China Lumena New Materials Corp.

中国旭光高新材料集团有限公司

China Lumena New Materials Corp.

(In Provisional Liquidation)

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 67)

Annual Report 2018

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Zhang Zhigang *(Chairman)*
Mr. Zhang Daming *(Chief Executive Officer)*
Mr. Shi Jianping

Company Secretary
NIL

JOINT PROVISIONAL LIQUIDATORS

Mr. Simon Conway
Mr. Man Chun So
Mr. Yat Kit Jong

MEMBERS OF THE AUDIT COMMITTEE

NIL

MEMBERS OF THE NOMINATION COMMITTEE

NIL

MEMBERS OF THE REMUNERATION COMMITTEE

Mr. Zhang Zhigang

MEMBERS OF THE COMPLIANCE COMMITTEE

Mr. Zhang Daming

INDEPENDENT AUDITOR

Crowe (HK) CPA Limited
Certified Public Accountants

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 SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Trust (Cayman) Limited
Clifton House, 75 Fort Street
P.O. Box 1350, Grand Cayman
KY1-1108, Cayman Islands

REGISTERED OFFICE

c/o PwC Corporate Finance & Recovery (Cayman) Limited
PO Box 258, 4th Floor
18 Forum Lane
Grand Cayman
Cayman Islands
KY1-1104

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

22/F., Prince's Building, Central, Hong Kong

STOCK CODE

67

BUSINESS AND FINANCIAL REVIEW

China Lumena New Materials Corp. (In Provisional Liquidation) (the "Company") herein presents its report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018 (the "Reporting Period").

APPOINTMENT OF THE JOINT PROVISIONAL LIQUIDATORS AND THE WINDING-UP HEARING

On 23 January 2015, Mega International Commercial Bank Co., Ltd. presented a winding-up petition to the Grand Court of the Cayman Islands (the "Grand Court") for the winding-up of the Company. On 27 January 2015, a summons was filed with the Grand Court seeking the appointment of liquidators to the Company.

At the hearing on 25 February 2015, the Grand Court handed down the Court Order appointing Mr. Man Chun So, Mr. Yat Kit Jong and Mr. David Walker as the joint provisional liquidators of the Company together with another Order adjourning the hearing of the Winding Up Petition to 26 May 2015. At the adjourned hearing on 26 May 2015, the Winding Up Petition was further adjourned to a date to be fixed.

On 2 August 2016, the Grand Court made a further order releasing Mr. David Walker from the obligation to perform any further duties in his capacity as joint provisional liquidator and replacing him with Mr. Simon Conway.

Upon the appointment of the joint provisional liquidators of the Company (the "Provisional Liquidators") and pursuant to the powers conferred to the Provisional Liquidators in the Order, the Provisional Liquidators have sought to obtain information, books and records of the Company from relevant parties including the directors and key employees of the Company, banks and auditors as well as from site visits to the offices and operations in Hong Kong and the People's Republic of China (the "PRC").

The Provisional Liquidators have sought to identify and secure any assets of the Company including securing the Hong Kong office premises, taking possession of limited books and records in Hong Kong, requesting Statements of Affairs from the directors and seeking to transfer bank balances to the Provisional Liquidators' designated accounts.

RESTRUCTURING OF THE COMPANY

Suspension of trading in shares of the Company
Trading in the shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") has been suspended with effect from 10:56 a.m. on 25 March 2014.

First Resumption Conditions
On 20 November 2014, the Stock Exchange informed the Company that the following resumption conditions (the "First Resumption Conditions") have been imposed on the Company to proceed with the resumption of trading in the shares of the Company:

(a) publish an announcement addressing the allegations of Glaucus Report by Glaucus Research Group and Emerson Report by Emerson Analytics Co., Ltd., and disclosing all material information that is necessary for the market to appraise the Company's latest operating and financial position;

(b) publish all outstanding financial results required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and address any audit qualifications; and

(c) demonstrate that the Company has sufficient operations or value of assets under Rule 13.24 of the Listing Rules.

The Company is also required to comply with the Listing Rules and all applicable laws and regulations in Hong Kong and its place of incorporation before resumption. The Stock Exchange may modify any of the above and/or impose further conditions if the situation changes.

First delisting stage

On 16 March 2015, according to the letter from the Stock Exchange dated 13 March 2015, the Stock Exchange decided to place the Company in the first delisting stage under Practice Note 17 of the Listing Rules as the Stock Exchange considers that the Company is unable to maintain a sufficient level of operations or assets required under Rule 13.24 to support a continued listing.

The first delisting stage expired on 12 September 2015. The Company was required to submit a viable resumption proposal addressing all the resumption conditions at least 10 business days before the expiry of the first delisting stage. The proposal must be clear, plausible and coherent, and contain sufficient details (including forecasts and a clear plan for future business development) for the Stock Exchange's assessment. The Company must demonstrate that it has a business of substance and that the business model is viable and sustainable. The proposal should also comply with the Listing Rules and all applicable laws and regulations.

In addition to the Resumption Conditions published on 26 November 2014, the Stock Exchange has imposed Further Resumption Conditions for the resumption of trading in the shares of the Company on the Stock Exchange, being to:

(a) demonstrate that the Company has put in place adequate financial reporting procedures and internal control systems to meet its Listing Rule obligations; and

(b) have the winding up petition against the Company withdrawn or dismissed and the Provisional Liquidators discharged.

Second delisting stage

On 25 September 2015, the Company announced that as no resumption proposal had been submitted before the expiry date of the first delisting stage, the Stock Exchange accordingly decided to place the Company in the second delisting stage commencing on 17 September 2015 pursuant to Practice Note 17 of the Listing Rules. The second delisting stage expired on 16 March 2016. The Company was required to provide a viable resumption proposal at least 10 business days before the second delisting stage expires (i.e. 1 March 2016) to:

(a) demonstrate that the Company has sufficient operations or value of assets under Rule 13.24;

(b) address the allegations of the reports published by Glaucus Research Group and Emerson Analytics Co., Ltd. and disclose all material information;

(c) publish all outstanding financial results and address any audit qualifications;

(d) demonstrate that the Company has put in place adequate financial reporting procedures and internal control systems to meet its Listing Rule obligations; and

(e) withdraw or dismiss the winding up petition and discharge of the Provisional Liquidators.

Third delisting stage

On 8 April 2016, the Company announced that as no resumption proposal had been submitted before the expiry date of the second delisting stage, the Stock Exchange decided to place the Company in the third delisting stage pursuant to Practice Note 17 of the Listing Rules. The third delisting stage commenced on 8 April 2016 and will expire on 7 October 2016.

The resumption proposal to be submitted should demonstrate sufficient operations or assets as required under Rule 13.24 and to have the winding up petition against the Company withdrawn or dismissed and the Provisional Liquidators discharged.

The Company must also:

(a) address the alleged irregularities mentioned in the reports published by Glaucus Research Group and Emerson Analytics Co., Ltd. and inform the market of material information;

(b) publish all outstanding financial results and address any audit qualifications; and

(c) demonstrate that the Company has put in place adequate financial reporting procedures and internal control systems to meet its obligations under the Listing Rules.

Proposed Restructuring of the Company

On 23 September 2016, the Company entered into a restructuring framework agreement (the "Restructuring Framework Agreement") with independent third parties (the "Investors"), pursuant to which the Company will implement a restructuring of the Company's equity and debt ("Proposed Restructuring").

Pursuant to the Restructuring Framework Agreement, the Company will carry out the Proposed Restructuring which comprises: (i) the Capital Reorganisation; (ii) the Creditors Schemes; (iii) the Open Offer; (iv) the Subscription; (v) the Acquisition; (vi) Reverse Takeover; and (vii) Whitewash Waiver. The Subscription was subsequently cancelled and replaced by the Share Offer pursuant to the amendment letter dated 26 November 2018.

Following the entering into of the Restructuring Framework Agreement, the Company submitted the resumption proposal to the Stock Exchange before the expiry of the third delisting stage to seek the resumption of trading of the Company's shares. On 24 October 2016, the Company received a letter of even date from the Stock Exchange, which stated that the Stock Exchange agreed to allow the Company to submit a new listing application relating to the resumption proposal (but not any other proposal) on or before 31 March 2017. If the Company fails to submit a new listing application by 31 March 2017, or the transactions proposed in the resumption proposal fail to proceed for any reason, the Stock Exchange will proceed with cancelling the Company's listing on the Stock Exchange.

On 31 March 2017, a new listing application was submitted to the Stock Exchange. In accordance with the Listing Rules, the New Listing Application was required to be re-submitted in the event that a six month period passed following the original submission. As such, three re-submissions were filed with the Stock Exchange on 16 October 2017, 9 May 2018 and 14 November 2018 respectively. In parallel, the Stock Exchange, together with the Securities and Futures Commission (collectively, the "Regulators") issued a number of sets of queries in relation to the new listing application throughout the period from April 2017 to December 2018. The Company, the Investors and all other professional parties have been working closely to address the Regulators' queries and made relevant replies throughout the year of 2017 and 2018. As of the date of these financial statements, the Regulators are still in the process of reviewing the new listing application.

In consideration of the progress of the Proposed Restructuring and the recent financial performance of the target group, four amendment letters (the "Amendment Letters") were entered between the Company, the Provisional Liquidators and the Investors on 29 September 2017, 29 December 2017, 27 April 2018 and 26 November 2018 respectively to extend the Long Stop Date of the Restructuring Framework Agreement to 30 April 2019 (or any other date as the parties may agree in writing), to amend the Open Offer Price, the Subscription Price and the price of the Consideration Shares (from HK$0.08 to HK$0.06), to amend the share consolidation ratio from 10 shares to 1 share to 40 shares to 1 share, resulting to an increase of the Open Offer Price, the Subscription Price and the price of the Consideration Shares from HK$0.06 to HK$0.24, and to revise the transaction structure, where a Share Offer will be implemented while the Subscription will be cancelled.

Save as disclosed above, the Restructuring Framework Agreement remains substantially unchanged and in full force and effect in all respects.

FINANCIAL REVIEW

As noted in the financial statement disclosures, due to the incomplete books and records and serious doubts over the reliability of the Group's accounting and other records, the Provisional Liquidators are not in a position to confirm the completeness, existence and accuracy of the historical results of the Group. As such, the information below has been presented to the best knowledge of the Provisional Liquidators based on information made available to them to date.

Revenue and Gross Profit
The Group generated no revenue and no gross profit for the years ended 31 December 2018 and 2017. Loss before income tax was RMB192.9 million for the year ended 31 December 2018 (2017: RMB184.0 million).

Liquidity and Financial Resources
As at 31 December 2018, bank and cash balances of the Group were approximately RMB6.0 million (2017: RMB6.7 million).

The borrowings and convertible bonds amounted to approximately RMB6,019.7 million and RMB1,084.4 million respectively for the year ended 31 December 2018. The borrowings included secured and unsecured bank loans.

The gearing ratio (measured as total borrowings over total assets) as at 31 December 2018 was 101,328.4% (2017: 89,858.8%).

Based on the information available to the Provisional Liquidators, as at 31 December 2018, certain of the Group's bank borrowings were secured by the corporate guarantees granted by the Company.

Assets and Liabilities
As at 31 December 2018, the Group had total assets of approximately RMB7.0 million (2017: RMB7.7 million), total liabilities of approximately RMB7,448.4 million (2017: RMB7,256.3 million). The net liabilities of the Group as at 31 December 2018 were approximately RMB7,441.4 million (2017: RMB7,248.6 million).

Finance Cost
The finance cost amounted to approximately RMB188.6 million for the year ended 31 December 2018 (2017: RMB178.6 million).

Charges on Group Assets
Due to incomplete books and records available to the Provisional Liquidators, the Provisional Liquidators were unable to ascertain whether there are any charged assets at a Group level as at 31 December 2018.

Capital Commitments
The Group and the Company did not have any significant capital commitments as at 31 December 2018.

Earnings per Share
For the year ended 31 December 2018, the basic loss per share was RMB3.4 cents (2017: RMB3.3 cents).

Final Dividends
No dividend was declared during the year ended 31 December 2018.

Contingent Liabilities
Except the legal proceeding disclosed in this section, due to incomplete books and records available to the Provisional Liquidators, the Provisional Liquidators were unable to ascertain whether there are any material contingent liabilities as at 31 December 2018.

Legal Proceeding
On 4 October 2017, the Provisional Liquidators received an originating summons (the "OS") from a party from whom the Provisional Liquidators have been seeking assistance (the "Third Party"). The OS was taken out for the purpose of clarifying the extent to which assistance should be provided to the Provisional Liquidators.

The Third Party and the Provisional Liquidators have since agreed to apply for a stay of the OS and such application was approved by the Grand Court on 23 February 2018.

Foreign Currency Exposure
Based on the books and records available to the Provisional Liquidators, the Group and the Company did not appear to use any foreign currency derivative product to hedge our exposure to currency risk for the year ended 31 December 2018.

Purchase, Sale or Redemption of Listed Securities of the Company
Due to the limitation of incomplete books and records, the Provisional Liquidators were unable to ascertain whether the Company has any purchase, sale or redemption of listed securities for the year ended 31 December 2018.

OUTLOOK/PROSPECT

The Provisional Liquidators, with the assistance of their professional advisers, have submitted a resumption proposal and a new listing application to the Stock Exchange.

The resumption proposal when successfully implemented, will achieve the following:

- All the existing assets of the Group are transferred to the Scheme Company or the Scheme Administrators pursuant to the terms of the Creditors Schemes, as agreed to by the Creditors, for realization for the benefits of the Creditors;

- All the liabilities of the Company are fully discharged under the Creditors Schemes;

- In order to fulfill the minimum public float requirement, the Investors will enter into a placing agreement with an independent third party for the placing of not less than 10% of the issued share capital of the Enlarged Group. Subsequent to the aforesaid placement, the Investors will own approximately 70% of the issued share capital of the Enlarged Group, the Subscribers will own approximately 7.5% of the issued share capital of the Enlarged Group, the new shareholders solicited through the Public Offer will own approximately 2.5% of the issued share capital of the Enlarged Group and existing shareholders as a whole and the Underwriter to the Open Offer will own approximately between 5% to 10% and approximately between 0% to 5% of the issued share capital of the Enlarged Group respectively depending on the extent of the acceptance of the Open Offer;

- Upon the grant of the Whitewash Wavier by the Securities and Futures Commission ("SFC"), the Investors will not be required to make a mandatory general offer for all the issued shares of the Company pursuant to Rule 26.1 of the Takeovers Code;

- The Company will wholly own the target Group which is in the business of building materials with a successful track record that meets the new listing requirements of the Stock Exchange; and

- The Provisional Liquidators will be discharged; following the Stock Exchange approving resumption of trading of the Shares and the New Shares on the Stock Exchange.

Accordingly, all the resumption conditions imposed by the Stock Exchange will be met.

For the benefit of the Shareholders and the Creditors as a whole, the Company seeks the Stock Exchange's approval for the implementation of the new listing application, such that trading in the Shares can be resumed for the benefits of all the Shareholders, especially the minority Shareholders.

PROFILE OF DIRECTORS

EXECUTIVE DIRECTORS

ZHANG Zhigang (張志剛), aged 57, is an executive Director and Chairman of the Group. Mr. Zhang is a director of each of Sino Polymer New Materials Co., Ltd. ("Sino Polymer"), Haton Polymer Limited ("Haton Polymer"), 四川得陽特種新材料有限公司(Sichuan Deyang Special New Materials Co., Ltd.), 四川得陽工程塑料開發有限公司(Sichuan Deyang Engineering Plastic Development Co., Ltd.) and 四川得陽化學有限公司(Sichuan Deyang Chemical Co., Ltd.) ("Deyang Chemical"), all being the subsidiaries of the Company, and the chief executive officer of Sino Polymer and its subsidiaries ("Sino Polymer Group"). He joined Sino Polymer Group in 2006. Mr. Zhang has over 10 years of experience in PPS production and 25 years of experience in chemical production management. He has been the chairman of Sichuan Hua Tong Special Plastic Research Centre Co., Ltd. (四川華通特種工程塑料研究中心有限公司) and Sichuan Haton Enterprise Co., Ltd. (四川省華拓實業發展股份有限公司) since 2003 and 2006, respectively. Mr. Zhang was the deputy manager of Sichuan Haton Enterprise Co., Ltd. from 2000 to 2003, which is engaged in chemical production including PPS production. He worked as the general manager in Sichuan Huatong Wood Co., Ltd. (四川華通木業有限公司) from 1998 to 2000 and the manager of securities department in Sichuan Polymer Co., Limited (四川聚酯股份有限公司) from 1996 to 1998. Mr. Zhang was also the manager of the enterprise management department of Zigong Dongxin Electrical Carbon Co., Ltd. (自貢東新電碳股份有限公司) from 1982 to 1996. He currently serves as an adjunct professor of South Western University of Finance and Economics (西南財經大學). He was appointed as an executive Director and Chairman of the Group on 1 April 2011.

ZHANG Daming (張大明), aged 71, is an executive Director and chief executive officer of the Company and its subsidiaries (the "Group"). Mr. Zhang is a senior economist and holds a master degree in Integral Management from Tao University and a bachelor degree in Political Economics from Sichuan University (四 川 大 學). Mr. Zhang Daming worked as the department head and the deputy secretary of Sichuan Provincial Economic System Reform Committee 四川省經濟體制改革委員會) and the general manager of Chuanmei Mirabilite. In addition, he was the general manager of Top Promise Resources Limited (the "Top Promise") and the executive director and general manager of Sichuan Chuanmei Special Glauber Salt Co., Ltd. ("Chuanmei Glauber Salt"), an indirect wholly-owned subsidiary of the Issuer. He was appointed as an executive Director and chief executive officer of the Group on 1 February 2008.

SHI Jianping (石健平), aged 50, served as a non-executive director of Fushan International Energy Group Limited (stock code: 639) between November 2008 and January 2010 and the chairman and an executive director of HyComm Wireless Limited (stock code: 499) between July 2010 and January 2011. Mr. Shi has over 20 years' work experience in the fields of coal, chemical, power, and transportation and has rich experience in capital market operations. He was appointed as an executive Director of the Group on 16 September 2014.

CORPORATE GOVERNANCE REPORT

On 25 February 2015, the Provisional Liquidators were appointed by the Grand Court to, among others, take control and possession of the assets and books and records of the Company. As certain books and records of the Company could not be located, the corporate governance report was prepared in accordance to the best knowledge and the limited information available to the Provisional Liquidators.

The Company appeared to comply, based on the limited information available to the Provisional Liquidators, with the principles (the "Principles") and code provisions (the "Code Provisions") as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") stipulated by the Stock Exchange in Appendix 14 of the Listing Rules, except for the following:

– Code Provision A.2.7 of the CG Code states that the chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the presence of the executive directors. Based on the limited information available to the Provisional Liquidators, the Provisional Liquidators are unable to ascertain whether the meeting was held during the Reporting Period.

– Pursuant to the Listing Rules 3.10(1) and (2), and 3.10A, an issuer must include at least three independent non-executive directors, with at least one of the independent non-executive directors having appropriate professional qualifications or accounting or related financial management expertise, and the number of independent non-executive directors must represent at least one-third of the Board. Based on the information available to the Provisional Liquidators, following the resignation of Mr. Xia Lichuan on 9 January 2015, Mr. Koh Tiong Lu, John on 16 June 2015, Mr. Wong Chun Kueng and Mr. Au Kin Wah on 15 June 2015, the number of independent non-executive directors on the Board is nil as at 31 December 2018 and the date of this Report.

– Pursuant to the Listing Rules 3.21, the audit committee should comprise non-executive directors only. Based on the information available to the Provisional Liquidators, following the resignation of Mr. Xia Lichuan on 9 January 2015, Mr. Koh Tiong Lu, John on 16 June 2015, Mr. Wong Chun Kueng and Mr. Au Kin Wah on 15 June 2015, the audit committee is vacant as at 31 December 2018 and the date of this Report.

– Pursuant to the Listing Rules 13.91, an issuer must present the Environment, Social and Governance Report (the "ESG Report") in its annual report. However, due to the limited information available to the Provisional Liquidators in relation to the Reporting Period, the Company is unable to present the required ESG Report in its annual report.

DIRECTORS' SECURITIES TRANSACTIONS

Due to the limitation of incomplete books and records, the Provisional Liquidators were unable to ascertain whether the Company has adopted the Model Code for Securities Transactions of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions during the Reporting Period.

Based on the information made available to the Provisional Liquidators, the Provisional Liquidators were not able to confirm whether all directors of the Company have complied with, or whether there has been any non-compliance with, the required standards set out in the Model Code.

BOARD OF DIRECTORS

As at 31 December 2018, the Board comprised three Executive Directors. Based on the information made available to the Provisional Liquidators, the roles of the Chairman of the Company and the Chief Executive Officer of the Group are not exercised by the same individual.

AUDIT COMMITTEE

Based on the information available to the Provisional Liquidators, as at 31 December 2018 and the date of this report, the Company has no audit committee. Therefore, this report was not reviewed by the audit committee and this does not comply with the requirements of the CG Code and Listing rules.

The Board members for the Reporting Period and up to the date of this report are:

Executive Directors
Mr. Zhang Zhigang *(Chairman)*
Mr. Zhang Daming (Chief Executive Officer)
Mr. Shi Jianping

Independent Non-executive Directors
Nil

The biographies of all the Directors are set out on page 9 of this Report.

BOARD MEETING AND DIRECTORS' ATTENDANCE

Due to the limitation of incomplete books and records, the Provisional Liquidators were unable to ascertain the numbers of Board meetings convened during the Reporting Period.

ANNUAL GENERAL MEETING HELD IN 2018

Based on information made available to the Provisional Liquidators, no annual general meeting was held for the Reporting Period.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the Reporting Period and based on the information available to the Provisional Liquidators, Mr. Zhang Zhigang was the Chairman of the Company and Mr. Zhang Daming was the Chief Executive Officer of the Company. These two roles were segregated and were not exercised by the same individual.

BOARD COMMITTEES

Due to the limitation of incomplete books and records, the Provisional Liquidators were unable to ascertain the number and the details of board committees of the Company. Based on the information available, the Board is supported by four sub-committees (collectively the "Board Committees"), namely the Audit Committee, Nominating Committee, Remuneration Committee and Compliance Committee to assist the Board in discharging its responsibilities and to enhance the Group's corporate governance framework. Each Committee has its own defined terms of reference which clearly states the corresponding roles and responsibilities.

NOMINATION COMMITTEE

Subsequent to the appointment of the Provisional Liquidators, Mr. Wong, Mr. Koh and Mr. Tan resigned from the Board on 15 June 2015, 16 June 2015 and 19 March 2015 respectively and ceased to act as the members of the NC with effect from the same dates. As a result, the NC is vacant as at 31 December 2018 and the date of this Report.

Due to the limitation of incomplete books and records, the above information was disclosed based on the information available to the Provisional Liquidators and the Provisional Liquidators were unable to ascertain the accuracy of such information.

According to the terms of reference of the NC, its principal functions are:

1. to review and recommend to the Board the structure, size, composition and diversity of the Board annually;
2. to determine the policy for nomination of directors and identify capable individuals to act as directors;
3. to assess the independence of the Independent Non-Executive Directors;
4. to review the diversity policy of the Board; and
5. to recommend to the Board regarding the appointment or re-appointment of directors and the succession plans for directors.

Due to the limitation of incomplete books and records, the Provisional Liquidators are unable to ascertain the number of NC meetings which have been held during the Reporting Period.

REMUNERATION COMMITTEE

As at 31 December 2018, the Remuneration Committee ("RC") comprises Mr. Zhang Zhigang.

Mr. Xia Lichuan resigned from the Board on 9 January 2015 and Mr. Au Kin Wah ("Mr. Au") was appointed as the replacing Independent Non-Executive Directors and member of the RC. Subsequent to the appointment of the Provisional Liquidators, both Mr. Wong Chun Keung and Mr. Au have resigned from the Board on 15 June 2015 and ceased to act as members of the RC with effect from the same date. Mr. Zhang is the only member of the RC as at 31 December 2018 and the date of this Report.

Due to the limitation of incomplete books and records, the above information was disclosed based on the information available to the Provisional Liquidators. The Provisional Liquidators were unable to ascertain the accuracy of such information.

According to the terms of reference of the RC, its principal functions are:

1. to recommend the remuneration policy of all directors and senior management of the Company;
2. to review and approve the management's remuneration proposal and provide advice on the remuneration proposal;
3. to determine specific remuneration packages for any directors and senior management of the Company;
4. to make recommendation on performance evaluation procedures for determining remuneration packages of directors and senior management of the Company;
5. to review and approve compensation arrangements relating to the termination of director's or senior management's office and dismissal of directors for any misconduct;
6. to ensure that no directors or any of his/her associates are involved in deciding his/her remuneration; and
7. to conduct exit interviews with resigning directors or senior management to ascertain their resignation reason.

Due to the limitation of incomplete books and records, the Provisional Liquidators were unable to ascertain the number of meetings convened by the RC during the Reporting Period.

AUDIT COMMITTEE

Mr. Xia resigned from the Board on 9 January 2015 and Mr. Au was appointed as the replacing Independent Non-Executive Directors and member of the AC. Subsequent to the appointment of the Provisional Liquidators, Mr. Koh, Mr. Wong and Mr. Au resigned from the Board on 16 June 2015, 15 June 2015 and 15 June 2015 respectively and ceased to act as members of the AC with effect from the same dates. As a result, the AC is vacant as at 31 December 2018 and the date of this Report. Therefore, this report was not reviewed by the audit committee and this did not comply with the requirements of the CG Code and Listing Rules.

Due to the limitation of incomplete books and records, the above information was disclosed based on the information available to the Provisional Liquidators. The Provisional Liquidators were unable to ascertain the accuracy and completeness of such information.

According to the terms of reference of the AC, its principal functions are:

1. to recommend to the Board on the appointment, reappointment and removal of external auditors and approve the remuneration and terms of engagement of the external auditors;

2. to monitor the work done by the external auditors and review the annual audit plan;

3. to review and monitor the independence and objectivity of the external auditors and the effectiveness of the audit process in accordance with applicable standards;

4. to develop and implement the policy on the engagement of the external auditors for supplying non-auditing services;

5. to resolve any disputes between the external auditors and the management of the Company;

6. to review the Company's annual report, accounts and interim reports before submission to the Board;

7. to ensure the Company's annual report, accounts and interim reports are in compliance with the accounting standards, the Listing Rules and other regulations of regulatory authorities in relation to financial reporting;

8. to consider any significant adjustments and unusual items to be reflected in the financial reports;

9. to review the Company's financial control, internal control, risk management systems and other major financial matters;

10. to ensure the management has discharged its duty of establishing an effective internal control system and considered any findings from major investigations related to internal control matters;

11. to ensure the coordination between the internal and external auditors; and

12. to review the "management letter" from the external auditors and ensure the Board will provide a timely response to the issues raised in the "management letter".

Due to the limitation of incomplete books and records, the Provisional Liquidators were unable to ascertain the number of meetings convened by the AC during the Reporting Period.

INTERNAL CONTROL

The Compliance Committee ("CC") and the AC of the Company are responsible for monitoring the effectiveness of the internal control of the Company. Based on the information available, the Provisional Liquidators are unable to confirm whether both the CC and the AC have performed its duties diligently in accordance with its terms of reference (if any) during the Reporting Period.

ACCOUNTABILITY AND AUDIT

BDO Limited resigned as the Company's auditors with effect from 21 December 2016 due to the limited resources to perform additional audit procedures required to complete the outstanding audits for the four years ending 31 December 2016. Crowe (HK) CPA Limited was appointed as the auditor of the Company with effect from 23 February 2017.

The responsibility of the external auditors with respect to the financial reporting and their audit opinion are set out in the "Independent Auditor's Report" on pages 23 to 25 of this Report.

AUDITOR'S REMUNERATION

During the Reporting Period, the fees payable to the external auditors are set out as follows:

Fees payable to the current auditor	HK$250,000

Based on the information available, the Provisional Liquidators are not able to confirm whether the remuneration payable to the former auditor is related to audit fees or non-audit services.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to the revised CG Code, which has come into effect from 1 April 2012, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Based on the information available, the Provisional Liquidators are not able to confirm whether the Company had updated all directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements from time to time to ensure compliance and enhance their awareness of good corporate governance practices, and whether the directors had participated in any training for the Reporting Period.

COMPANY SECRETARY

Mr. Wong Kui Tong was appointed by the Board as the Company Secretary on 1 May 2010. Based on the information available, the Provisional Liquidators are unable to confirm whether Mr. Wong Kui Tong had performed his duties diligently in accordance with the Listing Rules to assist the operations of the Company and maintain the relationship between the Company and its shareholders.

In addition, professional training records of Mr. Wong Kui Tong for the Reporting Period are not available to the Provisional Liquidators.

Subsequently, Mr. Wong Kui Tong has resigned from the Company with effect from 1 December 2016. The position of Company Secretary is vacant as at the date of this Report.

CONVENING AN EXTRAORDINARY GENERAL MEETING OF THE COMPANY BY SHAREHOLDERS

Any one or more Shareholder holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings can convene extraordinary general meetings by depositing or sending a written requisition addressed to the Board or the Company Secretary for the transaction of any business specified in such requisition.

Such meeting shall be held within two months after the deposit of such requisition. If the Board fails to proceed to convene such meeting within 21 days of the deposit of the requisition, then the requisitionist(s) himself/themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board will be reimbursed to the requisitionist(s) by the Company.

SHAREHOLDERS' ENQUIRIES

Enquiries by Shareholders and the investment community to be put to the Board can be sent in writing to the principal place of business of the Company in Hong Kong. For share registration related matters, Shareholders can contact the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATION

The Company releases all necessary disclosures and corporate communication through the website of Stock Exchange in order to keep shareholders, the public and any other stakeholders informed of all major developments that affect the Company.

The annual general meeting provides a valuable forum for direct communication between the Company and the Shareholders. The annual general meeting circulars are distributed to all Shareholders at least 20 clear business days before the meeting. Separate resolutions are proposed at general meetings on each separate issue and voting of which are taken by poll pursuant to the Listing Rules. Any results of the poll are published on the Stock Exchange's website.

After the Proposed Restructuring, the proposed directors will review the Company's corporate governance policies and compliance with the Corporate Governance Code each financial year and comply with the "comply or explain" principle in the Company's corporate governance report, which will be included in the Company's annual reports subsequent to the completion of the Proposed Restructuring.

REPORT OF THE PROVISIONAL LIQUIDATORS

Based on the information available to the Provisional Liquidators, the Provisional Liquidators were not able to ascertain the accuracy and completeness of the information in this report.

The Provisional Liquidators have presented in these financial statements the financial information prepared by the Company's former management and based on all available information to the extent provided to them in their capacity as Provisional Liquidators subsequent to their appointment on 25 February 2015. The Provisional Liquidators note that the historical information in respect of the Company prior to such appointment date as provided to them may not be complete and sufficient to establish an accurate and reliable view of the historical transactions, trading and financial position and may contain errors. The Provisional Liquidators provide no assurance for the financial statements, financial position and results contained herein which are presented solely for the purpose of meeting the listing requirements. The Provisional Liquidators do not accept or assume responsibility for these financial statements for any purpose or to any person to whom these financial statements are shown or into whose hands they may come.

PRINCIPAL ACTIVITIES

The Company's principal activity is investment holding. The Group is principally engaged in the processing and sale of powder thenardite, specialty thenardite and medical thenardite and in the manufacture and sale of PPS products as at the date of the Provisional Liquidator's appointment.

DIVIDENDS

Based on the available books and records to the Provisional Liquidators, the Company did not recommend any dividend for the Reporting Period.

PROPERTY, PLANT AND EQUIPMENT

Net book value of the property, plant and equipment of the Group during Reporting Period is calculated based on the books and records available to the Provisional Liquidators of the Company. Details are set out in note 14 to the audited financial statements.

BORROWINGS

Particulars of borrowings of the Group as at 31 December 2018 are set out in note 26 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 29 to the audited financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2018 are set out in note 31 to the financial statements and in the consolidated statement of changes in equity, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

On the basis that the relevant books and records are incomplete, the Provisional Liquidators were unable to ascertain the information in relation to the major customers and suppliers.

REPORT OF THE PROVISIONAL LIQUIDATORS

DIRECTORS

The Directors during the Reporting Period and up to the date of this report were:

Executive Directors
Mr. Zhang Zhigang *(Chairman)*
Mr. Zhang Daming *(Chief Executive Officer)*
Mr. Shi Jianping

Independent Non-executive Directors
Nil

DIRECTORS' SERVICE CONTRACTS

As at the date of this report, there are three directors, namely Mr. Zhang Zhigang, Mr. Zhang Daming and Mr. Shi Jianping. According to the available service contracts of the existing three directors, the contractual periods of these aforesaid service contracts have expired and the Provisional Liquidators were unable to ascertain if there were any renewals or amendments to these aforesaid service contracts due to the limitation of incomplete books and records of the Company.

DIRECTORS' REMUNERATION

To the best knowledge of the Provisional Liquidators, the Board has the general power of determining the Directors' remuneration, subject to the authorization of the Shareholders given at the annual general meeting of the Company each year.

Due to incomplete books and records, the Provisional Liquidators were unable to ascertain information about emoluments of Directors, including emolument policy, long-term incentive schemes (if any), and the basis of determining the emolument payables to the Directors, and the employees.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on page 9.

DIRECTORS' INTERESTS IN CONTRACTS

To the best knowledge of the Provisional Liquidators and the available information to the Provisional Liquidators, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Reporting Period.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

To the best knowledge of the Provisional Liquidators and the available information to the Provisional Liquidators, during the year ended 31 December 2018 and up to the date of this report, the Provisional Liquidators are not aware of any Director being considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

REPORT OF THE PROVISIONAL LIQUIDATORS

INTERESTS AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2018, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Listing Rules (the "Model Code") are listed as follows:

Long positions in share options of the Company

Under the pre-IPO share option scheme adopted pursuant to the written resolutions of the Shareholders dated 30 April 2008 (the "Pre-IPO Share Option Scheme")

Name of Director	Date of grant	Number of Shares subject to the share options	Exercise price
Mr. Zhang Daming	30 April 2008	4,218,000	HK$2.00

Under the share option scheme adopted pursuant to the written resolutions of the Shareholders dated 26 May 2009 (the "Share Option Scheme")

Name of Director	Date of grant	Number of Shares subject to the share options	Exercise price
Mr. Zhang Zhigang	14 January 2011	7,600,000	HK$3.28
	14 July 2011	12,000,000	HK$3.01
Mr. Zhang Daming	28 July 2009	10,000,000	HK$3.59
	14 July 2011	12,000,000	HK$3.01

Save as disclosed above, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 362 of the SFO, or are required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Note:

The information above is based on the latest public information and the available books and records of the Company. No representation is made by the Company and the Provisional Liquidators as to the accuracy and completeness of the information.

Substantial Shareholders' Interests in the Share Capital of the Company

As at 31 December 2018, based on the information available to the Provisional Liquidators, the Shareholders, other than the Directors or the chief executive of the Company, who had registered any interest or short position in the shares or the underlying shares representing 5% or more of the nominal value of shares comprised in the relevant share capital of the Company, as recorded in the register kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of Shareholder	Capacity and nature of interest	Number of shares	Approximate percentage of shareholding as at 31 December 2018
Mr. Suo Lang Duo Ji	Interest of a controlled corporation	1,875,846,510	33.53%
Ascend Concept Technology Limited ("Ascend")	Beneficial Owner	1,068,445,707	19.09%
Rich Pass International Ltd.	Interest of a controlled corporation	1,068,445,707	19.09%
Nice Ace Technology Limited ("Nice Ace")	Beneficial Owner	807,396,731	14.43%

Note:

(1) Under the provisions of the SFO, Mr. Suo Lang Duo Ji is deemed to have an interest in 1,875,846,510 Shares of which 1,068,445,707 shares are shares held by Ascend (a company incorporated in the BVI and a wholly owned subsidiary of Rich Pass International Ltd of which its entire share capital is owned by Mr. Suo Lang Duo Ji) and 807,396,731 shares are shares held by Nice Ace Technology Limited (a company incorporated in the BVI of which its entire share capital is owned by Mr. Suo Lang Duo Ji) respectively.

Save as disclosed above, as at 31 December 2018, so far as is known to the Directors or the chief executive of the Company, no other person (who is not a Director or the chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.

The information above is based on the latest public information and the available books and records of the Company. No representation is made by the Company and the Provisional Liquidators as to the accuracy and completeness of the information.

Compliance with Non-Competition Undertaking

On 28 May 2009, Mr. Suo Lang Duo Ji (the ultimate controlling Shareholder) and Nice Ace (the then controlling Shareholder which is wholly owned by Mr. Suo Lang Duo Ji) executed in favour of the Company, a deed of non-competition undertaking (the "Non-competition Undertaking").

Under the Non-competition Undertaking, each of Mr. Suo Lang Duo Ji and Nice Ace undertakes to the Company (for itself and for the benefit of its subsidiaries), among others, that he or it would not, and would procure that his or its affiliates (except any members of the Group) would not, during the validity of the Non-competition Undertaking, directly or indirectly, either on his or its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in, acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of the Group from time to time.

The information above is based on the latest public information and the available books and records of the Company. No representation is made by the Company and the Provisional Liquidators as to the accuracy and completeness of the information.

REPORT OF THE PROVISIONAL LIQUIDATORS

SHARE OPTIONS

Based on the information available to the Provisional Liquidators, the Company has adopted the Pre-IPO Share Option Scheme on 30 April 2008 and the Share Option Scheme on 26 May 2009.

On the basis that the relevant books and records are incomplete, no representation is made by the Provisional Liquidators and the Company as to the completeness, existence, rights and obligations, and valuation of the share option outstanding as at 31 December 2018 for the Company as of the date of publication of these consolidated financial statements.

A. Pre-IPO Share Option Scheme
Pursuant to a written resolution approved by the Company's shareholders on 30 April 2008, the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") became effective. Certain executive directors, senior managerial staff and employees of the Group were granted options to recognise their contributions to the Group. Under the Pre-IPO Share Option Scheme, 198 individuals (the "Grantees") comprised of 3 directors, 7 senior managerial staff and 188 employees of the Group, were granted options conditionally. The exercise of the options would entitle the Grantees to purchase an aggregate of 76,000,000 shares of the Company immediately following completion of the global offering and the capitalisation issue at the offer price. The options vested on 16 June 2009, the date on which the shares of the Company were listed on the Stock Exchange (the "Listing Date"), and the Grantees remain in employment for a certain period of time. The options are exercisable by instalments and up to 7 years since the Listing Date. The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

The Group would receive HKD1.00 for each grant under the Pre-IPO Share Option Scheme.

The fair value of the options is determined using the Binomial Option Pricing Model that takes into account factors specific to the share incentive plans. The following table lists the inputs to the model used:

Expected volatility*	47.88%
Risk-free interest rate	2.544%
Dividend yield	3.93%
Expected life of option	7 years
Fair value at grant date	HKD0.51-HKD0.59
Exercise price at the date of grant	HKD1.659

The expected volatility is assumed based on the historical volatilities of the share prices of the comparable companies. It is assumed that the volatility is constant throughout the option life.

B. Share Option Scheme
In order to comply with the Listing Rules of Main Board regarding share option scheme of a Company, a share option scheme (the "Share Option Scheme") was adopted by the Company on 26 May 2009.

The Company operates the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants who work for the interest of the Group. Eligible participants of the Share Option Scheme include executive directors, non-executive directors, employees, consultants, advisers and other service providers. The Share Option Scheme became effective on 26 May 2009 and, unless otherwise cancelled or amended will remain in force for 10 years from that date.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange at the date of the grant) in excess of HKD5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The exercise price of the share options must be at least the highest of (1) the nominal value of an ordinary share on the date of grant; (ii) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the share options; and (iii) the average closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of the offer.

The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

The share options vest upon the commencement of the exercise period which is determined by the Company at the date of grant. The grantees are entitled to exercise the share options upon fulfilment of all requirements set out in the Share Option Scheme.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Based on the available information to the Provisional Liquidators, the Company has not redeemed, and neither the Company nor any of its subsidiaries has purchased or sold, any of the shares of the Company during the year ended 31 December 2018 and up to the date of this report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the Companies Law of the Cayman Islands.

RELATED PARTY TRANSACTIONS

Due to incomplete books and records, the Provisional Liquidators were unable to ascertain information about related party transactions to be disclosed during the period. On the basis that the relevant books and records are incomplete, no representation is made by the Provisional Liquidators and the Company as to the completeness, occurrence and accuracy of the related party transactions.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the date of this report, to the best knowledge of and based on the available information, the Provisional Liquidators have no information regarding whether the Directors, the Shareholders and their respective associates had any interest in a business which causes or may cause a significant competition with the business of the Group or any other conflicts of interest which any such person has or may have with the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is available to the Company and within the knowledge of the Provisional Liquidators and the Directors, as at the date of this report, the Company has complied with the sufficiency of public float requirement under the Listing Rules.

CORPORATE GOVERNANCE

A detailed Corporate Governance Report is set out on pages 10 to 15 of the Annual Report.

REPORT OF THE PROVISIONAL LIQUIDATORS

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

There were no independent non-executive directors on the Board during the Reporting Period.

EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period of the Group are set out in note 34 to the audited financial statements.

AUDITOR

Crowe (HK) CPA Limited has been appointed as the new auditors of the Company with effect from 23 February 2017 to fill the casual vacancy following the resignation of BDO Limited with effect from 21 December 2016.

The financial statements for the year ended 31 December 2018 were audited by Crowe (HK) CPA Limited, which was appointed as the auditors of the Company with effect from 23 February 2017.

For and on behalf of
China Lumena New Materials Corp.
(In Provisional Liquidation)

Joint Provisional Liquidators
Acting as agents of the Company without liability and recourse

Hong Kong, 28 February 2019

國富浩華(香港)會計師事務所有限公司
Crowe (HK) CPA Limited

香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHINA LUMENA NEW MATERIALS CORP. (IN PROVISIONAL LIQUIDATION)
(incorporated in the Cayman Islands with limited liability)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of China Lumena New Materials Corp. (In Provisional Liquidation) (the "Company") and its subsidiaries (together the "Group") set out on pages 26 to 75, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR DISCLAIMER OF OPINION

Scope limitation due to incomplete books and records
Up to the date of this report, given the incomplete books and records and serious doubts over the reliability of the Group's accounting and other records, the provisional liquidators acting as agents of the Company (without liability and recourse) (the "Provisional Liquidators") believe that it is almost impossible, and not practical, to ascertain the correct revenue and profit or loss (and the resultant assets and liabilities) for the current year for inclusion in the consolidated financial statements of the Group. Also, due to incomplete books and records, the Provisional Liquidators of the Company believe that it is almost impossible, and not practical, to verify the financial information as reported in the consolidated financial statements of the Group and financial statements of the Company for the past years and, in particular prior to the appointment of the Provisional Liquidators on 25 February 2015. We were therefore unable to carry out satisfactory audit procedures to obtain reasonable assurance regarding the completeness, accuracy, existence, valuation, classification and disclosures of the transactions contingent liabilities and commitments of the Group and the Company for the years ended 31 December 2017 and 2018.

Given these circumstances, which are more fully disclosed in note 2 to the financial statements, there were no practicable audit procedures that we could perform to satisfy ourselves that the information and documents presented to us for the purpose of our audit are complete and accurate in all material respects, nor to quantify the extent of adjustments that might be necessary in respect of the Group's and the Company's financial information.

As a result, in performing our audit on the consolidated financial statements of the Group for the year ended 31 December 2018, there were no practicable audit procedures that we could perform to satisfy ourselves whether the balances of assets, liabilities, contingent liabilities, commitments and reserves as at 1 January 2017, 1 January 2018 and 31 December 2018 were fairly stated.

Included in the note to the Company-level statement of financial position are interests in subsidiaries of RMB278,164,000 and RMB278,164,000 and loans to subsidiaries of RMB2,421,000 and RMB2,421,000 as at 31 December 2017 and 31 December 2018 respectively. Due to the scope limitations as mentioned above, we are unable to satisfy ourselves as to the fairness of the amounts carried as interests in subsidiaries and loans to subsidiaries in the Company-level statement of financial position or to determine whether any provision for impairment loss is necessary in respect of the above. Any adjustments would have a consequential effect on the net liabilities of the Company as at 31 December 2017 and 31 December 2018 and of its net loss for the years then ended and the related disclosures in the Company-level statement of financial position and reserves.

INDEPENDENT AUDITOR'S REPORT

Any adjustments found to be necessary in respect thereof had we obtained sufficient appropriate audit evidence would have had a consequential effect on the net liabilities of the Group as at 1 January 2017, 1 January 2018 and 31 December 2018, and on its loss for the years ended 31 December 2017 and 2018, and the related disclosures thereof in the consolidated financial statements.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN BASIS

The consolidated financial statements have been prepared on a going concern basis on the assumption that the Proposed Restructuring of the Company will be successfully completed, and that, following the restructuring, the Group will continue to meet in full its financial obligations as they fall due in the foreseeable future. The consolidated financial statements do not include any adjustments that would result from a failure to complete the restructuring. We consider that the disclosures are adequate. However, in view of the extent of the uncertainty relating to the completion of the restructuring, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis of preparation of these consolidated financial statements.

NON-COMPLIANCE WITH IFRSs AND OMISSION OF DISCLOSURES

As explained in note 2 to the consolidated financial statements, as the consolidated financial statements of the Group have been prepared based on the information provided by the former management of the Company and the Provisional Liquidators have presented these financial statements based on incomplete books and records, the Provisional Liquidators believe it is almost impossible and not practicable to ascertain the correct amounts. Consequently, the Provisional Liquidators of the Company were unable to confirm that the consolidated financial statements comply with International Financial Reporting Standards (the "IFRSs"), or that the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited have been complied with. Given these circumstances, which are more fully described in note 2, there were no practicable audit procedures that we could perform to quantify the extent of adjustments that might be necessary in respect of the Group's consolidated financial statements.

INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND DECONSOLIDATION OF SUBSIDIARIES

As disclosed in note 7, due to incomplete books and records, the Provisional Liquidators of the Company have been unable to access the books and records of certain subsidiaries of the Company (collectively referred to as "Unconsolidated Subsidiaries"). Due to the lack of complete books and records of the Unconsolidated Subsidiaries, the Provisional Liquidators consider that there is insufficient documentation to satisfy the Provisional Liquidators on control of the Unconsolidated Subsidiaries in accordance with the requirements of International Financial Reporting Standard 10 Consolidated Financial Statements. Therefore, it is almost impossible, and not practical, to consolidate the financial statements of the Unconsolidated Subsidiaries into the Group's consolidated financial statements since 25 February 2015, the date of the appointment of the Provisional Liquidators of the Company.

However, no sufficient evidence has been provided to satisfy ourselves as to whether the Company had lost control of these Unconsolidated Subsidiaries since 25 February 2015 and throughout the years ended 31 December 2017 and 2018 and accordingly we have been unable to obtain sufficient reliable evidence to satisfy ourselves as to whether it is appropriate to exclude the Unconsolidated Subsidiaries from the consolidated financial statements and the loss on deconsolidation of unconsolidated subsidiaries.

The exclusion of the financial position and results of the Unconsolidated Subsidiaries in the consolidated financial statements is a departure from the requirements of International Financial Reporting Standard 10 Consolidated Financial Statements.

Due to the lack of complete books and records of the Unconsolidated Subsidiaries, we were unable to obtain sufficient appropriate audit evidence and explanations to determine whether the carrying values of the investments in the Unconsolidated Subsidiaries were free from material misstatement. Any adjustments that might have been found to be necessary would have a consequential significant effect on the Group's and the Company's net liabilities as at 31 December 2017 and 2018 and the Group's results for the years then ended.

RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors and Provisional Liquidators acting as agents of the Company (without liability and recourse) are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with the IFRSs issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors and Provisional Liquidators 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 and Provisional Liquidators are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

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

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and to issue an auditor's report. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

OTHER MATTERS

The Provisional Liquidators were appointed on 25 February 2015. The Provisional Liquidators have recovered only limited books and records of the Company and they have used their reasonable endeavours to present the consolidated financial statements based on the information prepared by the former management of the Company available to them to date and based on all available information to the extent provided to them in their capacity as Provisional Liquidators subsequent to their appointment on 25 February 2015 to fulfil the Company's responsibilities for the preparation of the consolidated financial statements in accordance with IFRSs.

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong, 28 February 2019

Chan Wai Dune, Charles
Practising Certificate Number P00712

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018** **RMB'000**	2017 RMB'000
Revenue	5	**–**	–
Cost of sales		**–**	–
Gross profit		**–**	–
Other revenue and gains	6	**–**	–
Loss on deconsolidation of unconsolidated subsidiaries	7	**–**	–
Selling and distribution expenses		**–**	–
Other operating expenses		**(4,258)**	(5,416)
Finance costs	8	**(188,597)**	(178,585)
Loss before income tax	9	**(192,855)**	(184,001)
Income tax expense	10	**–**	–
Loss for the year		**(192,855)**	(184,001)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange gain on translation of financial statements of foreign operations		**–**	–
Other comprehensive income for the year, net of tax		**–**	–
Total comprehensive loss for the year		**(192,855)**	(184,001)
		RMB cents	RMB cents
Loss per share			
– Basic and Diluted	11	**(3.4)**	(3.3)

The notes on pages 30 to 75 form an integral part of these financial statements. Details of dividends payable to owners of the Company attributable to profit for the year are set out in note 12.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2018

	Notes	**2018 RMB'000**	2017 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	**1,011**	1,011
Investment properties	15	**–**	–
Land use rights	16	**–**	–
Goodwill	17	**–**	–
Mining rights	18	**–**	–
Other intangible assets	19	**–**	–
Deposits and prepayments	20	**–**	–
Deferred tax assets	28	**–**	–
		1,011	1,011
Current assets			
Inventories	22	**–**	–
Trade and other receivables	23	**–**	–
Cash and bank balances	24	**6,000**	6,685
		6,000	6,685
Current liabilities			
Trade and other payables	25	**32,352**	28,779
Borrowings	26	**2,291,843**	2,103,246
Convertible bonds	27	**1,084,388**	1,084,388
Tax payable		**–**	–
		3,408,583	3,216,413
Net current liabilities		**(3,402,583)**	(3,209,728)
Total assets less current liabilities		**(3,401,572)**	(3,208,717)
Non-current liabilities			
Borrowings	26	**3,727,903**	3,727,903
Deferred tax liabilities	28	**311,947**	311,947
		4,039,850	4,039,850
Net liabilities		**(7,441,422)**	(7,248,567)
EQUITY			
Share capital	29	**383**	383
Reserves	31(b)	**(7,441,805)**	(7,248,950)
Total deficit		**(7,441,422)**	(7,248,567)

Based on the information made available to the Company, the consolidated financial statements on pages 26 to 75 were authorised for issue by the Company on 28 February 2019 and are signed on its behalf by:

For and on behalf of
China Lumena New Materials Corp.
(In Provisional Liquidation)

Man Chun So
Joint Provisional Liquidator
Acting as agent of the Company
without liability and recourse

For and on behalf of
China Lumena New Materials Corp.
(In Provisional Liquidation)

Yat Kit Jong
Joint Provisional Liquidator
Acting as agent of the Company
without liability and recourse

The notes on pages 30 to 75 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital RMB'000	Share premium* RMB'000	Capital redemption reserve* RMB'000	Employee share-based compensation reserve* RMB'000	Capital contribution* RMB'000	General reserve* RMB'000	Statutory reserve* RMB'000	Translation reserve* RMB'000	Accumulated loss* RMB'000	Total RMB'000
At 1 January 2018	383	10,193,681	5	193,814	103,539	(413,367)	-	237,408	(17,564,030)	(7,248,567)
Loss for the year	-	-	-	-	-	-	-	-	(192,855)	(192,855)
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	-	-	-	-	-	(192,855)	(192,855)
At 31 December 2018	383	10,193,681	5	193,814	103,539	(413,367)	-	237,408	(17,756,885)	(7,441,422)

	Share capital RMB'000	Share premium* RMB'000	Capital redemption reserve* RMB'000	Employee share-based compensation reserve* RMB'000	Capital contribution* RMB'000	General reserve* RMB'000	Statutory reserve* RMB'000	Translation reserve* RMB'000	Accumulated loss* RMB'000	Total RMB'000
At 1 January 2017	383	10,193,681	5	193,814	103,539	(413,367)	–	237,408	(17,380,029)	(7,064,566)
Loss for the year	–	–	–	–	–	–	–	–	(184,001)	(184,001)
Other comprehensive income	–	–	–	–	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	–	–	–	–	(184,001)	(184,001)
At 31 December 2017	383	10,193,681	5	193,814	103,539	(413,367)	–	237,408	(17,564,030)	(7,248,567)

* These reserve accounts comprised the consolidated reserves of approximate loss of RMB7,441,805,000 (2017: loss of RMB7,248,950,000) in the consolidated statement of financial position.

The notes on pages 30 to 75 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Operating activities			
Loss before income tax		(192,855)	(184,001)
Interest expense	8	188,597	178,585
		(4,258)	(5,416)
Change in working capital			
Increase in trade and other payables		3,573	4,012
Net cash used in operating activities		(685)	(1,404)
Investing activities			
Net cash outflows from deconsolidation of unconsolidated subsidiaries		–	–
Net cash used in investing activities		–	–
Financing activities			
Increase in borrowings		–	–
Net cash generated from financing activities		–	–
Net decrease in cash and cash equivalents		(685)	(1,404)
Cash and cash equivalents at 1 January	24	6,685	8,089
Cash and cash equivalents at 31 December	24	6,000	6,685

The notes on pages 30 to 75 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION

China Lumena New Materials Corp. (In Provisional Liquidation) (the "Company") was incorporated in the Cayman Islands on 12 April 2007 as an exempted company with limited liability under the Companies Law of Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The current address of the Company's registered office is located at c/o PwC Corporate Finance & Recovery (Cayman) Limited, P.O. Box 258, 4th Floor, 18 Forum Lane, Grand Cayman, Cayman Islands, KY1-1104 and its current principal place of business is situated at 22/F., Prince's Building, Central, Hong Kong.

The Company and its subsidiaries (collectively the "Group") were engaged in the following principal activities during the year:

- Manufacturing and selling of polyphenylene sulfide ("PPS") products including PPS resin, PPS fibre and PPS compounds; and

- Processing and selling of powder thenardite, specialty thenardite and medical thenardite.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Provisional Liquidators have presented in these financial statements the financial information prepared by the Company's former management and based on all available information to the extent provided to them in their capacity as Provisional Liquidators subsequent to their appointment on 25 February 2015. The Provisional Liquidators note that the historical information in respect of the Company prior to such appointment date as provided to them may not be complete and sufficient to establish an accurate and reliable view of the historical transactions, trading and financial position and may contain errors. The Provisional Liquidators provide no assurance for the financial statements, financial position and results contained herein which are presented solely for the purpose of meeting the listing requirements. The Provisional Liquidators do not accept or assume responsibility for these financial statements for any purpose or to any person to whom these financial statements are shown or into whose hands they may come.

Suspension of trading of the Company's shares

Trading in the shares of the Company on the Stock Exchange has been suspended since 25 March 2014.

Winding up Petition

On 29 January 2015, the board (the "Board") of directors (the "Directors") of the Company received a winding up petition dated 19 January 2015 filed by Mega International Commercial Bank Co., Ltd. (the "Petitioner"or "MICB") against the Company (the "Winding Up Petition") with the Grand Court of the Cayman Islands (the "Grand Court") which was served at the Company's registered office in the Cayman Islands.

It was alleged in the Winding Up Petition that the Company was indebted to and had failed to satisfy the Lenders (as defined below) of such debt in the total sum of US$89,764,378.88 as at 16 January 2015, comprising the principal amount of a loan of US$85,000,000 (the "Loan"), accrued unpaid interest thereon of US$880,436.38 and accrued unpaid default interest thereon of US$3,883,942.50. Pursuant to the Winding Up Petition, the aforesaid amounts were owed pursuant to a loan agreement dated 22 April 2013 (the "Loan Agreement") entered into by (i) the Company (as borrower), (ii) the Petitioner, Cathay United Bank, China Development Industrial Bank, Ta Chong Bank Ltd., Taipei Fubon Commercial Bank Co., Ltd., Taishin International Bank Co., Ltd., Taiwan Business Bank and Bank of East Asia, Limited (as lenders) (collectively, the "Lenders"), and (iii) the Petitioner (as arranger and agent for the Lenders) in respect of the Loan.

Under the Winding Up Petition, the Petitioner sought to wind up the Company and to appoint liquidators.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

Appointment of the Provisional Liquidators

On 25 February 2015, Mr. Man Chun So, Mr. Yat Kit Jong and Mr. David Walker were appointed as the Provisional Liquidators of the Company with the power to act jointly and severally pursuant to the order made by the Grand Court until further notice.

On 2 August 2016, the Grand Court made a further order releasing Mr. David Walker from the obligation to perform any further duties in his capacity as provisional liquidator and replacing him with Mr. Simon Conway.

Since the appointment, the Provisional Liquidators have been investigating into the affairs of the Group and have taken all necessary actions to preserve the assets. The Provisional Liquidators have recovered limited books and records from the Company's principal place of business in Hong Kong. None of the directors of the Company have advised the Provisional Liquidators of the whereabouts of the statutory books and records, or books and records of the Group including the subsidiaries incorporated in the People's Republic of China (the "PRC").

Proposed Restructuring of the Group

On 23 September 2016, the Company entered into the restructuring framework agreement (the "Restructuring Framework Agreement") with independent third parties (the "Investors") pursuant to which the Company will implement a restructuring of the Company's equity and debt ("Proposed Restructuring").

Pursuant to the Restructuring Framework Agreement, the Company will carry out the Proposed Restructuring which comprises: (i) the Capital Reorganisation; (ii) the Creditors Schemes; (iii) the Open Offer; (iv) the Subscription; (v) the Acquisition; (vi) Reverse Takeover; and (vii) Whitewash Waiver. The Subscription was subsequently cancelled and replaced by the Share Offer pursuant to the amendment letter dated 26 November 2018.

Following the entering into of the Restructuring Framework Agreement, the Company submitted the Resumption Proposal to the Stock Exchange before the expiry of the third delisting stage to seek the resumption of trading of the Company's shares. On 24 October 2016, the Company received a letter of even date from the Stock Exchange, which stated that the Stock Exchange agreed to allow the Company to submit a new listing application relating to the Resumption Proposal (but not any other proposal) on or before 31 March 2017. If the Company fails to submit a new listing application by 31 March 2017, or the transactions proposed in the resumption proposal fail to proceed for any reason, the Stock Exchange will proceed with cancelling the Company's listing on the Stock Exchange.

On 31 March 2017, a new listing application was submitted to the Stock Exchange. In accordance with the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the new listing application was required to be re-submitted in the event that a six month period passed following the original submission. As such, three re-submissions were filed with the Stock Exchange on 16 October 2017, 9 May 2018 and 14 November 2018 respectively. In parallel, the Stock Exchange, together with the Securities and Futures Commission of Hong Kong ("SFC" and collectively, the "Regulators") issued a number of sets of queries in relation to the new listing application throughout the period from April 2017 to December 2018. The Company, the Investors and all other professional parties have been working closely to address the Regulators' queries and made relevant replies throughout the years of 2017 and 2018. As of the date of these financial statements, the Regulators are still in the process of reviewing the new listing application.

In consideration of the progress of the Proposed Restructuring and the recent financial performance of the target group, four amendment letters (the "Amendment Letters") were entered between the Company, the Provisional Liquidators and the Investors on 29 September 2017, 29 December 2017, 27 April 2018 and 26 November 2018 respectively to extend the Long Stop Date of the Restructuring Framework Agreement to 30 April 2019 (or any other date as the parties may agree in writing), to amend the Open Offer Price, the Subscription Price and the price of the Consideration Shares (from HK$0.08 to HK$0.06), to amend the share consolidation ratio from 10 shares to 1 share to 40 shares to 1 share, resulting to an increase of the Open Offer Price, the Subscription Price and the price of the Consideration Shares from HK$0.06 to HK$0.24, and to revise the transaction structure, where a Share Offer (details as set out below) will be implemented while the Subscription was cancelled.

Saved as disclosed above, the Restructuring Framework Agreement remains substantially unchanged and in full force and effect in all respects.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

Proposed Capital Reorganisation

For the Proposed Restructuring, the Company proposes to implement, subject to the approval by the shareholders, the capital reorganisation. The capital reorganisation will comprise the share consolidation, the authorised share capital cancellation and the authorised share capital increase.

Creditors Schemes

Pursuant to the terms of the Restructuring Framework Agreement and the Amendment Letters, it is proposed that the Creditors Schemes will be implemented after approval has been granted by the High Court of Hong Kong (the "High Court"), the Grand Court and the stakeholders of the Company, including the shareholders and all the creditors of the Company who have a valid claim against the Company as at the date on which the Creditors Schemes become effective.

Upon completion of the Creditors Schemes, all the claims of the creditors against the Company, and liabilities of the Company will be discharged and released in full. All existing assets of the Group will be transferred to the scheme company or scheme administrators of the Creditors Schemes, such that the only assets of the Company will be the target group on completion.

The Open Offer

Subject to the capital reorganisation becoming effective, the Company will implement the Open Offer of new shares on the basis of one offer share for every new share held on the Open Offer record date by the qualifying shareholders. A total of 140,096,484 offer shares will be allotted and issued by the Company at the offer price of HK$0.24 cash for each offer share and the gross proceeds raised via the issuance of the offer shares will be approximately HK$33.6 million. The Open Offer is only available to qualifying shareholders. The Open Offer will be conditional upon completion of the Proposed Restructuring. The Open Offer will be fully underwritten by an underwriter, being an independent third party and not acting in concert with the Investors, the companies owned by the Investors and parties acting in concert with any of them (the "Concert Group").

The Share Offer

Pursuant to the Restructuring Framework Agreement and the Amendment Letters, a share offer (which comprises a public offer, the Company's placing and the Investor's placing) will be implemented in place of the Subscription. The Company conditionally agreed to implement a share offer of 560,385,936 new shares at the price of HK$0.24. The Share Offer will consist of the offer of 70,048,242 new shares for subscription by the public in Hong Kong and the placing of 210,144,726 new shares and 280,192,968 new shares offered by the Company and the Investors respectively to selected professional, institutional and/or other investors (who shall in independent third parties and not existing shareholders) in Hong Kong and elsewhere.

Use of proceeds from the Open Offer and the Share Offer

The aggregate gross proceeds receivable by the Company from the Open Offer and the Share Offer will amount to approximately HK$100.9 million. HK$90 million of such gross proceeds will be paid into the Creditors Schemes. The remaining balance of HK$10.9 million of such gross proceeds will be used to partially settle the Company's professional fees and expenses. The remaining professional fees and expenses of the Company will be borne by the Investors.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

The Acquisition

Under the Restructuring Framework Agreement and the Amendment Letters, the Company will purchase the sale equity interest from the Investors. Upon the completion of the Acquisition, the target group will become wholly owned subsidiaries of the Company.

The consideration is approximately HK$538.0 million and was arrived at after arm's length negotiations between the parties to the Restructuring Framework Agreement and the Amendment Letters and was determined by reference to (i) the combined net asset value of the target group as at 30 June 2017 and the profitability of the target group for the three years ended 31 December 2017, (ii) the earning multiples of companies engaged in similar line of business to the target group located in Singapore and Malaysia; (iii) the business prospects of the target group; (iv) the market leader position and significant presence of the target group in the precast hollow-core concrete wall panel industry in Singapore; (v) the prolonged suspension of trading of shares of the Company; and (vi) the financial performance and financial position of the Group.

The consideration shall be satisfied by the issuance and allotment of 2,241,543,744 consideration shares at the consideration price of HK$0.24 each upon the completion of the Acquisition.

The completion of the Open Offer, the Share Offer and the Acquisition, which form part of the Proposed Restructuring, will be inter-conditional upon each other.

Reverse Takeover

The Acquisition constitutes a very substantial acquisition and a reverse takeover for the Company under Chapter 14 of the Listing Rules and therefore is subject to the reporting, announcement and shareholders' approval requirements pursuant to the Listing Rules and approval of the new listing application of the Company by the Listing Committee.

Whitewash Waiver

Upon the completion of the Proposed Restructuring, the Concert Group will, in aggregate, hold approximately 70.0% of the share capital of the Company after the capital reorganisation and as enlarged by the Offer Shares, the Share Offer Shares and the Consideration Shares and after the completion of share placement to maintain sufficient public float. As such, the Concert Group would be required to make a mandatory general offer for all the issued shares of the Company (not already owned or agreed to be acquired by the Concert Group) under Rule 26.1 of the Hong Kong Codes on Takeovers (the "Takeovers Code"), unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code is granted by the SFC. The Investors will make an application to the SFC for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code.

Incomplete books and records

Due to the limited information available, the Company was unable to obtain sufficient documentary information regarding the completeness of books and records and the treatment of various balances as included in the consolidated financial statements for the year ended 31 December 2018 and has formed the opinion as follows:

As the consolidated financial statements have been prepared based on the incomplete books and records available to the Company, the Company is unable to represent that all transactions entered into by the Group for the year ended 31 December 2018 have been properly reflected in the consolidated financial statements. As such, the Provisional Liquidators of the Company are also unable to represent as to the completeness, existence and accuracy of identification and the disclosures of the financial statements in accordance with the International Financial Reporting Standards (the "IFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. The Provisional Liquidators have recovered only limited books and records of the Company and therefore it is almost impossible, and not practical to verify the financial information of the Group.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

Going concern

The Group has received a winding up petition filed by the Petitioner against the Company and it was alleged in the Winding Up Petition that the Company was indebted to and failed to satisfy the Lenders. In preparing these consolidated financial statements, and taking into account of the incomplete books and records available to the Company (see the preceding section under the header "Incomplete books and records" for details), the Company has given careful consideration to the impact of the current and anticipated future liquidity of the Group and the Company and the ability of the Group and the Company to generate a profit and attain positive cash flows from operations in the immediate and longer term.

Based on the cash flow projections of the Group and having taken into account the assumption that the Proposed Restructuring of the Company, as mentioned above, will be successfully completed, the Company has concluded that the Group and the Company is able to continue as a going concern and to meet their financial liabilities as and when they fall due in the foreseeable future.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

Except for the matters referred to in note 2, including certain disclosures as required under IFRSs, Hong Kong Companies Ordinance and the Listing Rules, these financial statements have been prepared in accordance with IFRSs, which collective term includes all applicable individual IFRSs, International Accounting Standards (the "IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance and Listing Rules. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3.27 provides information on any changes in accounting policies resulting from the 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 consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.2 Basis of consolidation

The consolidated financial statements for the year ended 31 December 2018 comprise the Group.

The functional currency of the Company is Hong Kong dollars ("HKD"), while the financial statements are presented in Renminbi ("RMB"). As the major subsidiaries of the Group are operating in the PRC and the functional currency of the major subsidiaries is RMB, the Company consider that it will be more appropriate to adopt RMB as the Group's and the Company's presentation currency.

The consolidated financial statements have been prepared under historical cost basis except for investment properties and convertible bonds which are measured at fair value as explained in the accounting policies set out below.

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 believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities 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 4.

3.3 Subsidiaries

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.4.1 Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair values, except that:

- a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination and the potential tax effects of temporary differences and carry forwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition are recognised and measured in accordance with IAS 12 Income Taxes;

- assets or liabilities relating to employee benefit arrangements are recognised and measured in accordance with IAS 19 Employee Benefits;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4.1 Business combination (Continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 Financial Instruments, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

3.4.2 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. If some or all of the goodwill allocated to a CGU was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the CGU is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.5 Property, plant and equipment

Property, plant and equipment are stated in the consolidated statements of financial position at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Freehold land is not depreciated.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Construction-in-progress ("CIP") and asset under construction ("AUC") represent buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost comprises direct costs of construction and acquisition, as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Property, plant and equipment (Continued)

No depreciation is provided on CIP and AUC until it is completed and ready for intended use.

Building and mining structures (including leasehold improvements)	4 to 30 years
Furniture, machinery and equipment	5 to 20 years
Motor vehicles	5 to 12 years

The assets' estimated useful lives and depreciation method are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3.6 Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated in the consolidated statement of financial position at fair value, unless they are still in the course of construction or development at the end of reporting period and their fair value cannot be reliably measured at that time. Any gain or loss resulting from either a change in the fair value or disposal of an investment property is immediately recognised in profit or loss.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 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.

3.7.1 Classification of assets leased to the Group

Assets 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, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

3.7.2 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 included in 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 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 3.5. Impairment losses are accounted for in accordance with the accounting policy as set out in note 3.10. 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.

3.7.3 Operating lease charges

Where the Group has the use of assets 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 as expenses in the accounting period in which they are incurred.

3.7.4 Leasehold land for own use

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Intangible assets (other than goodwill)

Trademark acquired in a business combination

Trademark acquired in a business combination is identified and recognised separately from goodwill where it satisfies the definition of an intangible asset. It is measured on initial recognition at cost which is the fair value as at the date of acquisition. Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Such intangible assets are not amortised.

The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable.

Customer relationship, patents and technical know-how acquired in a business combination

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

3.9 Mining rights

Mining rights are stated at cost less accumulated amortisation and impairment loss and are amortised on a straight-line basis over the estimated useful life, which is the shorter of the contractual period and the estimated period of extraction (based on the total proven and probable reserves of the mines), from the date such mine is available for use.

3.10 Credit losses and impairment of assets

3.10.1 Credit losses from financial instruments, contract assets and lease receivables

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables);

– contract assets as defined in IFRS 15;

– debt securities measured at fair value through other comprehensive income ("FVOCI") (recycling);

– lease receivables; and

– loan commitments issued, which are not measured at fair value through profit or loss ("FVPL").

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Credit losses and impairment of assets (Continued)

3.10.1 Credit losses from financial instruments, contract assets and lease receivables (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

– lease receivables: discount rate used in the measurement of the lease receivable;

– loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Credit losses and impairment of assets (Continued)

3.10.1 Credit losses from financial instruments, contract assets and lease receivables (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

For loan commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the Group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of default occurring on the loan to which the loan commitment relates.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Credit losses and impairment of assets (Continued)

3.10.1 Credit losses from financial instruments, contract assets and lease receivables (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Basis of calculation of interest income

Interest income recognised in accordance with note 3.19 is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

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

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

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

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Credit losses and impairment of assets (Continued)

3.10.1 Credit losses from financial instruments, contract assets and lease receivables (Continued)

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables, available-for-sale investments and held-to-maturity debt securities). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– significant financial difficulties 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.

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For trade and other receivables and other financial assets carried at amortised cost, impairment loss was 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, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were 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 decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

  When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Credit losses and impairment of assets (Continued)

3.10.1 Credit losses from financial instruments, contract assets and lease receivables (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

– For available-for-sale investments, the cumulative loss that had been recognised in the fair value reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

Impairment losses recognised in profit or loss in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss.

3.10.2 Credit losses from 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.

Financial guarantees issued are initially recognised within "trade and other payables" at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or 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.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

(A) Policy applicable from 1 January 2018

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 3.10.1 apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Credit losses and impairment of assets (Continued)

3.10.2 Credit losses from financial guarantees issued (Continued)

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, a provision would be recognised if and when it became probable that (i) the holder of the guarantee would call upon the Group under the guarantee and (ii) the amount of the claim on the Group was expected to exceed the amount carried in “trade and other payables” in respect of the guarantee.

3.10.3 Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of 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 (other than properties carried at revalued amounts);

– pre-paid interests in leasehold land classified as being held under an operating lease;

– intangible assets;

– goodwill; and

– investments in subsidiaries, associates and joint ventures in the Company’s statement of financial position.

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 CGU).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Credit losses and impairment of assets (Continued)

3.10.3 Impairment of other non-current assets (Continued)

– Reversals of impairment losses

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.

3.10.4 Interim financial reporting and impairment

Under the Listing Rules, 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 3.10.1 and 3.10.2).

Impairment losses recognised in an interim period in respect of goodwill 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.

3.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale.

3.12 Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 3.10.1).

3.13 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. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in note 3.10.1.

3.14 Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 3.10.2, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Convertible bonds

The convertible bonds of U.S. dollars ("USD") 120 million issued by the Company that contain both the liability and conversion option are classified separately into their respective items on initial recognition. As the convertible bonds can be converted to equity share capital at the option of the bondholders, where the number of shares that would be issued on conversion and the value of consideration would be received at that time do not vary, these are accounted for as an equity instrument.

The liability component of the convertible bonds of USD120 million is determined using a market rate for an equivalent non-convertible bond. The equity component of the convertible bonds of USD120 million is then the residual after deducting the fair value of liability from the fair value of the convertible bonds of USD120 million. 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 as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The interest expenses recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the convertible bonds equity reserve until either the convertible bonds are converted, redeemed or matured.

If the convertible bonds are converted, the convertible bonds equity 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 convertible bonds are redeemed, the convertible bonds equity reserve is released directly to retained profits.

Upon issuance of the convertible bonds, the bondholders were also granted an option to subscribe for the additional convertible bonds in an aggregate principal amount of up to USD100 million (the "loan commitment"). The option is exercisable during the period commencing on the date of completion of the subscription for the convertible bonds and ending on the first anniversary of such date.

If it is probable that the Group will enter into a specific lending arrangement and the loan commitment is not within the scope of IFRS 9, the loan commitment fees received is regarded as compensation for the ongoing involvement with the issuance of a financial instrument and is deferred and recognised as an adjustment to the effective interest rate. If the loan commitment expires without the Group making the loan, the fee is recognised as revenue on expiry.

If it is not probable that the Group will enter a specific lending arrangement, and the loan commitment is not within the scope of IFRS 9, the loan commitment fees received are recognised as revenue on a time proportion basis over the commitment period.

Loan commitments within the scope of IFRS 9 are accounted for as derivatives and measured at fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Employee benefits

3.16.1 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.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

Defined contribution retirement plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The Group's contributions to defined contribution plans are recognised in the financial year when they are due.

A liability for a termination benefit is recognised at the earlier when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

3.16.2 Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Binomial Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options 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 under review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based compensation 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 is recognised in the employee share-based compensation reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to accumulated losses).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 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 loses 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 that 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.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 3.6, the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Income tax (Continued)

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.

3.18 Provisions and contingent liabilities

3.18.1 Onerous contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

3.18.2 Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 3.18.3. Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 3.18.3.

3.18.3 Other 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products.

Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

Rental income

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

3.20 Foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates prevailing at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

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

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates prevailing at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Renminbi at the closing foreign exchange rates prevailing 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. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

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

3.22 Government grants

Government grants are recognised 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 deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

3.23 Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

3.24 Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements are identified from the financial information provided regularly to the executive directors 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 purpose unless the segments have similar characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or 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 are share a majority of these criteria.

3.25 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.26 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 key management personnel of the Group or the Company's parent.

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

(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 the employees of 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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.27 Application of new and revised International Financial Reporting Standards

In the current year, the Group has applied, for the first time, a number of new or revised standards and interpretations ("new or revised IFRSs"). The application of the new and revised IFRSs in the current year has no material effect on the amounts reported in the consolidated financial statements and/or disclosures set out in the consolidated financial statements.

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRIC 22	Foreign Currency Transactions and Advance Consideration

(a) Overview

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9 Prepayment Features with Negative Compensation which have been adopted at the same time as IFRS 9.

Details of the changes in accounting policies are discussed as below. As stated in the note 7 to the consolidated financial statements, certain subsidiaries of the Company (collectively referred to as "Unconsolidated Subsidiaries") have been excluded from the financial statements due to the lack of complete books and records. As such, no financial instruments are recorded as at 31 December 2018. Additionally, the Company has stopped trading and other business operations since the Company has been placed into provisional liquidation on 25 February 2015. No revenue have been generated and no foreign currency transactions have been taken in place for the year ended 31 December 2018. In consideration of the above, the adoption of these new standards or interpretation is not applicable to have any material impact on the financial position and the financial result of the Group.

(b) IFRS 9 Financial Instruments, including the amendments to IFRS 9 Prepayment Features with Negative Compensation

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

(i) Classification of financial assets and financial liabilities

IFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at FVOCI and at FVPL. These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of IFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.27 Application of new and revised International Financial Reporting Standards (Continued)

(b) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation (Continued)

(ii) Credit losses

IFRS 9 replaces the "incurred loss" model in IAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables);

– contract assets as defined in IFRS 15; and

– lease receivables.

For further details on the Group's accounting policy for accounting for credit losses, see note 3.10.1(A).

(c) IFRS 15, Revenue from contracts with customers

The Company has stopped trading and other business operations since the Company has been placed into provisional liquidation on 25 February 2015. No revenue have been generated for the year ended 31 December 2018. In consideration of the above, the adoption of this new standard is not applicable to have any material impact on the financial position and the financial result of the Group.

(d) IFRIC 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way.

The Company has stopped trading and other business operations since the Company has been placed into provisional liquidation on 25 February 2015. No foreign currency transactions have been taken in place for the year ended 31 December 2018. In consideration of the above, the adoption of this new interpretation is not applicable to have any material impact on the financial position and the financial result of the Group.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

i) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.10. The recoverable amounts of CGU have been determined based on fair value less costs to sell calculations. These calculations require the use of estimates.

ii) Impairment of other assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of asset or a CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. When fair value less costs to sell calculations are undertaken, management must estimate the expected future cash flows from the asset or CGU and choose a suitable discount rate in order to calculate the present value of those cash flows.

iii) Impairment of receivables

The Group's management determines the provision for impairment of receivables. This estimate is based on the evaluation of collectability and ageing analysis of receivables and on management's judgement. A considerable amount of judgement is required in assessing the expected timing of collection and ultimate realisation of these receivables, including credit worthiness and collection history of each customer and other debtor. Management will reassess the provision at each reporting date. If the financial conditions of the customers or debtors of the Group deteriorate thus resulting in impairment as to their ability to make payment, additional allowances may be required.

iv) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives for the property, plant and equipment of the Group. This estimate is based on the historical experience of the actual useful lives of the relevant assets of similar nature and functions. The estimated useful lives could be different as a result of technical innovations which could affect the related depreciation charges included in profit or loss.

v) Estimate of fair value of investment properties

As disclosed in note 3.6, the investment properties were revalued at the end of each reporting period by independent professional valuers. Such valuations were based on certain assumptions which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period.

vi) Provision for reclamation and closure cost

Provision for reclamation and closure cost is estimated based on management's interpretation of current regulatory requirements and their past experiences. Provision set up, if any, is reviewed regularly by management to ensure it properly reflects the obligation arising from mining and exploration activities.

5. REVENUE

Revenue, which is also the Group's turnover, represents the net amounts received and receivable for goods sold, less value-added tax and sales returns, for the year. The amount of each significant category of the revenue recognised is as follows:

	2018 **RMB'000**	2017 RMB'000
Revenue from PPS business		
– Coating-grade PPS resin		
– Injection-moulding-grade PPS resin	**–**	–
– Film-grade PPS resin	**–**	–
– PPS fibre	**–**	–
– PPS compounds	**–**	–
	–	–
Revenue from mining and thenardite business		
– Powder thenardite		
– Medical thenardite	**–**	–
– Specialty thenardite	**–**	–
	–	–
Revenue	**–**	–

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the accuracy, completeness, occurrence, cut-off and classification of the revenue of the Group as of the date of publication of these consolidated financial statements and no disclosure of the segment information is available.

6. OTHER REVENUE AND GAINS

	2018 **RMB'000**	2017 RMB'000
Other revenue and gains	**–**	–

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the accuracy, completeness, occurrence, cut-off and classification of the other revenue and gains of the Group as of the date of publication of these consolidated financial statements.

7. LOSS ON DECONSOLIDATION OF UNCONSOLIDATED SUBSIDIARIES

As disclosed in note 2, due to incomplete books and records, the Provisional Liquidators of the Company have been unable to access the books and records of the Unconsolidated Subsidiaries. Due to the lack of complete books and records of the Unconsolidated Subsidiaries, the Provisional Liquidators consider that there is insufficient documentation to satisfy the Provisional Liquidators on control of the Unconsolidated Subsidiaries in accordance with the requirements of International Financial Reporting Standard 10 Consolidated Financial Statements. Therefore it is almost impossible, and not practical, to consolidate the financial statements of the Unconsolidated Subsidiaries into the Group's consolidated financial statements since 25 February 2015, the date of the appointment of the Provisional Liquidators of the Company.

As disclosed in note 2 on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the accuracy, completeness, occurrence, cut-off, classification of the loss on deconsolidation of unconsolidated subsidiaries of the Group as of the date of publication of these consolidated financial statements.

8. FINANCE COSTS

	2018 **RMB'000**	2017 RMB'000
Total finance costs	**188,597**	178,585

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the accuracy, completeness, occurrence, cut-off and classification of the finance costs of the Group as of the date of publication of these consolidated financial statements.

9. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging and (crediting) the following items:

	2018 **RMB'000**	2017 RMB'000
Auditor's remuneration	**219**	208
Amortisation of land use rights (note (i))	**–**	–
Amortisation of mining rights (note (i))	**–**	–
Amortisation of other intangible assets (note (i))	**–**	–
Cost of inventories recognised as an expense	**–**	–
Depreciation of property, plant and equipment	**–**	–
Impairment of trade and other receivables	**–**	–
Write-off of cash and bank balances	**–**	–
Operating lease charges on rented premises	**–**	–
Outgoings in respect of investment properties	**–**	–
Research expenses	**–**	–
Staff costs (including directors' remuneration (note (ii))		
– Wages, salaries and bonus	**3,673**	3,039
– Equity-settled share-based payment (note 32)	**–**	–
– Contribution to defined contribution pension plans	**–**	–
	3,673	3,039

Notes:

(i) Amounts have been included in other operating expenses in the consolidated statement of profit or loss and other comprehensive income.

(ii) Due to incomplete books and records, the Provisional Liquidators were unable to ascertain information about the five highest paid individuals during the years ended 31 December 2018 and 2017.

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the accuracy, completeness, occurrence, cut-off and classification of the disclosure of loss before income tax of the Group of the date of publication of these consolidated financial statements.

10. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
Current tax	–	–
– Provision for Enterprise Income Tax	–	–
Deferred tax	–	–
Total income tax expense	–	–

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any taxation under the jurisdiction of Cayman Islands and BVI during year ended 31 December 2018 (2017: Nil).

(ii) No provision for Hong Kong profits tax has been made as the Group had no assessable profit arising in or derived from Hong Kong during the year ended 31 December 2018 (2017: Nil).

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the accuracy, completeness, occurrence, cut-off and classification of the income tax expenses of the Group as of the date of publication of these consolidated financial statements.

11. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to the owner of the Company of approximately RMB192,855,000 (2017: loss of RMB184,001,000) and the weighted average number of 5,603,859,393 (2017: 5,603,859,393) ordinary shares in issue during the year.

(b) Diluted loss per share

Diluted loss per share equals to basic loss per share for the years ended 31 December 2018 and 2017 because the share options outstanding were anti-dilutive.

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the accuracy, completeness, occurrence, cut-off and classification of the disclosure of loss per share of the Group as of the date of publication of these consolidated financial statements.

12. DIVIDENDS

No dividend was declared during the year (2017: Nil).

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the accuracy, completeness, occurrence, cut-off and classification of the disclosure of dividends of the Group as of the date of publication of these consolidated financial statements.

13. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

Directors' remuneration 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 is as follows:

	2018 RMB'000	2017 RMB'000
Directors' fee	**–**	–
Salaries allowance and bonus	**3,673**	3,039
Contribution to pension plans	**–**	–
Equity-settled share-based payments	**–**	–
Total	**3,673**	3,039

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the accuracy, completeness, occurrence, cut-off and classification of the directors' remuneration and senior management's emoluments of the Group as of the date of publication of these consolidated financial statements.

14. PROPERTY, PLANT AND EQUIPMENT

	2018 RMB'000	2017 RMB'000
Net carrying amount at 1 January and 31 December	**1,011**	1,011

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the completeness, existence, rights and obligations, and valuation of the property, plant and equipment of the Group as of the date of publication of these consolidated financial statements.

15. INVESTMENT PROPERTIES

	2018 RMB'000	2017 RMB'000
Fair value		
At 1 January and 31 December	**–**	–

Investment properties represent buildings and land use rights located in the PRC.

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the completeness, existence, rights and obligations, and valuation of the investment properties of the Group as of the date of publication of these consolidated financial statements.

16. LAND USE RIGHTS

	2018 RMB'000	2017 RMB'000
Net carrying amount at 1 January and 31 December	–	–

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the completeness, existence, rights and obligations, and valuation of the land use rights of the Group as of the date of publication of these consolidated financial statements.

17. GOODWILL

	2018 RMB'000	2017 RMB'000
Net carrying amount at 1 January and 31 December	–	–

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the completeness, existence, rights and obligations, and valuation of the goodwill of the Group as of the date of publication of these consolidated financial statements.

18. MINING RIGHTS

	2018 RMB'000	2017 RMB'000
Net carrying amount at 1 January and 31 December	–	–

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the completeness, existence, rights and obligations, and valuation of the mining rights of the Group as of the date of publication of these consolidated financial statements.

19. OTHER INTANGIBLE ASSETS

	2018 RMB'000	2017 RMB'000
Net carrying amount at 1 January and 31 December	–	–

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the completeness, existence, rights and obligations, and valuation of the other intangible assets of the Group as of the date of publication of these consolidated financial statements.

20. DEPOSITS AND PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Net carrying amount at 1 January and 31 December	–	–

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the completeness, existence, rights and obligations, and valuation of the deposits and prepayments of the Group as of the date of publication of these consolidated financial statements.

21. INTERESTS IN SUBSIDIARIES

	2018 RMB'000	2017 RMB'000
Total investment in and amounts due from subsidiaries at 31 December	278,164	278,164

The following list contains the particulars of the principal subsidiaries in which the Company has direct or indirect interests are set out as follows:

Name	Country/place of incorporation/establishment and type of legal entity	Particulars issued and fully paid share capital/ registered capital	Effective interest held by the Company	Principal activities
Interests held directly				
Rich Light International Limited	Incorporated in the BVI, limited liability company	USD100	100%	Investment holding
Sino Polymer New Materials Co., Ltd.	Incorporated in the Cayman Islands, limited liability company	USD100,000,000	100%	Investment holding
Interests held indirectly				
Top Promise Resources Limited	Incorporated in Hong Kong, limited liability company	One ordinary share	100%	Investment holding
Haton Polymer & Fibre Limited	Incorporated in the BVI, limited liability company	USD0.1	100%	Investment holding
Haton Polymer Limited	Incorporated in Hong Kong, limited liability company	One ordinary share	100%	Investment holding

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the completeness, existence, rights and obligations, and valuation of the interests in subsidiaries of the Company and amounts due from subsidiaries as of the date of publication of these consolidated financial statements.

22. INVENTORIES

	2018 RMB'000	2017 RMB'000
Inventories	–	–

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the completeness, existence, rights and obligations, and valuation of the inventories of the Group as of the date of publication of these consolidated financial statements.

23. TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade and other receivables	18,649	18,649
Less: Impairment loss brought forward	(18,649)	(18,649)
Net carrying amount at 31 December	–	–

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the completeness, existence, rights and obligations, and valuation of the trade and other receivables of the Group as of the date of publication of these consolidated financial statements.

24. CASH AND BANK BALANCES

	2018 RMB'000	2017 RMB'000
Cash and bank balances as stated in the consolidated statement of financial position at 31 December	6,000	6,685

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.

	Convertible bonds RMB'000	Borrowings RMB'000	Total RMB'000
At 1 January 2017	1,084,388	5,652,564	6,736,952
Changes from financing cash flows:			
Interest paid	–	–	–
Total changes from financing cash flows	–	–	–
Exchange adjustments	–	–	–
Changes in fair value	–	–	–
Other changes:			
Interest expenses	–	178,585	178,585
	–	178,585	178,585
At 31 December 2017 and 1 January 2018	1,084,388	5,831,149	6,915,537
Changes from financing cash flows:			
Interest paid	–	–	–
Total changes from financing cash flows	–	–	–
Exchange adjustments	–	–	–
Changes in fair value	–	–	–
Other changes:			
Interest expenses	–	188,597	188,597
	–	188,597	188,597
At 31 December 2018	1,084,388	6,019,746	7,104,134

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the completeness, existence, rights and obligations, and valuation of the cash and bank balances of the Group and the underlying cash transactions at the date of publication of these consolidated financial statements.

25. TRADE AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Net carrying amount	32,352	28,779

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the completeness, existence, rights and obligations, and valuation of the trade and other payables of the Group as of the date of publication of these consolidated financial statements.

26. BORROWINGS

The Group's borrowings were repayable as follows:

	2018 RMB'000	2017 RMB'000
Current	2,291,843	2,103,246
Non-current	3,727,903	3,727,903
At 31 December	6,019,746	5,831,149

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the completeness, existence, rights and obligations, and valuation of the borrowings of the Group as of the date of publication of these consolidated financial statements.

27. CONVERTIBLE BONDS

On 7 April 2011, the Company entered into a subscription agreement (the "Subscription Agreement") with Stable Investment Corporation ("SIC"), a wholly-owned subsidiary of China Investment Corporation and CITIC Capital China Access Fund Limited ("CITIC Capital"). Pursuant to the Subscription Agreement, SIC and CITIC Capital agreed to subscribe for the convertible bonds of the Company in an aggregate principal amount of USD120,000,000 (equivalent to approximately RMB779,229,000) at 6% interest rate per annum (the "Convertible Bonds") with maturity on 12 May 2014 (the "Maturity Date"). In addition, the Company has granted SIC and CITIC Capital an option to subscribe for the additional convertible bonds in an aggregate principal amount of up to USD100,000,000 (the "Additional Convertible Bonds"), exercisable during the period commencing on the date of completion of the subscription for the Convertible Bonds and ending on the first anniversary of such date. The terms and conditions of the Additional Convertible Bonds will be the same as the terms and conditions of the Convertible Bonds as set out in the Subscription Agreement in all respect except for (i) the conversion price and (ii) the first payment of interest. No further bond interest had been accrued after the Maturity Date subject to the negotiation with bondholders.

Interest on the Convertible Bonds is repayable quarterly in arrear on 31 March, 30 June, 30 September and 31 December commencing on 30 September 2011.

Unless previously redeemed, converted or purchased and cancelled, the Company will redeem the Convertible Bonds at 148.15% of its principal amount together with accrued and unpaid interest on the Maturity Date. Based on the information available to the Company, there is no information in relation to the redemption, conversion, purchase or cancellation of the Convertible Bonds.

27. CONVERTIBLE BONDS (CONTINUED)

The carrying amount of the liability component of the Convertible Bonds is set out as below:

	Liability component		Equity component	
	2018 **RMB'000**	2017 RMB'000	**2018** **RMB'000**	2017 RMB'000
Carrying amount as at 1 January and 31 December	**1,084,388**	1,084,388	**–**	–

Analysed for reporting purposes as:

	Liability Component		Equity Component	
	2018 **RMB'000**	2017 RMB'000	**2018** **RMB'000**	2017 RMB'000
As at 1 January and 31 December Convertible Bonds included in current liabilities	**1,084,388**	1,084,388	**–**	–

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the completeness, existence, rights and obligations, and valuation of the convertible bonds and loan commitment of the Group as of the date of publication of these consolidated financial statements.

28. DEFERRED TAX ASSETS/LIABILITIES

	2018 **RMB'000**	2017 RMB'000
Net deferred tax liabilities as at 1 January and 31 December	**311,947**	311,947

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the completeness, existence, rights and obligations, and valuation of the deferred tax liabilities of the Group as of the date of publication of these consolidated financial statements.

29. SHARE CAPITAL

	Number of ordinary shares	Nominal value	
		USD	RMB'000
Authorised:			
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	10,000,000,000	100,000	718
Issued and fully paid:			
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	5,603,859,393	56,039	383

Note: For the years ended 31 December 2018 and 2017, no shares were issued.

30. COMPARATIVE FIGURES

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

31. RESERVES

a) Company

The movement of the Company's reserves are as follows:

	2018 RMB'000	2017 RMB'000
At 1 January	**(4,970,444)**	(4,838,369)
Recognition of share-based payments	**–**	–
Dividend paid	**–**	–
Loss for the year	**(138,427)**	(132,075)
Exchange gain/(loss) on translation of financial statements of foreign operations	**–**	–
At 31 December	**(5,108,871)**	(4,970,444)

31. RESERVES (CONTINUED)

b) Group

Details of the movements on the Group's reserves are set out in the consolidated statement of changes in equity.

Employee share-based compensation reserve

Employee share-based compensation reserve is comprised of the fair value of the actual or estimated number of unvested share options granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based employee compensation set out in notes 3.16.

General reserve

General reserve represents the difference between the net assets acquired by the Group and the consideration paid for the acquisition of additional interests in subsidiaries.

Capital contribution

On 23 June 2007, the Company entered into a facility agreement with Credit Suisse, Singapore Branch and Credit Suisse International for an USD bank loan. On the same date, the Company and its shareholders are required to enter into another agreement in respect of an instrument constituting warrants to purchase shares in the Company for the provision of the facility. The warrants were issued by a shareholder of the Company to Credit Suisse, Singapore Branch and Credit Suisse International, the warrant holders, with a right to purchase a specified amount of the Company's shares within a specific period. Due to the fact that the facility arrangements were specially for the purpose of capital injection in Chuanmei Glauber Salt and the acquisition of mines, and these facility arrangements were secured by the warrants and guarantees provided by shareholders, accordingly, the capital contribution of the Group and the Company represented the fair value of the warrants which entitled the warrant holders to purchase for the share capital of the Company from a shareholder as well as the guarantees provided by the shareholders of the Company.

Statutory reserves

— Statutory surplus reserve

According to the relevant laws and regulations in the PRC, subsidiaries of the Group are required to transfer 10% of their profits after taxation after setting off the accumulated losses brought forward from prior years, as determined under PRC Accounting Regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. Any further appropriation is optional. These reserves may be used to make good previous years' losses, if any, and may be converted to increase paid-up capital of the respective entities.

— Statutory public welfare fund

In accordance with the relevant laws and regulations in the PRC, the subsidiaries of the Group is required to appropriate certain portion of its profits after tax, as determined in accordance with the PRC Accounting Regulations, to the statutory public welfare fund but the amount of appropriation is determined by the board of directors. The statutory public welfare fund shall only apply to collective welfare of staff and workers and welfare facilities remain as properties of the Group.

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the completeness, existence, rights and obligations, and valuation of the reserves of the Group and Company as of the date of publication of these consolidated financial statements.

32 SHARE-BASED EMPLOYEE COMPENSATION

(i) Pre-IPO share option scheme

Pursuant to a written resolution approved by the Company's shareholders on 30 April 2008, the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") became effective. Certain executive directors, senior managerial staff and employees of the Group were granted options to recognise their contributions to the Group. Under the Pre-IPO Share Option Scheme, 198 individuals (the "Grantees") comprised of 3 directors, 7 senior managerial staff and 188 employees of the Group, were granted options conditionally. The exercise of the options would entitle the Grantees to purchase an aggregate of 76,000,000 shares of the Company immediately following completion of the global offering and the capitalisation issue at the offer price. The options vested on 16 June 2009, the date on which the shares of the Company were listed on the Stock Exchange (the "Listing Date"), and the Grantees remain in employment for a certain period of time. The options are exercisable by installments and up to 7 years since the Listing Date. The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

The Group would receive HKD1.00 for each grant under the Pre-IPO Share Option Scheme.

The fair value of the options is determined using the Binomial Option Pricing Model that takes into account factors specific to the share incentive plans. The following table lists the inputs to the model used:

Expected volatility*	47.88%
Risk-free interest rate	2.544%
Dividend yield	3.93%
Expected life of option	7 years
Fair value at grant date	HKD0.51 – HKD0.59
Exercise price at the date of grant	HKD1.659

* The expected volatility is assumed based on the historical volatilities of the share prices of the comparable companies. It is assumed that the volatility is constant throughout the option life.

32 SHARE-BASED EMPLOYEE COMPENSATION (CONTINUED)

(ii) Share option scheme

In order to comply with the Listing Rules of Main Board regarding share option scheme of a Company, a share option scheme (the "Share Option Scheme") was adopted by the Company on 26 May 2009.

The Company operates the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants who work for the interest of the Group. Eligible participants of the Share Option Scheme include executive directors, non-executive directors, employees, consultants, advisers and other service providers. The Share Option Scheme became effective on 26 May 2009 and, unless otherwise cancelled or amended will remain in force for 10 years from that date.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange at the date of the grant) in excess of HKD5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The exercise price of the share options must be at least the highest of (i) the nominal value of an ordinary share on the date of grant; (ii) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the share options; and (iii) the average closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of the offer.

The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

The share options vest upon the commencement of the exercise period which is determined by the Board at the date of grant. The grantees are entitled to exercise the share options upon fulfilment of all requirements set out in the Share Option Scheme.

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the completeness, existence, rights and obligations, and valuation of the share option outstanding as at 31 December 2018 and 2017 for the Group and Company as of the date of publication of these consolidated financial statements.

33. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Notes	2018 RMB'000	2017 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	21	278,164	278,164
Current assets			
Other receivables		–	–
Loans to subsidiaries		2,421	2.421
Cash and bank balances		5,787	6,483
		8,208	8,904
Current liabilities			
Other payables		32,352	28,779
Borrowings		1,645,540	1,511,382
Convertible bonds		1,084,388	1,084,388
Amounts due to subsidiaries		98,848	98,848
		2,861,128	2,723,397
Net current liabilities		(2,852,920)	(2,714,493)
Total assets less current liabilities		(2,574,756)	(2,436,329)
Non-current liabilities			
Borrowings		2,533,732	2,533,732
Net liabilities		(5,108,488)	(4,970,061)
EQUITY			
Share capital	29	383	383
Reserves	31(a)	(5,108,871)	(4,970,444)
Total deficit		(5,108,488)	(4,970,061)

As disclosed in note 2, on the basis that the relevant books and records are incomplete, no representation is made by the Company as to the completeness, existence, right and obligations and accuracy of the Company-level statement of financial position as at the date of publication of these consolidated financial statements.

34. EVENT AFTER REPORTING PERIOD

Subsequent to the end of the reporting period, there are certain updates on the Group's proposed restructuring in progress, and further details of which are stated in note 2 to the consolidated financial statements.

35. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATION ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018 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 16 Leases	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019
Amendments to IAS 28 Long-term Interest in Associates and Joint Ventures	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 16, the actual impact upon the initial adoption of this standard 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 standard is initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

35. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATION ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

IFRS 16 Leases

As disclosed in note 3.7, 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.

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.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore 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. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of IFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.