the Group's interest in the associate		
Gross amounts of net assets of the associate	**70,912**	67,257
Group's effective interest	**24%**	24%
Group's share of net assets of the associate	**17,019**	16,142
Carrying amount in the consolidated financial statements	**17,019**	16,142

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

19 INTEREST IN A JOINT VENTURE

On 25 July 2016, the Group entered into a sale and purchase agreement with a third party company, namely Bless Town Limited, pursuant to which the Group sold Peabody-Winsway Resources B.V. ("**Peabody-Winsway**") at cash consideration of US$1. Upon the completion of the disposal on 19 August 2016, Peabody-Winsway ceased to be a joint venture of the Group.

20 OTHER INVESTMENTS IN EQUITY SECURITIES

	2017	2016
	$'000	$'000
Other investments in equity securities	**376,571**	351,893
Less: impairment losses	**(251,223)**	(234,759)
	125,348	117,134

Other investments in equity securities represent the Group's equity interests in third party companies engaged in coal mining, railway logistics, ports management and coal storage business. As at 31 December 2017, the Group holds equity interests in a range of 1-15% in these companies.

In 2015, an impairment loss of $250,656,000 was recorded to fully write down the carrying amount of the Group's investments in certain of these companies due to the unsatisfactory operating performance of these companies. The impairment was calculated based on fair value assessments of the respective investments performed by an independent appraiser using discounted cash flows method based on cash flow projections taking into account the transportation price and volume assumptions and source data provided by the management of the investees. The expected net cash flows were discounted using a risk adjusted pre-tax discount rate of 12.36%. As a full impairment provision had already been provided for, no further loss incurred by the relevant companies during the year ended 31 December 2017 and 2016 was taken up in the consolidated financial statements and changes during the current period represented effect of exchange rate changes.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

21 OTHER NON-CURRENT ASSETS

	2017	2016
	$'000	$'000
Loan to a third party	**79,373**	120,260
Less: impairment losses	**(79,373)**	(120,260)
	–	–

In 2009, the Company agreed to provide a loan to Moveday Enterprises Limited ("**Moveday**") to purchase additional vehicles to meet with the increasing volume of coal procured by the Group in Mongolia, and Moveday agreed to use the trucks purchased through financing provided by the Company for the provision of transportation services to the Group during the term of the agreement. Pursuant to a loan agreement entered into on 10 April 2010 (as subsequently amended by a supplemental deed on 15 September 2010) and the strategic alliance agreement, the Company agreed to lend Moveday up to United States dollars ("**US$**") 40 million solely for the purpose of purchasing vehicles for transporting coal purchased by the Group in Mongolia. The loan to Moveday was provided on an unsecured basis, at an interest rate of LIBOR plus 3% and repayable over five years in equal annual installments of US$8 million, commencing from 18 months after the receipt of the loan (being 31 December 2012) by Moveday, with interest payable semi-annually in arrears. The entire loan amount was fully drawn down in 2010. As Moveday is a third party and the loan to Moveday was an unsecured loan, the Group did not have an interest in or control over the cash flows or other assets of Moveday other than in accordance with the terms of the loan agreement (as amended).

In 2013, the Group entered into another supplemental agreement with Moveday to modify the repayment terms of the remaining outstanding principal of US$32 million. Pursuant to the supplemental agreement, the remaining outstanding principal was repayable on 31 December from 2013 to 2015 with an amount of US$4 million plus a floating repayment amount. The floating repayment amount was calculated based on the volume of coals transported (maximum of 12 million tonnes) by Moveday for the Group and up to US$6 million during each year. Apart from the repayment terms, all the other terms of the loan were not changed and Moveday was obliged to repay the entire outstanding principal on or before 31 December 2016.

In October 2015, Moveday informed the Group that they could not repay the outstanding principal and interest as scheduled in the above-mentioned supplemental agreement due to the financial difficulty encountered.

For the year ended 31 December 2015, the Group made an impairment provision of $120,189,000 against the remaining outstanding loan balance as at 31 December 2015 based on the communication with management of Moveday about the adverse financial and operating circumstances of Moveday in 2015.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

21 OTHER NON-CURRENT ASSETS (CONTINUED)

On 30 April 2016, the transportation agreement entered into by the Group and Moveday expired and the Group determined not to renew such agreement and engaged another third party company to provide such transportation services to the Group (the third party company may use Moveday as sub-contractor for transportation at its discretion).

During the year ended 31 December 2017, the Group has recovered loan principal of US$5.34 million (equivalent to approximately $41,692,000) from Moveday, including an offsetting of the outstanding loan principal of US$0.73 million (equivalent to approximately $5,770,000) against the Group's payables. The outstanding loan balance as at 31 December 2017 was US$10.16 million (equivalent to approximately $79,373,000) (31 December 2016: US$15.50 million (equivalent to approximately $120,260,000)).

As at 31 December 2017, the Group continues to make an impairment provision of $79,373,000 (31 December 2016: $120,260,000) taking into account the existence of uncertainties relating to the future financial and operating circumstances of Moveday.

22 RECEIVABLES UNDER FINANCE LEASES

At 31 December 2017, the Group had receivables under finance leases receivable as follows:

	2017		2016	
	Present value of the minimum lease payments $'000	**Gross investment $'000**	Present value of the minimum lease payments $'000	Gross investment $'000
Within 1 year	**1,914**	**2,201**	–	–
After 1 year but within 2 years	**3,828**	**4,402**	–	–
	5,742	**6,603**	–	–
Less: total future interest income		**(861)**		–
Present value of lease receivables		**5,742**		–

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

23 INVENTORIES

(a) Inventories in the statement of financial position comprise:

	2017	2016
	$'000	$'000
Coal	**520,441**	545,336
Petrochemical products	**13,214**	5,795
Iron ore	**58,334**	–
Others	**29,363**	31,875
	621,352	583,006

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2017	2016
	$'000	$'000
Carrying amount of inventories sold	**18,997,927**	11,578,836

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

24 TRADE AND OTHER RECEIVABLES

	2017 $'000	2016 $'000
Trade receivables	**1,122,818**	416,925
Bills receivable	**1,628,459**	476,197
Receivables from import agents	**60,524**	254,197
Less: allowance for doubtful debts	**(80,612)**	(137,786)
	2,731,189	1,009,533
Prepayments to suppliers	**464,617**	299,368
Derivative financial instruments*	**34,668**	38,406
Deposits and other receivables	**183,354**	303,461
Less: allowance for doubtful debts	**(27,192)**	(41,285)
	3,386,636	1,609,483

* As at 31 December 2017 and 31 December 2016, derivative financial instruments represented the fair value of commodity futures contracts entered into by the Group.

All of the trade and other receivables are expected to be recovered or recognised as expenses within one year.

The credit terms for trade debtors are generally within 90 days. The credit terms for receivables from import agents can be as long as one year, which are comparable to the credit terms for payables to import agents as granted to the Group. Bills receivable are normally due within 180 days to 360 days from the date of issuing.

At 31 December 2017, bills receivable of the Group of $233,202,000 (31 December 2016: $nil) have been pledged as collateral for the Group's borrowings (see note 27).

At 31 December 2017, bills receivable of the Group of $1,167,894,000 (31 December 2016: $176,721,000) have been discounted to banks.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

24 TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Ageing analysis

Included in trade receivables, bills receivable and receivables from import agents are trade debtors with the ageing analysis, based on the invoice dates and net of allowances for bad debt, as follows:

	2017 $'000	2016 $'000
Less than 3 months	1,844,822	568,823
More than 3 months but less than 6 months	612,834	440,710
More than 6 months but less than 1 year	273,533	–
	2,731,189	1,009,533

(b) Impairment of trade receivables, bills receivable and receivables from import agents

Impairment losses in respect of trade receivables, bills receivable and receivables from import agents are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables, bills receivable and receivables from agents.

The movement in the allowance for doubtful debts during the year is as follows:

	2017 $'000	2016 $'000
At 1 January	137,786	58,870
Impairment loss recognised	–	120,622
Amounts written off	–	(2,652)
Reversal of impairment loss	(64,452)	(39,054)
Exchange adjustments	7,278	–
At 31 December	80,612	137,786

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

24 TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Impairment of trade receivables, bills receivable and receivables from import agents (Continued)

At 31 December 2017, the Group's trade receivables, bills receivable and receivables from import agents of $80,612,000 (2016: $137,786,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of $80,612,000 (2016: $137,786,000) were recognised.

The reversal of impairment loss represented trade receivables impaired in prior years for which the amounts have been recovered by the Group during the year ended 31 December 2017 and 2016.

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade receivables, bills receivable and receivables from import agents that were neither individually nor collectively considered to be impaired is as follows:

	2017 **$'000**	2016 $'000
Neither past due nor impaired	**2,580,183**	940,764
Less than 3 months past due	**150,265**	68,769
More than 3 months but less than 12 months past due	**741**	–
	2,731,189	1,009,533

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

24 TRADE AND OTHER RECEIVABLES (CONTINUED)

(d) Impairment of other receivable

The movement in the allowance for doubtful debts during the year is as follows:

	2017	2016
	$'000	$'000
At 1 January	**41,285**	161,368
Impairment loss recognised	**–**	81
Amounts written off	**–**	(81)
Reversal of impairment loss	**(16,382)**	(120,083)
Exchange adjustments	**2,289**	–
At 31 December	**27,192**	41,285

As at 31 December 2017, included in the impairment loss are impaired value added tax ("**VAT**") recoverable of $10,093,000 (31 December 2016: $25,306,000) that have accumulated to date in certain subsidiaries of the Group which can be deducted from VAT on future sales made. The directors of the Company are of the opinion that the recoverability of such amount after commercial production is remote.

The reversal of impairment loss represents the VAT recoverable, impaired in the prior year and which has been utilised by the Group during the year ended 31 December 2017.

25 RESTRICTED BANK DEPOSITS

The Group has pledged bank deposits of $601,335,000 (2016: $63,889,000) as at 31 December 2017, as collateral for the Group's borrowings (see note 27) and banking facilities in respect of issuing bills and letters of credit by the Group (see note 33).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

26 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2017 **$'000**	2016 $'000
Cash at bank and in hand	**550,615**	534,395

At 31 December 2017, cash and cash equivalents of $330,180,000 (2016: $247,827,000) was held by the entities of the Group in form of RMB in the PRC. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

Included in cash and cash equivalents in the statement of financial position are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2017 **$'000**	2016 $'000
US$	**4,886**	97,154
RMB	**1,258**	2,228
Euro	**27**	2
HK$	**9,362**	19,080
SGD	**2,845**	896
Great Britain Pounds ("**GBP$**")	**11**	11

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

26 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities:

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

	Secured bank and other loans $'000 (Note)	Convertible bonds $'000 (Note 28)	Finance leases $'000 (Note 31)	Conversion option embedded in convertible bonds $'000 (Note 28)	Warrants $'000 (Note 28)	Total $'000
At 1 January 2017	757,705	–	8,636	–	–	766,341
Changes from financing cash flows:						
Proceeds from new bank loans	4,282,024	–	–	–	–	4,282,024
Repayment of bank loans	(2,956,860)	–	–	–	–	(2,956,860)
Capital element of finance lease rentals paid	–	–	(3,272)	–	–	(3,272)
Interest element of finance lease rentals paid	–	–	(577)	–	–	(577)
Proceeds from convertible notes	–	213,871	–	94,407	7,482	315,760
Total changes from financing cash flows	1,325,164	213,871	(3,849)	94,407	7,482	1,637,075
Exchange adjustments	63,419	–	464	–	–	63,883
Changes in fair value	–	–	–	(5,494)	2,072	(3,422)
Other changes:						
New finance leases	–	–	2,469	–	–	2,469
Finance charges on obligations under finance leases(note 7(a))	–	–	577	–	–	577
Interest expenses (note 7(a))	–	12,251	–	–	–	12,251
Total other changes	–	12,251	3,046	–	–	15,297
At 31 December 2017	2,146,288	226,122	8,297	88,913	9,554	2,479,174

Note: Bank loans and other borrowings consist of bank loans and other loans as disclosed in notes 27.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

27 SECURED BANK LOANS AND OTHER LOANS

(a) The secured bank and other loans comprise:

	2017 **$'000**	2016 $'000
Bank loans	**2,074,510**	757,705
Other loans (note)	**71,778**	–
	2,146,288	757,705

	2017 **$'000**	2016 $'000
Short-term loans and current portion of long-term loans	**2,146,288**	724,168
Long-term loans	**–**	33,537
	2,146,288	757,705

The interest rates per annum of bank loans were:

	2017	2016
Short-term loans and current portion of long-term loans	**1.96% – 7.84%**	2.80% – 7.84%
Long-term loans	**–**	7.84%

Note: During the year ended 31 December 2017, the Group borrowed a loan from a third party company with principal amount of $71,778,000 bearing interest rate at 7.8375% per annum and is repayable on 25 December 2018. Such loan was borrowed by that third party company from a commercial bank in Inner-Mongolia Autonomous Region, with the same loan principal amount, interest rate and maturity date terms, and the Group has provided guarantee to the third party company on its repayment of the loan.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

27 SECURED BANK LOANS AND OTHER LOANS (CONTINUED)

(b) The secured bank loans are repayable as follows:

	2017	2016
	$'000	$'000
Within 1 year	**2,146,288**	724,168
After 1 year but within 2 years	**–**	33,537
	2,146,288	757,705

At 31 December 2017, bank loans amounting to $24,298,000 (2016: $27,035,000) have been secured by bank deposits placed in banks with an aggregate carrying value of $24,300,000 (2016: $27,901,000).

At 31 December 2017, bank loans amounting to $1,167,894,000 (2016: $176,721,000) have been secured by bills receivable with recourse an aggregate carrying value of $1,167,894,000 (2016: $176,721,000).

At 31 December 2017, bank loans amounting to $480,311,000 (2016: $nil) have been secured by bills receivable pledge with an aggregate carrying value of $208,678,000 (2016: $nil) and bank deposits placed in banks with an aggregate carrying value of $292,356,000 (2016: $nil).

At 31 December 2017, bank loans amounting to $366,118,000 (2016: $520,412,000) have been secured by land use rights with an aggregate carrying value of $319,055,000 (2016: $389,756,000) and bills receivable pledge with an aggregate carrying value of $24,524,000 (2016: $nil).

At 31 December 2017, bank loan amounting to $35,889,000 (2016: $33,537,000) has been secured by credit guarantee with a guarantee amount of $35,889,000 (2016: $33,537,000) to a subsidiary of the Group.

Further details of the Group's management of liquidity risk are set out in note 37(b).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

28 CONVERTIBLE BONDS PAYABLES

	Liability component $'000	Derivatives component $'000	Warrants $'000	Total $'000
At 1 January 2017	–	–	–	–
Issued during the year	213,871	94,407	7,482	315,760
Interest charged during the year (note 7(a))	12,251	–	–	12,251
Fair value adjustment (note 7(a))	–	(5,494)	2,072	(3,422)
At 31 December 2017	226,122	88,913	9,554	324,589
Reconciliation to the consolidated statement of financial position:				
Current liabilities (note 33)	–	88,913	9,554	98,467
Non-current liabilities	226,122	–	–	226,122
	226,122	88,913	9,554	324,589

On 14 September 2017, the Company issued convertible bonds in the aggregate principal amount of US$40,000,000 together with 118,060,606 units of warrants to Lord Central Opportunity VII Limited ("**Subscriber**"). The convertible bonds bear a nominal interest rate at 5% per annum payable semi-annually. The maturity date of the convertible bonds is 14 September 2022. The convertible bonds are convertible into ordinary shares of the Company at the option of the holders of the convertible bonds at any time after the issue date of the convertible bonds and up to the maturity date at a conversion price of $0.862 per share, subject to adjustments.

At any time after the second anniversary of the issue date until the maturity date, the convertible bondholder may, by issuing a redemption notice in writing to the Company, require the Company to redeem all or part of the outstanding principal amount of the convertible bonds at the redemption amount equal to such amount representing an internal rate of return of 10% on the principal amount of on the outstanding convertible bonds to be redeemed (inclusive of interest received but excluding default interest), calculated from the issue date up to the date on which the Company completes the redemption. Interest expenses is calculated using the effective interest method by applying the effective interest rate of 19.64% per annum.

In the meantime, the Subscriber was entitled to 118,060,606 warrants which are exercisable any time from the issue date and up to the fifth anniversary after the issue date, at a subscription price of $0.948, subject to adjustments.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

28 CONVERTIBLE BONDS PAYABLES (CONTINUED)

At initial recognition the derivative component of the convertible bonds and warrants are measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component and warrants is recognised as the liability component. The fair value of derivative component and warrants is subsequently remeasured at the end of each reporting period.

29 SENIOR NOTES

On 8 April 2011, the Company had issued senior notes in the aggregate principal amount of US$500,000,000 ("**Senior Notes**") and listed on the Singapore Exchange Securities Trading Limited. The Senior Notes bear interest at 8.50% per annum, payable semi-annually in arrears. During the year ended 31 December 2012 and 2013, the Group repurchased Senior Notes in an aggregate principal amount of US$190,690,000 in the open market. The outstanding Senior Notes with principal amount of US$309,310,000 matured on 8 April 2016.

During the year ended 31 December 2015, the Group did not make the scheduled interest payments of US$13.15 million in relation to the Senior Notes which fell due on each of 8 April 2015 and 8 October 2015, respectively ("**Interest Payment**"). The Group had defaulted on outstanding Senior Notes amounting to US$309,310,000 as at 31 December 2015 after the 30-day grace period expired on 8 May 2015 for making the Interest Payment under the terms of the indenture, as amended and supplemented.

On 25 November 2015, the Company, certain of its subsidiaries and certain of the holders of the Senior Notes ("**Bondholders**") entered into a restructuring support agreement ("**Restructuring Support Agreement**"), pursuant to which such Bondholders agreed to support the proposed restructuring of the outstanding Senior Notes ("**Debt Restructuring**") to be implemented through schemes of arrangement under section 179A of the Business Companies Act of the British Virgin Islands (2004) ("**BVI Scheme**") and sections 673 and 674 of the Companies Ordinance (Cap. 622) (as amended) as applicable in Hong Kong ("**Hong Kong Scheme**") (collectively "**Schemes**").

The Debt Restructuring consisted of a redemption of the outstanding Senior Notes and Interest Payments and all accrued, scheduled interest payments up to the date of the settlement at a discount, with Bondholders accepting a combination of (i) cash consideration of US$50 million minus a consent fee in a total amount equal to 2% of the outstanding principal and accrued but unpaid interest in respect of the Senior Notes as at the date of the Restructuring Support Agreement ("**Consent Fee**"), and a success fee payable to Houlihan Lokey (China) Limited ("**Houlihan Lokey**") which was appointed to act as the financial advisor to the Bondholders ("**Cash Consideration**"); (ii) new ordinary shares of the Company allotted and issued to the Bondholders representing not less than 18.75% of the total issued shares on a fully diluted basis upon completion of the Debt Restructuring ("**Scheme Shares**"); and (iii) contingent value rights ("**CVRs**") which would give rise to a one-off payment of US$10 million to the Bondholders upon the occurrence of a triggering event that is the Company's adjusted profit before taxation in any of the 5 years from the issue date of the CVRs exceeding US$100 million ("**Triggering Event**").

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

29 SENIOR NOTES (CONTINUED)

The Cash Consideration as well as the Consent Fee and the success fee of Houlihan Lokey was funded by the proceeds of a rights issue ("**Rights Issue**") (see note 35(c)(iii)).

On 23 June 2016, all Scheme Conditions (as defined in the prospectus published by the Company on 31 May 2016 ("**Prospectus**")) were satisfied and the Debt Restructuring became effective.

As disclosed in note 35(c)(iii), on 28 June 2016, a total number of 322,706,001 Initial Scheme Shares (as defined in note 35(c)(iii)) were allotted and issued to the Initial Bondholders (as defined in note 35(c)(iii)) and the remaining 243,273,777 Scheme Shares were allotted and issued to the Participating Bondholders (as defined in note 35(c)(iii)) on 7 October 2016 ("**Final Distribution Date**").

At the Debt Restructuring effective date on 23 June 2016, the carrying value of the Senior Notes including accrued interest amounted to approximately $2,719,877,000. The fair value of the consideration to settle the Senior Notes was cash consideration of US$50 million (equivalent to approximately $388,194,000), the fair value of 565,979,778 Scheme Shares of approximately $305,629,000 based on the closing price of the Company's shares as traded in The Stock Exchange of Hong Kong Limited on 23 June 2016 of $0.54 per share, and the fair value of the CVRs of US$10 million (equivalent to approximately $77,603,000) based on its notional value, given the Triggering Event has been occurred during the year ended 31 December 2016. The excess of carrying value of the Senior Notes over the fair value of the consideration to settle the Senior Notes, amounting to approximately $1,948,451,000, was recognised by the Group as a gain on Debt Restructuring of Senior Notes and credited to profit or loss for the year ended 31 December 2016.

For year ended 31 December 2016, interest on the Senior Notes of $76,816,000 (see note 7 (a)) and expenses incurred in relation to the Debt Restructuring of $65,181,000 (as included in Administrative expenses) was charged to the profit or loss.

On 30 April 2017 (the "**Settlement Date**"), as a result of the occurrence of the Triggering Event, the Company has settled the CVRs in full at the face value recorded on each CVR certificate through the issue of approximately 64,131,037 ordinary shares at the settlement price of $1.21 per share.

30 DEFERRED INCOME

Deferred income represents the unrecognised government grants relating to compensating the Group for the cost of assets.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

31 OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2017, the Group had obligations under finance leases repayable as follows:

	2017		2016	
	Present value of the minimum lease payments	**Total minimum lease payments**	Present value of the minimum lease payments	Total minimum lease payments
	$'000	**$'000**	$'000	$'000
Within 1 year	**4,233**	**4,604**	2,625	3,069
After 1 year but within 2 years	**3,795**	**3,916**	3,239	3,502
After 2 year but within 5 years	**269**	**281**	2,772	2,844
	4,064	**4,197**	6,011	6,346
	8,297	**8,801**	8,636	9,415
Less: total future interest expenses		**(504)**		(779)
Present value of lease obligations		**8,297**		8,636

32 EQUITY SETTLED SHARE-BASED TRANSACTIONS

(a) The 2014 Scheme

The Company had adopted a share option scheme on 22 July 2014 ("**2014 Scheme**"), whereby the directors of the Company are authorised, at their direction, to invite employees of the Group including directors of any company of the Group, to take up options at $1 consideration to subscribe for shares of the Company. The options will vest every six months over a period of four years commencing from 1 October 2014 (the "**Initial Vesting Date**") in equal portions (12.5% each) on the first day of each six-month period after the Initial Vesting Date and are exercisable during the relevant period to the extent the share options have vested until 5 years commencing from the date of grant at a fixed subscription price. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

32 EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(a) The 2014 Scheme (Continued)

(i) In 2014 the number of options granted to directors and management was 46,000,000 and 65,400,000 respectively, whereby all options are settled by physical delivery of shares.

(ii) The number and weighted average exercise prices of share options are as follows:

	2017		2016	
	Weighted average exercise price $'000	**Number of options $'000**	Weighted average exercise price $'000	Number of options $'000
Outstanding at 1 January	**–**	**–**	$0.420	83,025,000
Exercised during the period	**–**	**–**	$0.420	–
Expired during the period	**–**	**–**	$0.420	(36,525,000)
Forfeited during the period	**–**	**–**	$0.420	(46,500,000)
Outstanding at 31 December	**–**	**–**	–	–
Exercisable at 31 December	**–**	**–**	–	–

On 1 March 2016, all the outstanding options under the 2014 Scheme were cancelled by the Company, in accordance with the terms which stipulated in 2014 Scheme that the board of directors of the Company may at any time terminate this 2014 Scheme.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

33 TRADE AND OTHER PAYABLES

	2017	2016
	$'000	$'000
Trade and bills payables	**379,650**	214,149
Prepayments from customers	**80,798**	26,283
Payables in connection with construction projects	**45,682**	58,617
Payables for purchase of equipment	**7,706**	7,708
Payable for contingent value rights (note 29)	**–**	77,553
Derivative financial instruments (note 28)	**98,467**	–
Others*	**400,452**	488,690
	1,012,755	873,000

* Included bonus payable to directors amounting to approximately $93,804,000 (2016: $180,084,000).

At 31 December 2017, bills payable amounting to $224,306,000 (2016: $11,514,000) have been secured by restricted bank deposits placed in banks, land use rights and properties with an aggregate carrying value of $49,350,000 (2016: $11,514,000).

As of the end of the reporting period, the ageing analysis of trade and bills payables, based on the invoice date, is as follows:

	2017	2016
	$'000	$'000
Within 3 months	**289,890**	199,665
More than 3 months but less than 6 months	**74,777**	10,655
More than 6 months but less than 1 year	**7,096**	–
More than 1 year	**7,887**	3,829
	379,650	214,149

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

33 TRADE AND OTHER PAYABLES (CONTINUED)

Trade and bills payables and payables to import agents are expected to be settled within one year or are repayable on demand. The maturity analysis of these payables is as follows:

	2017 **$'000**	2016 $'000
Due within 1 month or on demand	**155,344**	202,634
Due after 1 month but within 3 months	**149,537**	8,161
Due after 3 months but within 6 months	**74,769**	3,354
	379,650	214,149

34 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the statements of financial position represents:

	2017 **$'000**	2016 $'000
At 1 January	**128,972**	38,002
Provision for the year (note 8(a))	**108,719**	94,084
Under – provision in respect of prior years (note 8(a))	**18**	341
Income tax paid	**(101,626)**	(1,410)
Exchange adjustments	**1,907**	(2,045)
At 31 December	**137,990**	128,972

(b) Deferred tax assets not recognised:

The Group has not recognised deferred tax assets in respect of deductible temporary differences and tax losses incurred by the subsidiaries of the Group of $1,674,132,000 and $872,312,000, respectively (2016: $1,932,854,000 and $1,710,679,000) as management of the Group considers that it is not possible as at 31 December 2017 to estimate, with any degree of certainty, the future taxable profits which may be earned by these subsidiaries. In particular, in accordance with the Group's accounting policy set out in note 2(u), the Group has not recognised deferred tax assets in respect of cumulative tax losses at 31 December 2017 as the management considers it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses in the PRC established entities of approximately $182,388,000 and $5,282,000 and $168,097,000 will expire in five years after the tax losses generated under current tax legislation in 2020, 2021 and 2022, respectively.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

35 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital $'000	Employee share trusts $'000	Other reserve $'000	Exchange reserve $'000	Accumulated loss $'000	Treasury shares $'000	Total $'000
Balance at 1 January 2016	4,992,337	(3,000)	11,723	(19,960)	(6,572,631)	–	(1,591,531)
Changes in equity for 2016:							
Shares issued under rights issue	390,526	–	–	–	–	–	390,526
Transaction costs attributable to issue of shares under rights issue	(6,980)	–	–	–	–	–	(6,980)
Scheme shares issued under debt restructuring	305,629	–	–	–	–	–	305,629
Purchase of own shares	–	–	–	–	–	(15,390)	(15,390)
Contribution to employee share trusts	–	(18,387)	–	–	–	–	(18,387)
Expiry of share options granted under share option scheme	–	–	(8,949)	–	8,949	–	–
Total comprehensive income for the year	–	–	–	3,328	2,354,867	–	2,358,195
Balance at 31 December 2016	5,681,512	(21,387)	2,774	(16,632)	(4,208,815)	(15,390)	1,422,062
Balance at 1 January 2017	**5,681,512**	**(21,387)**	**2,774**	**(16,632)**	**(4,208,815)**	**(15,390)**	**1,422,062**
Changes in equity for 2017:							
Purchase of own shares (note 35(c)(i))	**(15,390)**	**–**	**–**	**–**	**–**	**(10,944)**	**(26,334)**
Contribution to employee share trusts	**–**	**(40,883)**	**–**	**–**	**–**	**–**	**(40,883)**
Grant of restricted share units to employees	**–**	**30,583**	**(3,421)**	**–**	**–**	**–**	**27,162**
Shares issued for exclusive services agreement (note 16)	**105,108**	**–**	**–**	**–**	**–**	**–**	**105,108**
Shares issued for settlement of contingent value rights (note 35(c)(ii))	**77,785**	**–**	**–**	**–**	**–**	**–**	**77,785**
Total comprehensive income for the year	**–**	**–**	**–**	**28,435**	**157,288**	**–**	**185,723**
Dividends declared (note 35(b)(ii))	**–**	**5,758**	**–**	**–**	**(362,696)**	**48**	**(356,890)**
Balance at 31 December 2017	**5,849,015**	**(25,929)**	**(647)**	**11,803**	**(4,414,223)**	**(26,286)**	**1,393,733**

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

35 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year.

	2017 **$'000**	2016 $'000
Interim dividend declared and paid of $0.038 per ordinary share (2016: $nil)	**120,199**	–
Final dividend proposed after the end of the reporting period of $0.034 per ordinary share (2016: $0.077)	**106,144**	242,497
	226,343	242,497

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the year.

	2017 **$'000**	2016 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of $0.077 (2016: $nil)	**242,497**	–

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

35 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital

	2017	2016
	'000	'000
	No. of shares	No. of shares
Authorised:		
Ordinary shares with no par value	**6,000,000**	6,000,000

	2017		2016	
	No. of shares '000	**$'000**	No. of shares '000	$'000
Ordinary shares, issued and fully paid:				
Existing shares at 1 January	**3,018,559**	**5,681,512**	3,773,199	4,992,337
Cancellation of repurchased shares (note i)	**(18,408)**	**(15,390)**	–	–
Shares issued for exclusive services agreement (note 16)	**93,017**	**105,108**	–	–
Shares issued for settlement of CVRs (note ii)	**64,131**	**77,785**	–	–
Shares Consolidation	**–**	**–**	(3,584,539)	–
Rights Shares issued upon rights issue (note iii)	**–**	**–**	565,980	383,546
Anti-dilution Shares issued under rights issue (note iii)	**–**	**–**	1,697,939	–
Scheme Shares issued under Debt Restructuring (note iv)	**–**	**–**	565,980	305,629
At 31 December	**3,157,299**	**5,849,015**	3,018,559	5,681,512

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

35 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital (Continued)

Notes:

(i) Cancellation of repurchased shares

During the year ended 31 December 2017, the Company cancelled in aggregate of 18,408,000 of its own shares which were purchased from the open market in 2016.

(ii) Shares issued for settlement of CVRs

On 30 April 2017 (the "**Settlement Date**"), as a result of the occurrence of the Triggering Event, the Company settled the CVRs in full at the face value recorded on each CVR certificate through the issue of approximately 64,131,037 ordinary shares at the settlement price of $1.21 per share.

(iii) Shares issued under rights issue

As disclosed in note 29, the Cash Consideration as well as the Consent Fee and the success fee of Houlihan Lokey were funded by the proceeds of a rights issue ("**Rights Issue**") which was on the basis of three rights shares ("**Rights Shares**") for each Consolidated Share held on the record date at the subscription price of $0.69 per rights share. As a mechanism to counter the dilutive effect of the issue of the Scheme Shares under the Debt Restructuring, three anti-dilution shares will be issued for no further consideration for each Rights Share subscribed ("**Anti-dilution Shares**").

As stated in the Prospectus as updated by the supplemented announcement dated 24 August 2016, the Scheme Shares would be distributed on two separate dates under the terms of the Schemes:

(a) on 28 June 2016 ("**Initial Distribution Date**"), a proportion of the Scheme Shares would be distributed among all Bondholders that have submitted a claim in the Schemes by the initial scheme consideration deadline on 17 May 2016 (the "**Initial Bondholders**"); and

(b) on 7 October 2016 ("**Final Distribution Date**"), the remainder of the Scheme Shares would be distributed among those Bondholders that have submitted a claim in the Schemes by 23 September 2016 (including the Initial Bondholders) (the "**Participating Bondholders**").

The Anti-dilution Shares to be issued and allotted on the Initial Distribution Date ("**Initial Anti-dilution Shares**") would be allotted and issued in the same proportion to the total Anti-dilution Shares as the Scheme Shares to be issued and allotted on the Initial Distribution Date ("**Initial Scheme Shares**") bear to the total number of Scheme Shares.

On 28 June 2016, a total number of 565,979,778 Rights Shares were allotted and issued at the subscription price of $0.69 per Rights Share for net proceeds of $383,546,000 which have been credited to share capital account, and a total number of 322,706,001 Initial Scheme Shares were allotted and issued to the Initial Bondholders in accordance with the terms of the Schemes on the Initial Distribution Date. Accordingly, a total number of 968,114,195 Anti-dilution Shares were allotted and issued for distribution on the Initial Distribution Date to qualifying shareholders allotted and issued Rights Shares.

On 7 October 2016, the remaining 243,273,777 Scheme Shares and 729,825,139 Anti-dilution Shares were allotted and issued to the Participating Bondholders.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

35 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital (Continued)

(iv) Scheme Shares issued under Debt Restructuring

As disclosed in note (iii), during the year ended 31 December 2016, a total number of 565,979,778 Scheme Shares have been allotted and issued to the Participating Bondholders in accordance with the terms of the Schemes. The fair value of these Scheme Shares of $305,629,000 has been credited to share capital account (see note 29).

(v) Employee share trusts

The Group operates a long-term incentive program in 2012 to retain and motivate the employees to make contributions to the long term-growth and performance of the Group, namely Restricted Share Units Scheme ("**RSU Scheme**"). A restricted share unit award ("**RSU Award**") gives a participant in the RSU Scheme a conditional right when the RSU Award vests to obtain either ordinary shares (existing ordinary shares in issue or new ordinary shares to be issued by the Company) or an equivalent value in cash with reference to the value of the ordinary shares on or about the date of vesting. The Group reserves the right, at its discretion, to pay the award in cash or ordinary shares of the Group.

Employee share trusts are established for the purposes of awarding shares to eligible employees under the RSU Scheme. The employee share trusts are administered by trustees and are funded by the Group's cash contributions for buying the Company's shares in the open market and recorded as contributions to employee share trusts, an equity component.

The administrator of the employee share trusts transfers the shares of the Company to employees upon vesting.

During the year ended 31 December 2017, the Company granted certain RSU Awards in respect of an aggregate of 32,486,488 ordinary shares of the Company to certain grantees pursuant to the RSU Scheme. The ordinary shares of the Company underlying the grant of RSU Awards was settled by existing ordinary shares of the Company held by the employee share trusts.

The fair value of the granted ordinary shares was $27,162,000 based on quoted price of the Company's shares on the grant date, of which $30,583,000 was credited to the employee share trusts based on the weighted average cost of the granted ordinary shares, and the balance of $3,421,000 was debited to the other reserve in accordance with the policy set out in note 2(t)(ii).

In addition, the Company has repurchased on-market own shares in aggregate of 48,420,000 shares (2016: 24,705,650 shares) at a cash consideration of $40,883,000 (2016: $18,387,000) under the RSU Scheme during the year ended 31 December 2017.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

35 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(d) Nature and purpose of reserves

(i) Other reserve

The other reserve comprises the following:

– the aggregate amount of paid-in capital or share capital of the companies now comprising the Group after elimination of the investments in subsidiaries and the changes in equity arisen from the acquisition of non-controlling interests.

– the net loss on purchase of non-controlling interest in a subsidiary; and

– the fair value of unexercised share options granted to employees of the Company at the grant date that has been recognised in accordance with the accounting policy adopted for share-based payments in note 2(t)(ii).

(ii) Statutory reserve

Pursuant to the Articles of Association of the companies comprising the Group in the PRC, appropriations to the statutory reserve were made at a certain percentage of profit after taxation determined in accordance with the accounting rules and regulations of the PRC. The percentage for this appropriation was decided by the directors of the respective companies comprising the Group. During the year ended 31 December 2017, amounts in retained earnings of $4,813,000 (2016: $21,293,000) were transferred from retained earnings to the statutory reserve.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations which are dealt with in accordance with the accounting policies as set out in note 2(x).

(iv) Treasury shares

During the year ended 31 December 2017, the Company has repurchased on-market own shares in aggregate of 35,424,000 shares (2016: 18,409,000 shares) at a cash consideration of $26,334,000 (2016: $15,390,000).

(v) Distributability of reserves

At 31 December 2017, there is no aggregate amount of reserves available for distribution to equity shareholders of the Company (2016: $nil).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

35 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes secured bank loans, and obligations under finance leases) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity and redeemable preference shares, other than amounts recognised in equity relating to cash flow hedges, less unaccrued proposed dividends.

The Group's gearing ratio at 31 December 2017 and 2016 was as follows:

	Note	**2017** **$'000**	2016 $'000
Interest-bearing debts:			
– Bank loans and other borrowings	27	**2,146,288**	757,705
– Convertible bonds payables	28	**226,122**	–
Total debt		**2,372,410**	757,705
Total assets		**6,238,606**	3,603,883
Gearing ratio		**38%**	21%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

36 ACQUISITION OF SUBSIDIARIES

On 13 September 2017, the Group acquired 95% equity interest of Donglu International Trade (Shanghai) Co., Ltd. ("**Donglu**") from a third party company with a consideration of HK$33,483,000. Donglu was mainly engaged in trading of commodities.

(i) Consideration transferred

	$'000
Cash	33,483

(ii) Identifiable assets acquired and liabilities assumed

	$'000
Property, plant and equipment	3
Inventories	1,998
Trade and other receivables	36,430
Cash and cash equivalents	238
Trade and other payables	(5,186)
	33,483

(iii) Goodwill

No goodwill was recognised due to the fair value of the consideration transferred was equal to the net fair value of the acquiree's identifiable assets and liabilities as at the acquisition date.

(iv) Analysis of net cash outflow of the business combination

	$'000
Consideration, satisfied in cash	33,483
Cash and cash equivalent balances acquired	(238)
Net cash outflow	33,245

During the year ended 31 December 2017, the Group also acquired another company at a cash consideration of $857,000.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, listed debt investments and over-the-counter derivative financial instruments entered into for hedging purposes. Management has had a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90 days from the date of billing. Debtors with balances that are more than 90 days past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

Investments are normally only in liquid securities quoted on a recognised stock exchange, except where entered into for long term strategic purposes. Transactions involving derivative financial instruments are with counterparties of sound credit standing and with whom the Group has a signed netting agreement. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 27% (2016: 12%) and 31% (2016: 12%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively within the processing and trading of coal and other products segment.

Except for the financial guarantees given by the Group as set out in note 40, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 40.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 24.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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

	2017 Contractual undiscounted cash outflow					2016 Contractual undiscounted cash outflow				
	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	Total $'000	Carrying amount at 31 December $'000	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	Total $'000	Carrying amount at 31 December $'000
Secured bank loans	2,146,288	-	-	2,146,288	2,146,288	736,734	35,721	–	772,455	757,705
Trade and other payables (excluding prepayments from customers)	931,957	-	-	931,957	931,957	846,717	–	–	846,717	846,717
Finance leases obligations	4,604	3,916	281	8,801	8,297	3,069	3,502	2,844	9,415	8,636
Convertible bonds payables	15,560	15,560	450,557	481,677	226,122	–	–	–	–	–
	3,098,409	19,476	450,838	3,568,723	3,312,664	1,586,520	39,223	2,844	1,628,587	1,613,058

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing borrowings.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period.

	2017		2016	
	Interest rate		Interest rate	
	%	**$'000**	%	$'000
Fixed rate borrowings:				
Bank loans	**1.96% – 7.84%**	**2,146,288**	2.80% – 7.84%	706,282
Senior notes	**–**	**–**	–	–
Convertible bonds	**19.64%**	**226,122**	–	–
		2,372,410		706,282
Variable rate borrowings:				
Bank loans	**–**	**–**	4.9%	51,423
		–		51,423
Total borrowings		**2,372,410**		757,705
Fixed rate borrowings as a percentage of total borrowings		**100%**		93.21%

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk (Continued)

(ii) Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative financial instruments at the end of the reporting period. For variable-rate borrowings, the analysis is prepared assuming the borrowings outstanding at the end of the reporting period were outstanding for the whole year. The analysis is performed on the same basis for 2016.

At 31 December 2017, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's loss after tax and accumulated loss by approximately $nil (2016: $440,952). Other components of consolidated equity would have no change in response to the general increase/decrease in interest rates.

(d) Currency risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to payables, cash balances and bank loans that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars and Renminbi. The Group manages this risk as follows:

(i) Recognised assets and liabilities

In respect of trade receivables and payables denominated in foreign currencies, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances. Most of the Group's borrowings are denominated in the functional currency of the entity taking out the loan. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk (Continued)

(ii) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	Exposure to foreign currency (expressed in HK$)								
	2017				2016				
	US$	**RMB**	**SGD**	**HK$**	US$	RMB	SGD	HK$	New Zealand Dollar ("**NZD**")
	$'000	**$'000**	**$'000**	**$'000**	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	**4,886**	**1,258**	**2,845**	**9,362**	97,154	2,228	896	19,080	–
Trade and other receivables	**84,582**	**1,128**	**–**	**3,348**	–	20,196	264	14,055	–
Trade and other payables	**(10,425)**	**(17,626)**	**(7,504)**	**(227)**	–	(33,863)	(339)	(1,334)	–
Bank loans	**(70,039)**	**–**	**–**	**–**	(359,478)	–	–	–	(27,035)
Net exposure arising from recognised assets and liabilities	**9,004**	**(15,239)**	**(4,659)**	**12,483**	(262,324)	(11,439)	821	31,801	(27,035)

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk (Continued)

(iii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and accumulated loss) and other components of consolidated equity that would arise if foreign exchange rate to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2017		2016	
	Increase/ (decrease) in foreign exchange rate	**Increase/ (decrease) in profit after tax and accumulated loss $'000**	Increase/ (decrease) in foreign exchange rate	Increase/ (decrease) in profit after tax and accumulated loss $'000
US$	**5%**	**338**	5%	(9,181)
	(5)%	**(338)**	(5)%	9,181
RMB	**5%**	**(190)**	5%	(400)
	(5)%	**190**	(5)%	400
SGD	**5%**	**(193)**	5%	29
	(5)%	**193**	(5)%	(29)
HK$	**5%**	**488**	5%	1,113
	(5)%	**(488)**	(5)%	(1,113)
NZD	**5%**	**–**	5%	(946)
	(5)%	**–**	(5)%	946

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss/profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2016.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair values measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair values measurement (Continued)

(i) Financial assets and liabilities measured at fair value (Continued)

2017

	Fair value at 31 December 2017 $'000	Fair value measurements as at 31 December 2017 categorised into Level 1 $'000	Level 2 $'000	Level 3 $'000
Recurring fair value measurement				
Assets:				
Derivative financial instruments:				
– Commodity futures contracts	**34,668**	**34,668**	**–**	**–**
Liabilities:				
Derivative financial instruments:				
– Conversion option embedded in convertible bonds	**88,913**	**–**	**–**	**88,913**
– Warrants	**9,554**	**–**	**–**	**9,554**

2016

	Fair value at 31 December 2016 $'000	Fair value measurements as at 31 December 2016 categorised into Level 1 $'000	Level 2 $'000	Level 3 $'000
Recurring fair value measurement				
Financial assets:				
Derivative financial instruments				
– Commodity futures contracts	38,406	38,406	–	–

During the years ended 31 December 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2016: $nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair values measurement (Continued)

Information about Level 3 fair value measurements

	Valuation techniques 2017 $'000	**Unobservable input 2017** $'000	**Range 2017** $'000	**Weighted average 2017** $'000
Convertible bonds payables – derivatives embedded in convertible bonds	Binomial Tree Approach	Expected volatility	11% to 17%	16%
Convertible bonds payables – warrants	Binomial Tree Approach	Expected volatility	11% to 17%	16%

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	2017 **$'000**	2016 $'000
Conversion option embedded in convertible bonds payables and warrants:		
At 1 January	**–**	–
Changes in fair value recognised in profit or loss during the period	**(3,422)**	–
At 31 December	**(3,422)**	–
Total gains for the period included in profit or loss assets held at the end of the reporting period	**(3,422)**	–

38 MATERIAL RELATED PARTY TRANSACTIONS

The Group had the following material related party transactions during the year.

(a) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Group's directors.

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 9, and certain of the highest paid employees as disclosed in note 10, is as follows:

	2017	2016
	$'000	$'000
Short-term employee benefits	**132,427**	222,919

The remuneration is included in "staff costs" (see note 7(b)).

(b) Transactions with other related parties

In addition to the balances disclosed elsewhere in this final financial report, the Group has no material related party transactions during the year ended 31 December 2017 and 2016.

39 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2017 not provided for in the financial statements are as follows:

	At 31 December 2017	At 31 December 2016
	$'000	$'000
Contracted for	**17,264**	–

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

39 COMMITMENTS (CONTINUED)

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

	At 31 December 2017 $'000	At 31 December 2016 $'000
Within 1 year	**14,717**	5,182
After 1 year but within 5 years	**25,299**	1,724
	40,016	6,906

The Group leases buildings and others under operating leases. The leases typically run for an initial period of 1 to 3 years, with an option to renew when all terms are renegotiated. None of the leases includes contingent rentals.

40 CONTINGENT LIABILITIES – GUARANTEES

(i) In December 2016, the Group has provided guarantee to a third party company for a bank loan borrowed by that third party company with an amount of $71,778,000 (2016: $67,070,000). Such guarantee will be released along with the repayment of loan principal by that third party company to the bank in.

On 4 January 2017, The Group borrowed a loan from that third party company with the same principal amount, interest and payment terms as the third party company borrowed from the bank as mentioned above.

(ii) The Company's existing subsidiaries, namely Glorious Gold Holdings Limited, Million Super Star Limited, E-Commodities Japan Co., Ltd, E-Commodities Singapore, E-Commodities (HK), Cheer Top Enterprises Limited, Legend York Star Limited, Color Future International Limited, Standard Rich Inc Limited, King Resources Holdings Limited, Eternal International Logistics Limited, Royce Petrochemicals Limited and E-Commodities International Development(HK) Limited, have provided guarantees for the convertible bonds and warrants issued on 14 September 2017 (see note 28). The guarantees will be released upon the full and final payment and performance of all obligations of the Company under the convertible bonds and warrants.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

41 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	**2017** **$'000**	2016 $'000
Non-current assets			
Property, plant and equipment, net		**195**	253
Intangible assets		**100,123**	–
Interests in subsidiaries		**2,669,070**	2,571,875
Total non-current assets		**2,769,388**	2,572,128
Current assets			
Trade and other receivables		**11,108**	13,675
Cash and cash equivalents		**63,494**	27,448
Total current assets		**74,602**	41,123
Current liabilities			
Trade and other payables		**1,224,135**	1,191,189
Total current liabilities		**1,224,135**	1,191,189
Net current liabilities		**(1,149,533)**	(1,150,066)
Non-current liabilities			
Convertible bonds payables		**226,122**	–
Total non-current liabilities		**226,122**	–
NET ASSETS		**1,393,733**	1,422,062
CAPITAL AND RESERVES			
Share capital	35(c)	**5,849,015**	5,681,512
Reserves		**(4,455,282)**	(4,259,450)
TOTAL EQUITY		**1,393,733**	1,422,062

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

42 IMMEDIATE AND ULTIMATE CONTROLLING SHAREHOLDERS

At 31 December 2017, the directors of the Company consider the immediate parent and ultimate controlling party of the Group to be Famous Speech Limited and Ms. Wang respectively. Famous Speech Limited is incorporated in the British Virgin Islands and does not produce financial statements available for public use. Ms. Wang's address is Avenida Sir Anders Ljungstedt No.297 E 303 EDF L'arc 48 Andar G48, Macau.

43 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to IFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
IFRIC 22, *Foreign currency transactions and advance consideration*	1 January 2018
IFRS 16, *Leases*	1 January 2019
IFRIC 23, *Uncertainty over income tax treatments*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 9 and IFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

43 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

IFRS 9, Financial instruments

IFRS will replace the current standard on accounting for financial instruments, IAS 39, Financial instruments: Recognition and measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI) as follows:

– The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains/losses on disposal will be recognised in profit or loss.

– For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Group has assessed that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of IFRS 9.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

43 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

IFRS 9, Financial instruments (Continued)

(a) Classification and measurement (Continued)

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of IFRS 9.

(b) Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. Based on a preliminary assessment, if the Group were to adopt the new impairment requirements at 31 December 2017, accumulated impairment loss at that date would increase by approximately 27% as compared with that recognised under IAS 39. As a consequence, an adjustment of approximately $29,287,000 will be made to the opening balances of net assets and accumulated loss at 1 January 2018.

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

43 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

IFRS 15, Revenue from contracts with customers (Continued)

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 2 (w). Currently, revenue arising the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from sales of goods and provision of services.

(b) Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers. Currently, the Group does not apply such a policy when payments are received in advance and advance payments are not common in the Group's arrangements with its customers.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

43 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

IFRS 15, Revenue from contracts with customers (Continued)

(c) Sales with a right of return

Currently when the customers are allowed to return the Group's products, the Group estimates the level of expected returns and makes an adjustment against revenue and cost of sales.

The Group has assessed that the adoption of IFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return.

However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

The Group plans to elect to use the cumulative effect transition method for the adoption of IFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. As allowed by IFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transition adjustment to be made upon the initial adoption of IFRS 15 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial results from 2018 onwards.

IFRS 16, Leases

As disclosed in note 2(l), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

43 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

IFRS 16, Leases (Continued)

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 39 (b), at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to $40,016,000, the majority of which is payable between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment.

Definitions

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

"Articles of Association" or "Articles"	the articles of association of our Company as amended from time to time
"associate(s)"	has the meaning ascribed to it in the Listing Rules
"Board" or "Board of Directors"	our board of Directors
"BVI"	the British Virgin Islands
"CG Code"	the Code on Corporate Governance Practice as set out in Appendix 14 of the Listing Rules, which has been renamed as "Corporate Governance Code and corporate Governance Report" from 1 April 2012
"China" or "PRC"	the People's Republic of China, but for the purpose of this annual report and for geographical reference only and except where the context requires, references in this annual report to "China" and the "PRC" do not include Taiwan, the Macau Special Administrative Region and Hong Kong
"Company", "our Company", "we" or "us"	E-Commodities Holdings Limited (易大宗控股有限公司), formerly known as "Winsway Enterprises Holdings Limited (永暉實業控股股份有限公司)", a company incorporated under the laws of the BVI with limited liability on 17 September 2007 and, except where the context indicates otherwise, including our subsidiaries
"Controlling Shareholders"	has the meaning ascribed to it under the Listing Rules and, unless the context otherwise requires, refers to Ms. Wang and Famous Speech Limited
"Debt Restructuring"	the restructuring of the senior notes issued by the Company on 8 April 2011 implemented through the schemes that was effective on 23 June 2016
"Director(s)"	the director(s) of our Company
"Ejinaqi Haotong"	額濟納旗浩通能源有限公司 (Ejina Qi Haotong Energy Co., Ltd.*), a company established under the laws of the PRC with limited liability on 19 May 2008 and our indirectly wholly-owned subsidiary

Definitions

"Exclusive Services Agreement"	the exclusive services agreement dated 18 January 2017 entered into between the Company and Minghua Group under which the Minghua Group has granted the Company an exclusive right to the Logistics Services to be provided by Minghua Group
"GCC"	Grande Cache and GCC LP
"GCC LP"	Grande Cache Coal LP
"Grande Cache" or "GCCC"	Grande Cache Coal Corporation
"Great Start"	Great Start Development Limited, a company incorporated under the laws of the British Virgin Islands with limited liability on 21 April 2010 and indirectly wholly-owned by Mr. Wang Xingchun
"Group" or "our Group"	our Company and its subsidiaries
"Hong Kong" or "HK"	The Hong Kong Special Administrative Region of the PRC
"Hong Kong Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (as amended from time to time)
"HK$" or "Hong Kong dollars" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IFRSs"	International Financial Reporting Standards, which comprise standards and interpretations approved by International Accounting Standards Board (the "**IASB**") and the International Accounting Standards ("**IAS**") and Standing interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect
"Inner Mongolia Haotong"	內蒙古浩通能源股份有限公司 (Inner Mongolia Haotong Energy Joint Stock Co., Ltd.*), a joint stock company established under the laws of the PRC on 18 November 2005 and our indirectly wholly-owned subsidiary
"Listing"	the listing of our Shares on the Main Board
"Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange

Definitions

"Logistics Services"	the logistics services and other services in relation to coal products to be provided by Minghua Group under the Exclusive Services Agreement
"Main Board"	the stock market (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
"Memorandum of Association" or "Memorandum"	the memorandum of association of our Company as amended from time to time
"Minghua Group''	Minghua Energy Group Co., Ltd.* (明華能源集團有限公司), a company incorporated under the PRC laws with limited liability
"Model Code"	Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 of the Listing Rules
"Mr. Wang's Group"	means Mr. Wang Xingchun and his directly or indirectly wholly owned companies, Winsway Group Holdings, Winsway Resources Holdings, Great Start and Winsway International Petroleum & Chemicals
"Ms. Wang"	王奕涵女士 (Wang Yihan), our ultimate Controlling Shareholder of our Company
"Nantong Haotong"	南通浩通能源有限公司 (Nantong Haotong Energy Co., Ltd.*), a company established under the laws of the PRC with limited liability on 24 February 2009 and our indirectly wholly-owned subsidiary
"Senior Notes"	the 8.5% senior notes issued by the Company in the aggregate principal amount of US$500 million
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and futures Ordinance (Chapter 571 of the Laws of Hong Kong)(as amended from time to time)
"Shanghai Stock Exchange"	the Shanghai Stock Exchange (上海證券交易所)
"Share(s)"	ordinary share(s) with no par value of our Company
"Shareholders"	holders of the Shares
"subsidiary(ies)"	has the meaning ascribed to it in section 2 of the Hong Kong Companies Ordinance

Definitions

"substantial shareholder"	has the meaning ascribed to it under the Listing Rules
"United States", "US" or "USA"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$", "USD" or "US dollars"	United States dollars, the lawful currency of the United States
"Winsway Group"	the group of companies established and/or incorporated by Mr. Wang Xingchun and/or his associates which is not a member of our Group
"Winsway Group Holdings"	Winsway Group Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 1 March 2001 and wholly-owned by Mr. Wang Xingchun
"Winsway International Petroleum & Chemicals"	Winsway International Petroleum & Chemicals Limited, a company incorporated under the laws of the BVI with limited liability on 18 August 2005 and indirectly wholly-owned by Mr. Wang Xingchun
"Winsway Petroleum Holdings"	Winsway Petroleum Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 9 September 2009 and indirectly wholly-owned by Mr. Wang Xingchun
"Winsway Resources Holdings"	Winsway Resources Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 31 December 2009 and indirectly wholly-owned by Mr. Wang Xingchun

Five-Year Financial Summary

	2017	2016	2015	2014	2013
	$'000	$'000	$'000	$'000	$'000
					(restated)
Continuing operations					
Turnover	**20,877,959**	13,501,746	5,735,319	7,547,738	13,319,742
Profit/(loss) before taxation from continuing operations	**1,012,783**	2,966,740	(1,752,266)	(1,133,469)	(410,076)
Income tax	**(108,737)**	(94,425)	(3,534)	(82,081)	(312,461)
Profit/(loss) from continuing operations	**904,046**	2,872,315	(1,755,800)	(1,215,550)	(722,537)
Discontinued operations					
Loss from discontinued operations (net of income tax)	**–**	–	(179,587)	(4,681,208)	(1,602,797)
Profit/(loss) for the year	**904,046**	2,872,315	(1,935,387)	(5,896,758)	(2,325,334)
Attributable to:					
Equity shareholders of the Company	**904,742**	2,873,605	(1,722,992)	(3,693,055)	(1,789,385)
Non-controlling interests	**(696)**	(1,290)	(212,395)	(2,203,703)	(535,949)
Profit/(loss) for the year	**904,046**	2,872,315	(1,935,387)	(5,896,758)	(2,325,334)
Total assets	**6,238,606**	3,603,883	2,704,567	10,286,821	22,133,003
Total liabilities	**3,670,278**	1,900,614	4,427,735	9,904,233	16,136,278
Non-controlling interests	**(108,224)**	(133,979)	(132,367)	82,211	1,987,490
Total equity attributable to equity shareholders of the Company	**2,676,552**	1,837,248	(1,590,801)	300,377	4,009,235

Company Information

BOARD MEMBERS

Executive Directors

Cao Xinyi (Chairman)
Wang Wengang
Zhu Hongchan (resigned on 29 March 2018)
Wang Yaxu
Li Jianlou (appointed on 30 March 2018)

Non-executive Directors

Guo Lisheng

Independent Non-executive Directors

Ng Yuk Keung
Wang Wenfu
Gao Zhikai

AUDIT COMMITTEE

Chairman

Ng Yuk Keung

Member

Wang Wenfu
Gao Zhikai

REMUNERATION COMMITTEE

Chairman

Wang Wenfu

Member

Cao Xinyi
Ng Yuk Keung

NOMINATION AND CORPORATE GOVERNANCE COMMITTEE

Chairman

Gao Zhikai

Member

Ng Yuk Keung
Cao Xinyi

HEALTH AND SAFETY AND ENVIRONMENTAL COMMITTEE

Chairman

Wang Yaxu

Member
Wang Wenfu
Gao Zhikai

Company Information

SECRETARY TO THE BOARD

Cao Xinyi

CHIEF FINANCIAL OFFICER

Wang Yaxu

LEGAL COUNSEL

Reed Smith Richards Butler

AUDITORS

KPMG
Certified Public Accountants

REGISTERED OFFICE IN THE BVI

Nerine Trust Company (BVI) Limited,
Nerine Chambers,
PO Box 905,
Road Town, Tortola
BVI

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

Room 12-6, Tower B Guanghua SOHO II,
No. 9 Guanghua Road, Chaoyang District
Beijing, 100020
PRC

PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART XI OF THE HONG KONG COMPANIES ORDINANCE

Suites 2104-05
Hutchison House
10 Harcourt Road
Hong Kong

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKS

Industrial Bank Co., Ltd.
CITIC Bank
BNP Paribas
ING Bank

WEBSITE

www.e-comm.com

HKEX STOCK CODE

1733