STRONG PETROCHEMICAL HOLDINGS LIMITED

海峽石油化工控股有限公司*

(incorporated in the Cayman Islands with limited liability) **Stock Code: 852**

# 2018
# ANNUAL REPORT

* *For identification purposes only*

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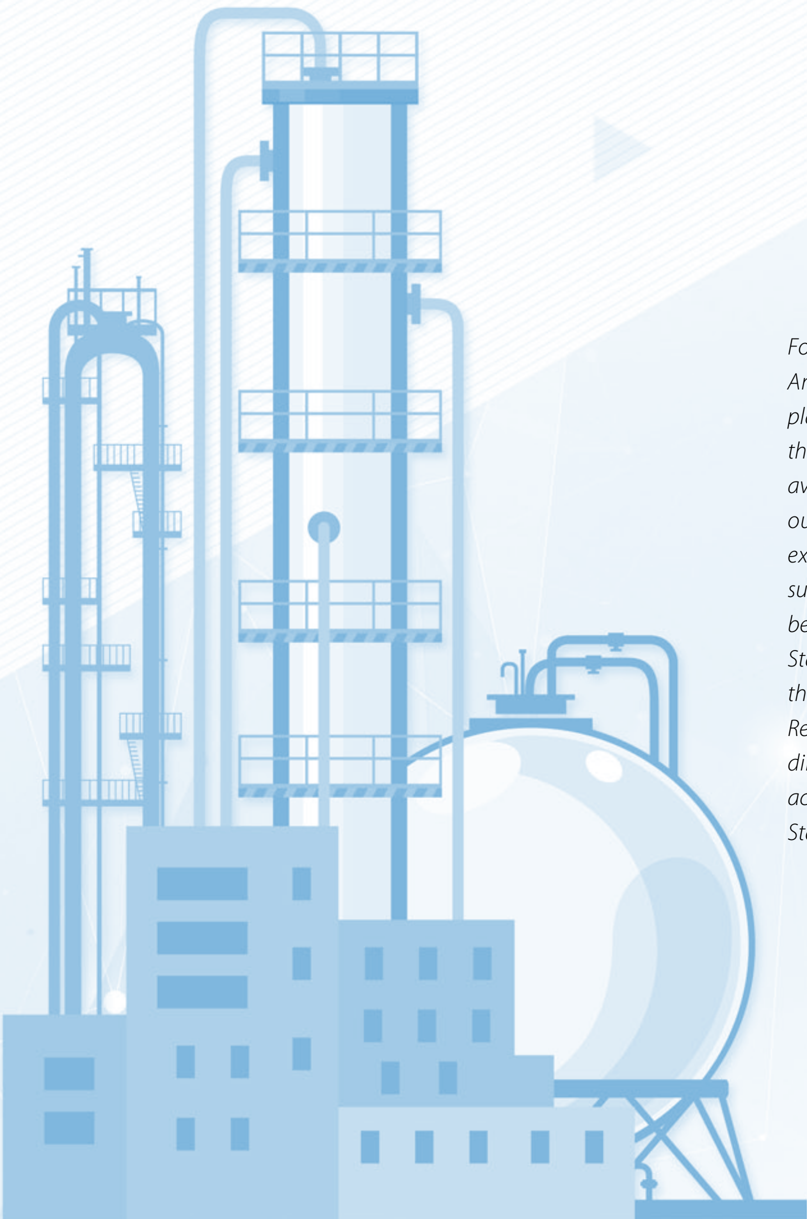


*Forward-looking statements (the "Statements") contained in this Annual Report (the "Report") relating to the forecast business plans, prospects, financial forecasting, and growth strategies of the Group. These Statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this Report. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. These Statements may prove to be incorrect and may not be realised in future. Underlying these Statements is a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of the Statements in this Report should not be regarded as representations by the board of directors or the Company that the plans and objectives will be achieved, and investors should not place undue reliance on such Statements.*

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. WANG Jian Sheng *(Chairman)*
Mr. YAO Guoliang

### Independent Non-executive Directors

Ms. CHEUNG Siu Wan
Mr. GUO Yan Jun (resigned on1 January 2018)
Dr. CHAN Yee Kwong
Mr. DENG Heng (appointed on 1 January 2018)

## BOARD COMMITTEES

### Audit Committee

Ms. CHEUNG Siu Wan *(Chairman)*
Mr. GUO Yan Jun (resigned on 1 January 2018)
Dr. CHAN Yee Kwong
Mr. DENG Heng (appointed on 1 January 2018)

### Remuneration Committee

Dr. CHAN Yee Kwong *(Chairman)*
Mr. GUO Yan Jun (resigned on 1 January 2018)
Mr. DENG Heng (appointed on 1 January 2018)
Mr. WANG Jian Sheng

### Nomination Committee

Mr. WANG Jian Sheng *(Chairman)*
Ms. CHEUNG Siu Wan
Mr. GUO Yan Jun (resigned on 1 January 2018)
Mr. DENG Heng (appointed on 1 January 2018)

## COMPANY SECRETARY

Ms. WONG Wai Han (Practising Solicitor) (Hong Kong)
(resigned on 14 February 2018)
Mr. LAI Yang Chau, Eugene (Practising Solicitor) (Hong Kong)
(appointed on 14 February 2018)

## AUTHORISED REPRESENTATIVES

Mr. WANG Jian Sheng
Mr. YAO Guoliang

## REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1604, 16th Floor, Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

## AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

## LEGAL ADVISER

Yang Chau Law Office (as to Hong Kong laws)

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd., Hong Kong Branch
Credit Suisse AG
DBS Bank (Hong Kong) Limited
Rabobank International, Singapore Branch
Societe Generale, Singapore Branch
Standard Chartered Bank (Hong Kong) Limited
United Overseas Bank Ltd., Singapore Branch

## WEBSITE

www.strongpetrochem.com

## SHARE INFORMATION

The Stock Exchange of Hong Kong Limited
Stock code: 00852

# Five Years Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out below:

| | **2018** | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Results (HK$'000)** | | | | | |
| Revenue | **22,810,604** | 12,162,601 | 8,617,315 | 11,035,616 | 8,181,009 |
| Profit (loss) before taxation from continuing operations | **8,227** | 20,985 | 41,396 | 21,395 | (360,667) |
| Taxation (charge) credit | **(776)** | (21) | 1,476 | (863) | (10,862) |
| Profit (loss) from continuing operations | **7,451** | 20,964 | 42,872 | 20,532 | (371,529) |
| Profit from discontinued operations | **–** | – | 133,049 | 18,249 | – |
| Profit (loss) for the year | **7,451** | 20,964 | 175,921 | 38,781 | (371,529) |
| **Consolidated Statement of Financial Position (HK$'000)** | | | | | |
| Total assets | **3,663,110** | 3,766,064 | 3,333,558 | 2,889,153 | 4,358,981 |
| Total liabilities | **(2,289,159)** | (2,387,064) | (2,104,182) | (1,769,993) | (3,254,830) |
| Equity | **1,373,951** | 1,379,000 | 1,229,376 | 1,119,160 | 1,104,151 |

The financial information of 2014 was extracted from the Five Years Financial Summary in the annual report of 2014. No retrospective restatement of the discontinued operations of 2016 was made to such information.

# Chairman's Statement

**To all shareholders,**

It is my pleasure to present the audited consolidated financial results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018 (the "year").

Revenue for the year was approximately Hong Kong dollar ("HK$") 22,810.6 million (2017: approximately HK$12,162.6 million). Profit attributable to owners of the Company for the year was approximately HK$7.5 million (2017: approximately HK$21.2 million).

## BUSINESS REVIEW AND PROSPECTS

### Trading of Crude Oil, Petroleum Products, Petrochemicals and Coal

The increasing oil price had struck a severe blow in 2018. In the first half of the year, oil price climbed up steadily, following the trend of the previous two years. The United States of America (the "US")'s potential implementation of sanctions on Iran even supported the oil price to go above United States dollar ("US$") 80 per barrel ("BBL"). However, Donald Trump, the US president, made repeated calls for price restraint from the Organization of Petroleum Exporting Countries (the "OPEC"). The OPEC members agreed to boost production level in the OPEC ministers' meeting in Vienna in June 2018 and oil price started to swing. In October 2018, Brent crude oil price climbed up to US$86.29 per barrel, its highest since October 2014 because Saudi Arabia, one of the OPEC members, and Russia refused to increase production with the US, and the US's sanction on Iran reduced the oil export level of Iran by approximately 35%. Yet by November 2018, the US Energy Information Administration's data revealed that the US oil inventories had gone up to the highest level since December 2017, which means that the global supply was rapidly outpacing demand. Oil price fell dramatically and this surprised lots of bullish analysts. In December 2018, Brent crude oil price even dropped to US$50.47 per barrel, which was the lowest level in the past 16 months.

Caixin China General Manufacturing Purchasing Managers' Index (the "PMI") remained in the positive territory for the whole year, except in December 2018 which recorded 49.4 (below the natural 50.0 mark), while the downward trend which started from September 2018 indicated that the suppliers became less optimistic about the economic growth of the People's Republic of China (the "PRC"). Although some governmental departments tried to stimulate the economy by increasing credit and reducing taxes, many mainland private enterprises have reduced their investment and adopted a wait-and-see approach. Consistent with the trend of the PMI, the demand in oil products went upward in the first half of the year and dropped since September 2018.

2018 was a challenging year to the Group, while we tried to turn challenges into opportunities. In view of the oil market with uncertain price trend, our crude oil team focused on back-to-back trade arrangement, instead of keeping inventories, which were less risky in nature. During the year, our petroleum team continued to develop its coal business in the markets of Thailand, the PRC and Vietnam, and its petroleum business in the market of Vietnam. The effort paid off, with the increasing trend of revenue generated from both petroleum products and coal. The trading volume in petrochemicals increased not just because of the restoration of the PRC customers' confidence in the first nine months of the year, but also our petrochemicals team's successful expansion of customer base in the PRC.

### Storage Business

Strong Petrochemical (Nantong) Logistics Company Ltd. ("Strong Nantong"), our wholly owned subsidiary, operates its storage facilities with 21 storage tanks and a capacity of 139,000 cubic meters in Jiangsu Province, the PRC. During the year, Strong Nantong focused on developing business relationship with long-term core customers. Thanks to the expansion of long-term customer base, Strong Nantong recorded a significant growth in net profit during the year compared to that in 2017. We believe that Strong Nantong will continue to increase its contribution to the profit of the Group.

**Prospects**

As announced by the Company on 21 December 2018, the sale and purchase agreement dated 17 August 2018 in relation to the disposal of the 36 voting shares (the "36 Voting Shares") in GSR GO Scale Capital Advisors, Ltd. ("GSR GO"), representing approximately 49.3% shareholding in GSR GO was terminated since Mr. Sonny Wu ("Mr. Wu"), the other shareholder of GSR GO, exercised the right of first refusal under the shareholders' agreement dated 7 September 2017 in connection with GSR GO and entered into among others, Green Concept Global Limited ("Green Concept"), the Company's indirect wholly-owned subsidiary, and Mr. Wu (the "Shareholders' Agreement"). On 21 December 2018, Green Concept acknowledged and accepted the notice of exercise of right of first refusal under the Shareholders' Agreement delivered by Mr. Wu, under which the 36 Voting Shares would be disposed of at a consideration of US$10.0 million (equivalent to approximately HK$78.0 million) to a company designated by Mr. Wu (the "Disposal"). The Disposal is expected to be completed by 30 May 2019, while the completion of the Disposal is unconditional. Details of the Disposal have been disclosed in the Company's abovementioned announcement. We plan to use the net proceeds from the Disposal on pursuing investment opportunities in business development in future.

Srithai Capital Co., Ltd. ("Srithai"), the associate of the Company in which the Company holds 49% equity interest indirectly, disposed and delivered the oil tanker (the "Vessel") to an independent third party of the Group at a price of approximately US$15.2 million (equivalent to approximately HK$118.6 million) in February 2018. The Company and the other shareholder of Srithai agreed to liquidate Srithai in January 2019. The liquidation of Srithai allows the Company to realise its investment at a satisfactory return and strengthen the Company's financial position to strive for potential investment opportunities when they arise.

In January 2019, Strong Petrochemical Limited, an indirect wholly-owned subsidiary of the Company, provided a loan in the principal amount of HK$20.0 million to an independent third party of the Group at the annual interest rate of 16% for the first three calendar months and 20% for the additional three calendar months in case of extension. With cash surplus, the provision of financial assistance generated a satisfactory return to the Group with minimal risk.

In February 2019, Excellent Harvest Holdings Ltd. ("Excellent Harvest"), an indirect wholly-owned subsidiary of the Company, acquired 51% equity interest in Nicefame Global Limited ("Nicefame Global") which indirectly owns 90% of the interest in the oil product storage facilities in Huizhou City, Guangdong Province, the PRC, at a consideration of US$3.0 million (equivalent to approximately HK$23.4 million) (the "Acquisition"). We considered the Acquisition will enable the Group to further expand its storage business scale and enhance its competitiveness in its storage and trading businesses in the PRC.

In March 2019, Quality Global Holdings Limited ("Quality Global"), an indirect wholly-owned subsidiary of the Company, has conditionally agreed to acquire the entire share capital of Copower Properties Investments Company Limited ("Copower Properties") which owns a property in Hong Kong, at a consideration of HK$78.0 million. We are optimistic about the growth potential of investment properties in Hong Kong, and we believe the property investment can generate a stable and recurrent rental income for the Group.

Looking forward to 2019, we will formulate appropriate trading strategy to cope with the volatile oil market to minimise the risk. Also, we will continue to explore investment opportunities proactively but cautiously in order to enhance the company value and create value for our shareholders.

## APPRECIATION

Lastly, on behalf of the board of directors of the Company ("Directors", collectively, the "Board"), I would like to take this opportunity to express my genuine thanks to our shareholders and business partners for their ongoing support to the Group. My gratitude also goes to our colleagues and my fellow directors for their tireless efforts and contribution in 2018.

**Wang Jian Sheng**
*Chairman*

Hong Kong, 27 March 2019

# Management Discussion and Analysis

## BUSINESS REVIEW

### Trading of Crude Oil, Petroleum Products, Petrochemicals and Coal

Despite of the keen competition of the volatile oil market, the Group strived to look for opportunities to make profit in a cautious manner and maintain its revenue growth. Since the majority of our customers are located in the PRC, our crude oil, petroleum products, petrochemicals and coal trading are highly related to the PRC's economic growth which can be reflected from Caixin China General Manufacturing Purchasing Managers' Index. During the year, our Macao office continued to focus on trading crude oil through back-to-back trade arrangement which generated lower profit margin while it is less risky in consideration of the uncertain oil price trend simultaneously. Our Singapore petroleum products team and Shandong petroleum products team successfully expanded the petroleum products customer base, and the revenue generated from petroleum products for the year increased by 2.5 times, compared to that in the last year. Revenue generated from petrochemicals for the year increased by approximately 95% due to the improved sentiment of the PRC market. During the year, our Singapore office further expanded its coal business and revenue generated from coal for the year increased.

### Storage Business

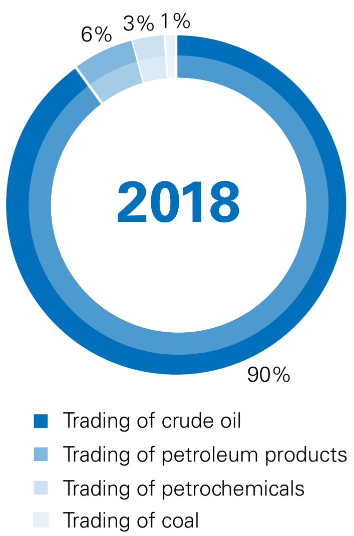
Strong Nantong, our wholly owned subsidiary, provides storage services with 21 storage tanks and a capacity of 139,000 cubic meters. Strong Nantong is principally engaged in providing storage services for gas oil and diesel fuel. The total throughput increased from approximately 1,180,000 metric tons ("MT") in 2017 to approximately 1,272,000 MT in 2018. During the year, Strong Nantong has built up more solid business relationship with long-term core customers and this generated more stable income from storage business.

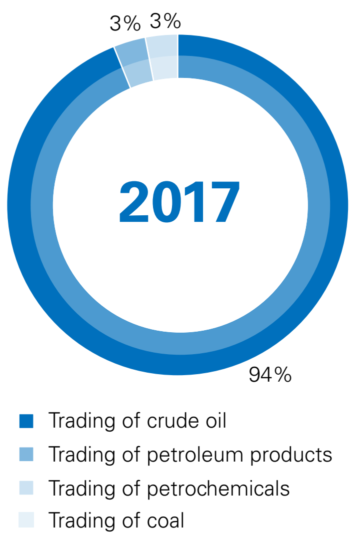
## FINANCIAL REVIEW

### Revenue and Fair Value Changes on Derivative Financial Instruments

The Group is principally engaged in the trading of energy products. Approximately 90% (2017: 94%) of the Group's revenue was generated from trading of crude oil for the year, while the revenue generated from trading of petroleum products was approximately 6% (2017: 3%) and the revenue generated from trading of petrochemicals was approximately 3% (2017: 3%). Revenue generated from trading of coal was 1% (2017: less than 1%).

Analysis of revenue in percentage to total revenue by business:



The revenue of the Group was approximately HK$22,810.6 million (2017: approximately HK$12,162.6 million) for the year. The trading volume of crude oil increased from 25,963,313 BBL in the last year to 37,219,278 BBL for the year since the overall demand in crude oil from the PRC customers increased. During the year, our petroleum products team continued to expand its customer base in Vietnam and this made the trading volume of petroleum products increase from 86,714 MT in the last year to 288,896 MT for the year. The trading volume of petrochemicals increased from 67,235 MT in the last year to 124,868 MT for the year because of the increasing demand in petrochemicals in the PRC. The market expansion in Thailand and Vietnam drove the trading volume of coal to increase from 36,300 MT in the last year to 603,140 MT for the year.

| | | **Year ended 31 December** | | | | | |
|---|---|---|---|---|---|---|---|
| | | **2018** | | | 2017 | | |
| Trading of energy products | Unit | **Number of contracts** | **Sales quantity** | **Revenue HK$'000** | Number of contracts | Sales quantity | Revenue HK$'000 |
| Crude oil | BBL | **41** | **37,219,278** | **20,405,367.1** | 41 | 25,963,313 | 11,384,202.5 |
| Petroleum products | MT | **34** | **288,896** | **1,401,891.1** | 9 | 86,714 | 401,786.1 |
| Petrochemicals | MT | **205** | **124,868** | **708,998.0** | 97 | 67,235 | 363,738.5 |
| Coal | MT | **8** | **603,140** | **294,347.7** | 1 | 36,300 | 12,874.3 |
| Total | | **288** | | **22,810,603.9** | 148 | | 12,162,601.4 |

The Group has established trading teams as well as daily management oversight, which manages the overall physical cargo price exposure and controls this through offsetting oil derivative contracts according to the Group's risk management policy. As part of our rigorous control process, a daily reporting system is adopted for all physical and derivative contracts. Such risk control system enables effective and timely management of the Group's exposure to market risk.

During the year, the Group reported an aggregate loss on fair value changes on derivative financial instruments of approximately HK$281.5 million (2017: approximately HK$60.6 million).

## Gross Profit

The overall gross profit of the Group for the year increased to approximately HK$245.3 million (2017: approximately HK$187.1 million). The increase in gross profit was primarily a result of the increase in revenue, partially offset by the decrease in profit margin led by the crude oil team's focus on back-to-back trade arrangement with lower profit margin.

## Profit attributable to Owners of the Company

Profit for the year attributable to owners of the Company was approximately HK$7.5 million (2017: approximately HK$21.2 million).

# Management Discussion and Analysis

## Liquidity and Financial Resources

The Group generally finances its daily operations from internally generated cash flows (the "Internal Funds") and banking facilities. As at 31 December 2018, the Group had deposits placed with brokers, pledged bank deposits, and bank balances and cash of approximately HK$112.5 million (2017: approximately HK$83.5 million), approximately HK$42.2 million (2017: approximately HK44.6 million) and approximately HK$204.3 million (2017: approximately HK$715.1 million) respectively. The total of deposits placed with brokers, pledged bank deposits, and bank balances and cash (collectively, the "Liquidity Resources") were approximately HK$359.0 million (2017: approximately HK$843.2 million). Most of the Liquidity Resources were denominated in US$.

The equity attributable to owners of the Company decreased by approximately HK$5.0 million to approximately HK$1,373.5 million as at 31 December 2018 (2017: approximately HK$1,378.5 million).

As at 31 December 2018, the Group had bank borrowings, represented by short-term loans, of approximately HK$14.8 million (2017: nil). As at 31 December 2018, the Group's gearing ratio was approximately 0% (2017: 0%). The gearing ratio was calculated as the Group's total borrowing divided by total assets.

The Group will mainly use the Internal Funds to repay the due debts and relevant interests, in case of any shortfalls, the Group will consider to avail itself of new loans by unused banking facilities to finance the repayment of the principal and interest in a timely manner.

As at 31 December 2018, the Group has banking facilities of US$640.0 million and Renminbi ("RMB") 35.0 million (equivalent to approximately HK$5,031.9 million in total) from several banks. Save as disclosed in notes 27 and 37 to the consolidated financial statements, the Group did not have any other charges on asset as at 31 December 2018.

The majority of the Group's sales and purchases are denominated in US$. The Group considers its foreign currency exposure is mainly arising from the exposure of exchange between US$ and HK$ with limited exposure to Singapore Dollar, Euro and RMB. Since the exchange rate of US$ against HK$ is relatively stable during the year, the exposure on foreign exchange is insignificant.

## Contingent Liabilities

As at 31 December 2018, the Group did not have any significant contingent liabilities.

## Capital Commitments

Save as disclosed in note 36 to the consolidated financial statements, the Group did not have any other significant capital commitments as at 31 December 2018.

## Material Acquisitions and Disposals, and Future Plans for Material Investments

The success of the Group will depend, inter alia, on the realisation of the expected synergies, cost control, and growth opportunities and potentials upon integration of the acquired businesses. The Group concentrates on its core business and cautiously expands the scale and geographical spread of its business through organic growth and investment in selective acquisitions with great potential. There can be no assurance that a failure to operate the acquired businesses successfully and thereby not achieving the expected financial benefits, may not adversely affect the Group's financial position and results.

Pursuant to a memorandum of agreement, Srithai, the associate of the Company in which the Company holds 49% equity interest indirectly, agreed to dispose the Vessel to an independent third party in January 2018 at a price of approximately US$15.2 million (equivalent to approximately HK$118.6 million) and delivered the Vessel to the independent third party in mid-February 2018. As at the date of this report, Srithai is under the company closing process and the liquidation registration procedure started in January 2019.

Announced on 21 December 2018, Green Concept, the Company's indirect wholly-owned subsidiary, acknowledged and accepted the notice of exercise of right of first refusal under the Shareholders' Agreement delivered by Mr. Wu, pursuant to which the 36 Voting Shares in GSR GO would be disposed to a company designated by Mr. Wu, an independent third party of the Group, at a consideration of US$10.0 million (equivalent to approximately HK$78.0 million). This transaction is expected to be completed by 30 May 2019, while the completion of the Disposal is unconditional. Upon completion of this transaction, GSR GO will cease to be a joint venture of the Company.

In February 2019 and March 2019, Excellent Harvest, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "Sale and Purchase Agreement") and a supplemental sale and purchase agreement (the "Supplemental Agreement"). Pursuant to the Sale and Purchase Agreement and the Supplemental Agreement, Excellent Harvest acquired 51% equity interest in Nicefame Global at a consideration of US$3.0 million (equivalent to approximately HK$23.4 million). Nicefame Global owns 90% equity interest in Huizhou Daya Bay Nicefame Chemical Storage and Trading Co., Ltd. which is principally engaged in operating its oil product storage facilities in Huizhou City, Guangdong Province, the PRC. This transaction has been completed in February 2019.

Announced on 5 March 2019, Quality Global, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Copower Enterprise Group Limited ("Copower Enterprise"), an independent third party of the Group, pursuant to which Quality Global has conditionally agreed to acquire and Copower Enterprise has conditionally agreed to sell the entire share capital of Copower Properties at a consideration of HK$78.0 million. Copower Properties is principally engaged in property investment. This transaction is expected to be completed in early May 2019. Upon completion of this transaction, Copower Properties will become an indirect wholly-owned subsidiary of the Company.

Save as disclosed in notes 17, 18 and 40 to the consolidated financial statements, there were no other significant investments held during the year, or plans for material investments of capital assets as at the date of this report, nor were there other material acquisitions and disposals of subsidiaries during the year.

## Employees

The number of employees of the Group was 80 (2017: 81) as at 31 December 2018. The Group's remuneration packages are maintained at competitive level and are determined on the basis of performance, qualification and experience of individual employee.

We recognise the importance of a good relationship with our employees by providing competitive remuneration packages which commensurate with the prevailing market practice to our employees, including provident fund, life and medical insurances, discretionary bonus, share options, and training for human resources upskilling.

# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. WANG Jian Sheng ("Mr. Wang")**, aged 65, is an executive Director and the chairman of the Company (the "Chairman") since February 2008. He has been a member of the remuneration committee of the Company (the "Remuneration Committee") and the chairman of the nomination committee of the Company (the "Nomination Committee") since November 2008 and March 2012 respectively. In October 2000, Mr. Wang invested in the Group and acted as a substantial shareholder. At the same time, he joined the Group as a supervisor. He graduated from Henan University of Science and Technology, previously known as Luoyang Industrial College, with a bachelor degree in metallic materials and heat process. He is responsible for overseeing the function of the Board, formulating major corporate and business strategies, and identifying business goals and the related business plan at the high level. Mr. Wang owns the entire issued share capital of Sino Century Holdings Limited ("Sino Century") which in turn holds 50% shareholding in Forever Winner International Ltd. ("Forever Winner"), a shareholder of the Company holding 1,041,746,000 shares of the Company. Furthermore, since Mr. Wang and Mr. Yao Guoliang ("Mr. Yao") jointly control Forever Winner which in turn holds 1,041,746,000 shares of the Company, Mr. Wang and Mr. Yao are deemed as parties acting in concert. Therefore, as Mr. Yao currently beneficially owns approximately 5.84% equity interest in the Company, Mr. Wang shall be deemed to hold the same equity interest in the Company.

**Mr. YAO Guoliang**, aged 53, is an executive Director and the chief executive officer of the Company (the "CEO") since February 2008. In November 1999, Mr. Yao founded the Group, and has been a director and a trader of the Group since then. He graduated from University of International Business and Economics with a bachelor degree in economics. He has more than 30 years of experience in handling crude oil trading and associated hedging activities. Leveraging on his extensive experience in the oil industry, Mr. Yao is responsible for formulating our corporate and business strategies, business development and management, trade solicitation as well as hedging implementation. In addition to be the direct and beneficial owner of 124,222,000 shares of the Company, Mr. Yao also owns the entire issued share capital of Jin Yao Holdings Ltd. ("Jin Yao") which in turn holds 50% shareholding in Forever Winner, a shareholder of the Company holding 1,041,746,000 shares of the Company.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Ms. CHEUNG Siu Wan ("Ms. Cheung")**, aged 52, is an independent non-executive director of the Company (an "INED") since 1 January 2012. Ms. Cheung has been the chairman of the audit committee of the Company (the "Audit Committee") and a member of the Nomination Committee since 1 January 2012 and 16 March 2012 respectively. Ms. Cheung graduated from City University of Hong Kong with a Bachelor of Arts in Business in 1988, Hong Kong University of Science and Technology with a Master of Science in Accounting in 1995 and Lingnan University of Hong Kong with a Master of Arts in Practical Philosophy in 2017. Ms. Cheung has extensive experience in China tax services. Ms. Cheung joined KPMG Hong Kong in 1996, and from 2004 to 2011, she was a partner of KPMG China. Ms. Cheung served as a member of Steering Team of Association of Chartered Certified Accountants ("ACCA") Southern China from May 2008 to March 2017, of which from May 2009 to April 2011, as the chairman of Steering Team of ACCA Southern China. Ms. Cheung was also a member of Steering Team of ACCA Shanghai from March 2010 to March 2013 and a member of the China Expert Forum of ACCA China since 2016. From April 2009 to March 2013, Ms. Cheung acted as a member of the Accountancy Training Board of Vocational Training Council and became a member of the Working Group of Seminars of the Accountancy Training Board from April 2013 onwards. Ms. Cheung is a member of the Customer Liaison Group for SMEs of the Trade and Industry Department since 2017. Ms. Cheung is a part-time teacher of University of Macau and also HKU School of Professional and Continuing Education. Ms. Cheung is a fellow member of the Hong Kong Institute of Certified Public Accountants and the ACCA.

**Dr. CHAN Yee Kwong ("Dr. Chan")**, aged 56, is an INED since 1 July 2017. Dr. Chan has been the chairman of the Remuneration Committee and a member of the Audit Committee since 1 July 2017. Dr. Chan holds BBA, MBA and PhD in business from the Chinese University of Hong Kong. He further holds LLB and LLM degrees in Law from the University of London. Dr. Chan acquired his Barrister qualification from the Honourable Society of the Middle Temple. Dr. Chan currently serves as an associate head and an associate professor of the Department of Management and Marketing at the Hong Kong Polytechnic University. He has been appointed as a subject specialist (Marketing) by the Hong Kong Council for Accreditation of Academic and Vocational Qualifications since 2008. He is currently serving as an academic assessor for the Hong Kong Vocational Training Council (Technological and Higher Education Institute of Hong Kong). In addition to academic research, Dr. Chan was engaged in consultancy projects for such organisations as the Hongkong Electric Company, Limited, Sa Sa International Holdings Limited and the Direct Selling Association of Hong Kong Limited.

**Mr. DENG Heng ("Mr. Deng")**, aged 49, is an INED since 1 January 2018. Mr. Deng has been a member of the Audit Committee, the Remuneration Committee and the Nomination Committee since 1 January 2018. Mr. Deng graduated from China Agricultural University with a Bachelor of Science in 1992 and Beijing Jiaotong University with a Master of Business Administration. He currently serves as the Overseas Committee Member of All-China Federation of Returned Overseas Chinese and the Secretary General of Cross-Strait China Culture Communication Foundation. Mr. Deng has extensive experience in corporate management and social activities. He had worked at COFCO Corporation ("COFCO") from 1996 to 2008, including serving as the Managing Director of a member company within COFCO in London for more than 7 years.

## SENIOR MANAGEMENT

**Mr. ZHUANG Jia ("Mr. Zhuang")**, aged 53, is the deputy general manager of the Group. He is responsible for the trading, shipping and business development of the Group and overseeing the petrochemicals trading business. He is also a trader of the Group. His duties include negotiating with suppliers and customers on terms and pricing of trades, considering and executing hedging strategies, and monitoring open positions of derivative financial instruments of the Group. Mr. Zhuang obtained his bachelor of engineering degree from East China University of Science and Technology, previously known as East China Institute of Chemical Technology, in the PRC, majoring in petroleum processing in 1988. He has more than 30 years of experience in the oil industry. After university graduation, he joined Sinochem Shanghai as a salesman in the petroleum department and was involved in the hedging activities from April 1993 to February 1994. During the period from March 1994 to January 1997, he was seconded to SCHECO (Hong Kong) Co., Limited, an overseas branch of Sinochem Shanghai, as trading manager and later promoted to deputy general manager. After the secondment, he returned to Sinochem Shanghai and accepted the position as a manager in the import department until March 1998. Prior to joining the Group in March 2007, he had been the trading manager for ICC Chemical Corporation (Shanghai Office) for more than 8 years and was responsible for trading petrochemicals.

**Mr. SUN Lei ("Mr. Sun")**, aged 31, is the deputy general manager of Strong Petrochemical Limited (Macao Commercial Offshore) ("Strong Macao"). Mr. Sun obtained his bachelor of logistics engineering and management degree from Hong Kong Polytechnic University in 2010. He obtained a master degree in transport policy and planning from The University of Hong Kong in 2011. Mr. Sun joined the Group in 2011 and was responsible for trading crude oil, petroleum products and petrochemicals. He is currently responsible for the trading activities of Strong Macao.

# Biographical Details of Directors and Senior Management

**Mr. Francis TAN Boon Chye ("Mr. Tan")**, aged 65, is the general manager and a director of Strong Petroleum Singapore Private Ltd. ("Strong Singapore"). Mr. Tan is a member of the Institute of Petroleum (London) since 1984. Mr. Tan has over 35 years of experience in the oil industry from cargo and blending operations, shipping and chartering, oil broking (middle distillates) to oil trading. Mr. Tan is responsible for the overall oil operations of Strong Singapore since he joined the Group in 2009.

**Ms. KUANG Tingting ("Ms. Kuang")**, aged 48, is the managing director of Strong Singapore. Ms. Kuang obtained a Master in International Business Management from University of Hamburg, Germany, and she has more than 25 years of trading experience in the oil industry, both in crude oil and oil products. Her working experience in Sinochem and Equinor provided her with global perspective, and she had lead the crude oil trading business of Equinor Asia Pacific from 2013 to mid-2018. Ms. Kuang joined the Group in July 2018 and is responsible for trading of Strong Singapore.

# Corporate Governance Report

The Board has pleasure to present the Corporate Governance Report of the Company for the year ended 31 December 2018. The Company is committed to strict adherence to the high corporate governance standards. The Board believes it is fundamental and essential to fulfill public and corporate responsibilities, develop the Group sustainably, enhance shareholders' value and safeguard interests of stakeholders.

The Company has adopted and is fully compliant with all the provisions of the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2018, with the exception of the following deviation:

Pursuant to Code Provision A.6.7 of the CG Code, generally independent non-executive directors and other non-executive directors should attend the general meetings to gain and develop a balanced understanding of the views of shareholders. Mr. Deng Heng, the INED, was unable to attend the annual general meeting of the Company (the "AGM") held on 24 May 2018 due to other prior business engagement.

## THE BOARD

### Responsibilities

The Board is responsible for the overall management, which assumes the responsibility for leadership and control of the Company, and the Directors are collectively responsible for promoting the success of the Company by directing and supervising its affairs, overseeing the achievement of strategic plans, and monitoring its long term performance to enhance shareholders' value. The management of the Company (the "Management") is delegated with authority and responsibility for the day-to-day operations of the Group under the leadership of the Board.

The role of the Chairman, Mr. Wang Jian Sheng, is separated from that of the CEO, Mr. Yao Guoliang. Their respective responsibilities are clearly defined and segregated to reinforce their independence and accountability.

The Chairman is responsible for providing leadership and governance to the Board and ensuring that the Board and its committees function effectively. He approves strategies and policies of the Group and supervises the Management on their implementation to ensure value creation and maximisation for shareholders. He takes part in cultivating and maintaining good relationships with strategic associates and creating a favorable environment for the development of the Group's businesses.

The CEO is responsible for leading the day-to-day operations of the Group's businesses to achieve its business and financial targets. Acting as the principal manager, he develops operating plans and strategies to the Board and ensures the effective implementation of the strategies and policies adopted and prioritised by the Board supported with effective and competent Management built and maintained by him. He maintained ongoing dialogue with the Chairman and all Directors to keep them timely and appropriately informed of all major changes and business development.

Directors have full and timely access to information of the Group as the Chairman ensures that the Management will supply the Board and its committees with all relevant information in a timely manner, as well as the advices and services of the company secretary of the Company (the "Company Secretary"), with a view to ensuring that Board procedures and all applicable rules and regulations are followed. The Directors may make further enquiries if in their opinion it is necessary or appropriate to request for further information. They also have unrestricted access to the advices and services of the Company Secretary, who is held responsible for providing Directors with Board papers and related materials and ensuring that all proper Board procedures are followed and that all applicable laws and regulations are complied with. When needed and upon making reasonable request to the Board, the INEDs may seek independent professional advice at the Company's expense in assisting them to carry out their duties. Insurance cover has been appropriately arranged to the Directors in connection with the performance of their responsibilities.

# Corporate Governance Report

The presence of three INEDs is considered by the Board to be a reasonable balance between executive and non-executive Directors. The Board is of the opinion that such balance can provide adequate checks and balances for safeguarding the interests of shareholders and of the Group.

All INEDs are engaged with a fixed term of one year service with the Company and may be terminated by either party giving not less than one month's prior written notice. Shareholders may propose a candidate for election as Director in accordance with the Company's articles of association. All Directors appointed to fill a vacancy are subject to re-election at the first general meeting of shareholders after appointment in accordance with Article 86(3) of the Company's articles of association. In accordance with Article 87 of the Company's articles of association, every Director shall be subject to retirement by rotation at least once every three years.

The Company has received written annual confirmations from all INEDs as to their independence as required under the Listing Rules. All INEDs are absence from involvement in daily management of the Company or any relationships or circumstances which would interfere their independence.

The INEDs bring a wide range of business and financial expertise, experiences and independent judgment to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all INEDs make various contributions to the effective direction of the Company.

## Board Diversity Policy

In order to achieve a diversity of perspectives among members of the Board, the Company has adopted the board diversity policy (the "Board Diversity Policy") throughout the year and has made it available on the website of the Company for better transparency and governance. It is the policy of the Company to consider a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, when determining the composition of the Board.

The Company will also take into account factors based on its own business model and specific needs from time to time. The appointments of all members of the Board will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Nomination Committee will review the Board Diversity Policy from time to time to ensure its continued effectiveness.

## Delegation by the Board

The day-to-day management, administration and operation of the Company are delegated to the CEO and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers. The Board has the full support of the CEO and the senior management to discharge its responsibilities.

All committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, have specific terms of reference clearly defining the authorities and responsibilities of the respective committees. All committees are required by their terms of reference to report to the Board in relation to their decisions, findings or recommendations, and in certain specific situations, to seek the Board's approval before taking any actions.

The Board reviews, on an annual basis, all delegations by the Board to different committees to ensure that such delegations are appropriate and continue to be beneficial to the Company as a whole.

## BOARD COMPOSITION, BOARD AND COMMITTEE MEETINGS

As at 31 December 2018, the Board comprises two executive Directors and three INEDs. Their biographical details are set out in the section of this annual report headed "Biographical Details of Directors and Senior Management" and are posted on the Company's website. The Company has met the requirements of the Listing Rules relating to the appointment of at least three INEDs with at least one of whom is with appropriate professional qualifications or accounting or related financial management expertise throughout the year. All Directors give sufficient time and attention to the affairs of the Group.

The Board meets at least four times each year and more frequently as the needs of the business demand. The Company's memorandum and articles of association provide for participation at meetings via telephone and other electronic means. Apart from the Board meetings, the Board would from time to time devote separate sessions to consider and review the Group's strategy and business activities. The attendance of the Directors at the Board meetings during the year is set out in the table under the section of "Meetings Held and Attendance" below.

### Practices and Conduct of Meetings

The annual meeting schedule and the agenda of each meeting are made available to Directors in advance.

Notice of regular Board meetings is served to all Directors at least 14 days before the meetings, so that Directors are given an opportunity to include matters in the agenda for discussion. For other Board and committee meetings, reasonable notice is given.

The Company Secretary assists the Chairman in preparing the agenda for the meeting and ensures that all applicable rules and regulations in connection with the meetings are observed and complied with. Papers for Board meetings or committee meetings together with all relevant information are sent to all Directors or committee members at least 3 days before each meeting to enable them to make informed decisions with adequate data. The Board and each Director also have direct and independent access to the Management whenever necessary.

According to the current Board practice, any material transaction involving a conflict of interest with a substantial shareholder or a Director will be considered and dealt with by the Board at a duly convened Board meeting. The Company's articles of association also contains provisions requiring the Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

## BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, to oversee particular aspects of the Company's affairs. Specific responsibilities of each committee are described below. All committees have defined terms of reference which are of no less exacting terms than those set out in the CG Code.

### Audit Committee

The Audit Committee comprises three INEDs who possess relevant business and financial management experience. The Company Secretary acts as the secretary of the Audit Committee. None of the members is employed by or otherwise affiliated with the former or existing auditor of the Company. The Audit Committee is chaired by Ms. Cheung Siu Wan, one of the INEDs having professional qualifications, and accounting and financial management skills to understand financial statements and contribute to the corporate governance of the Company under the Listing Rules.

The Audit Committee has undertaken a review of all the non-audit services provided by Messrs. Deloitte Touche Tohmatsu during the financial year ended 31 December 2018, and is satisfied that such services would not affect the independence of Messrs. Deloitte Touche Tohmatsu as the Company's external auditor. The Audit Committee has recommended to the Board that Messrs. Deloitte Touche Tohmatsu be nominated for reappointment as external auditor of the Company at the forthcoming AGM.

The terms of reference of the Audit Committee are posted on the Company's website and include the following:

**Relationships with the Company's auditor**

(i) To act as the key representative body for overseeing the Company's relation with the external auditor, and to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and to consider any questions of their resignation or dismissal.

(ii) To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable accounting standard, and to discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences.

(iii) To develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

**Review of the Company's financial information**

(iv) To monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Audit Committee should focus particularly on:

(a) any changes in accounting policies and practices;

(b) major judgmental areas;

(c) significant adjustments resulting from audit;

(d) the going concern assumptions and any qualifications;

(e) compliance with accounting standards; and

(f) compliance with the Main Board Listing Rules and legal requirements in relation to financial reporting.

(v) Regarding to (iv) above:

(a) members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's auditor; and

(b) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditor.

**Oversight of the Company's financial reporting system, risk management and internal control systems**

(vi) To review the Company's financial controls, and unless expressly addressed by a separate risk committee, or by the board itself, to review the Company's risk management and internal control systems.

(vii) To identify the risk of the Group and decide on risk levels and risk appetite.

(viii) To approve major decisions affecting the Group's risk profile or exposure and give such guidelines as it considers appropriate.

(ix) To consider the effectiveness of decision making processes in crisis and emergency situations.

(x) To discuss the risk management and internal control system with the Management to ensure that the Management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

(xi) To consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and the Management's response to these findings.

(xii) Where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness.

(xiii) To review the Group's financial and accounting policies and practices.

(xiv) To review the external auditor's management letter, any material queries raised by the auditor to the Management about accounting records, financial accounts or systems of control and the Management's response.

(xv) To ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter.

(xvi) To report to the Board on the matters set out herein.

(xvii) To consider other topics, as defined by the Board.

(xviii) To review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

During the year ended 31 December 2018, the Audit Committee held two meetings and reviewed the preliminary, interim and annual results, and internal controls of the Group, and performed the duties and responsibilities under the terms of reference and as set out in the CG Code.

The Audit Committee reviews the Group's risk management policies annually. A high level review of internal controls of the Group was performed at the end of the year. The Audit Committee will continue to examine the Group's systems and policies for assessing and taking action to contain the different types of risks in its various operations as part of the Audit Committee's ongoing review of the adequacy of the Group's internal controls.

The Audit Committee has full access to and has co-operated with the Management and it has been given the resources required for it to discharge its functions properly. It has full discretion to invite any Director and executive officer to attend its meetings. The Audit Committee has also met with the external auditor, without the presence of the Management during the year.

In addition, the Audit Committee keeps under constant review changes to the Hong Kong Financial Reporting Standards with the assistance of the external auditor to assess their application to the accounting policies adopted by the Group and, where applicable, their effective adoption by the Group.

All the recommendations of the Audit Committee to the Management and the Board were accepted and implemented.

Subsequent to the financial year end, the Audit Committee has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2018, including the accounting principles and practices adopted by the Group, and recommended them to the Board for approval.

### Remuneration Committee

The Remuneration Committee comprises three members whereas the majority of the members must be INEDs. Currently, the Remuneration Committee is chaired by Dr. Chan Yee Kwong, an INED. The Company Secretary acts as the secretary to the Remuneration Committee.

The Remuneration Committee is responsible for recommending to the Board a framework for the remuneration of Directors and key executives. The review covers all aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses and other benefits. The Remuneration Committee also oversees the administration of the Company's share option schemes. The Remuneration Committee's recommendations are made in consultation with the CEO and submitted for endorsement by the Board. No Director is involved in any decision making, in respect of any remuneration or compensation to be offered or granted to him or her.

The terms of reference of the Remuneration Committee are posted on the Company's website and include the following:

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

(ii) To review and approve the Management's remuneration proposals with reference to the Board's corporate goals and objectives.

(iii) Either:

  (a) to determine, with delegated responsibility, the remuneration packages of individual executive Directors and senior management; or

  (b) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management.

  This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment.

(iv) To make recommendations to the Board on the remuneration of non-executive Directors.

(v) To consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group.

(vi) To review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive.

(vii) To review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and that are otherwise reasonable and appropriate.

(viii) To ensure that no Director or any of his or her associates is involved in deciding his or her own remuneration.

During the year ended 31 December 2018, the Remuneration Committee held one meeting to review the remuneration package, including the treatment and the vesting recommendations for the share options granted, of the Directors and senior management.

None of individual Director is involved in deciding his or her own remuneration.

The remuneration of senior management was within the following bands:

| | **Number of individuals** | |
|---|---|---|
| **The emolument bands (in HK$)** | **2018** | 2017 |
| Nil to HK$1,000,000 | **2** | 1 |
| HK$1,000,001 – HK$2,000,000 | **1** | 2 |
| HK$2,000,001 – HK$3,000,000 | **–** | – |
| HK$3,000,001 – HK$4,000,000 | **–** | – |
| HK$4,000,001 – HK$5,000,000 | **–** | – |
| Above HK$5,000,000 | **1** | – |

## Nomination Committee

The Nomination Committee comprises the Chairman and two INEDs, and is chaired by the Chairman. The Company Secretary acts as the secretary to the Nomination Committee.

The Nomination Committee is guided by its terms of reference, which sets out its responsibilities. It is responsible for the review of candidates for nomination or re-nomination as Directors, taking into consideration each candidate's qualifications and experience and how he or she can contribute to the effectiveness of the Board. The Nomination Committee is also responsible for recommending a framework for evaluation of the Board effectiveness, as well as evaluation of Board effectiveness and the contribution of each individual Director to the effectiveness of the Board.

The terms of reference of the Nomination Committee are posted on the Company's website and include the following:

(i) To review the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

(ii) To be responsible for nominating for the approval of the Board, candidates to fill Board vacancies as and where they arise.

(iii) Before appointment is made by the Board, evaluate the balance of skill, knowledge and experience on the Board, and, in the light of this evaluation prepare a description of the role and capabilities required for a particular appointment.

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

(v) To make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the CEO.

(vi) To assess the independence of INEDs.

(vii) To review the Board Diversity Policy and any measurable objectives for implementing such Board Diversity Policy as may be adopted by the Board from time to time and to review the progress on achieving the objectives; and make disclosure of its review results in the Corporate Governance Report of the Company.

(viii) To do any such things to enable the Nomination Committee to discharge its duties conferred on it on by the Board.

During the year ended 31 December 2018, the Nomination Committee held one meeting to review the composition of the Board and the suitability of Directors proposed for re-appointment at the AGM.

The Nomination Committee is also charged with the responsibility of determining annually whether a Director is independent. Each member of the Nomination Committee will not take part in determining his or her own re-nomination or independence.

Under the articles of association of the Company, at least one-third of the Directors are required to retire from office by rotation and they are eligible for re-election at the AGM. Thus, each Director must retire from office at least once every three years. In addition, all Directors appointed to fill a vacancy are subject to re-election at the first general meeting of shareholders after appointment in accordance with Article 86(3) of the Company's articles of association.

The Nomination Committee had recommended the re-nomination of Mr. Yao Guoliang and Mr. Wang Jian Sheng for re-election at the forthcoming AGM. The Board had accepted the Nomination Committee's recommendation.

## Meetings Held and Attendance

Details of Directors' attendance of the Board meetings, three committees meetings and the AGM held during the year ended 31 December 2018 are set out as follows:

| | Meetings attended/Meetings held | | | | |
|---|---|---|---|---|---|
| **Name of Director** | **Board** | **Audit Committee** | **Remuneration Committee** | **Nomination Committee** | **AGM held on 24 May 2018** |
| **Executive Directors** | | | | | |
| Mr. Wang Jian Sheng *(Chairman)* | 10/10 | N/A | 1/1 | 1/1 | 1/1 |
| Mr. Yao Guoliang *(CEO)* | 10/10 | N/A | N/A | N/A | 1/1 |
| **Independent Non-executive Directors** | | | | | |
| Ms. Cheung Siu Wan | 10/10 | 2/2 | N/A | 1/1 | 1/1 |
| Dr. Chan Yee Kwong | 9/10 | 1/2 | 1/1 | N/A | 1/1 |
| Mr. Deng Heng | 10/10 | 2/2 | 1/1 | 1/1 | 0/1 |

Apart from regular Board meetings, the Chairman also held meeting with INEDs without the presence of other Director during the year.

Apart from the AGM held on 24 May 2018, the Company has not held any other general meetings.

## CORPORATE GOVERNANCE FUNCTIONS

The Board did not establish a corporate governance committee but has delegated its responsibility for performing corporate governance duties to the respective Board committees. During the year, the Board and Board committees have reviewed the Group's policies and practices on corporate governance and made recommendations to the Board; reviewed and monitored the training and continuous professional development of Directors and senior management; reviewed and monitored the Group's policies and practices on compliance with legal and regulatory requirements; reviewed and monitored the code of conduct and the compliance manual applicable to employees and Directors; and reviewed the Group's compliance with the CG Code and disclosure in the Corporate Governance Report.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding the Directors' securities transactions. Having made specific enquiries by the Company, all Directors have confirmed that they had complied with the required standards set out in the Model Code during the year.

The Company has established written guidelines on no less exacting terms than the Model Code for dealings in the Company's securities by relevant employees who are likely to be in possession of unpublished inside information in relation to the Company or its securities. The Company has received written annual compliance declaration from employees to confirm their compliance.

## DIVIDEND POLICY

The Company has adopted a general dividend policy (the "Dividend Policy") that aims to provide dividends to shareholders of the Company out of the Group's profit attributable to shareholders in any financial year, subject to the criteria set out below.

Such declaration and payment of dividends shall remain to be determined at the sole discretion of the Board and subject to all applicable requirements (including without limitation, restrictions on dividends declaration and payment) under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and the Company's articles of association.

The Board shall also take into account the following factors when considering the declaration and payment of dividends:

- the Group's actual and expected financial performance;
- retained earnings and distributable reserves of the Company and each of the members of the Group;
- the Group's working capital requirements, capital expenditure requirements and future expansion plans;
- the Group's liquidity position;
- general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and
- other factors that the Board deems relevant.

The Board may propose the payment of dividends, if any, with respect to the Company's shares on a per share basis. In addition to cash, dividends may be distributed in the form of shares subject to and in accordance with the procedures set out in the Company's memorandum and articles of association.

Except for interim dividends, any dividends declared by the Company must be approved by an ordinary resolution of shareholders at the general meeting and must not exceed the amount recommended by the Board. The Board may from time to time pay to the shareholders such interim dividends as appear to the Directors to be justified by the profits of the Company available for distribution.

The Board will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time, and the Dividend Policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and/or in no way obligate the Company to declare dividends at any time or from time to time.

## INDUCTION AND CONTINUOUS DEVELOPMENT OF DIRECTORS

All Directors, upon appointment to the Board, shall receive an induction package (the "Package") designed to enhance their knowledge and understanding of the Group's culture and operations by senior management. The Package usually includes a briefing on the Group's structure, businesses and governance practices. Every Board member receives a memorandum on Director's responsibilities upon joining the Board, which lays down the guidelines on conduct, Directors' duties, and other key governance issues.

The Company provided continuous professional training and all Directors (namely, Mr. Wang Jian Sheng, Mr. Yao Guoliang, Ms. Cheung Siu Wan, Mr. Guo Yan Jun (resigned on 1 January 2018), Dr. Chan Yee Kwong and Mr. Deng Heng (appointed on 1 January 2018)) received regular updates and presentations on changes and developments to the Group's business and to the legislative and regulatory environments in which the Group operates to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All Directors are also encouraged to attend relevant training courses at the Company's expense.

## COMPANY SECRETARY

The appointment and removal of the Company Secretary is subject to the Board's approval in accordance with the articles of association of the Company. Ms. Wong Wai Han ("Ms. Wong") had been appointed as the Company Secretary since 31 July 2012. Ms. Wong resigned as the Company Secretary with effect from 14 February 2018. Mr. Lai Yang Chau, Eugene ("Mr. Lai") has been appointed as the Company Secretary with effect from 14 February 2018.

Mr. Lai is currently a practicing solicitor in Hong Kong. He has experience in corporate finance, cross border merger and acquisition, and securities laws in Hong Kong. Mr. Lai obtained a bachelor of laws degree from the University of Hong Kong in 1992, a master of laws degree on Chinese laws from Renmin University of China in 1998, and an EMBA-Global Asia degree conferred jointly by Columbia University, London Business School and the University of Hong Kong in 2012. He has also completed Senior Executive Program for China (class 2011), jointly organised by Harvard Business School, Tsinghua University and China Europe International Business School. Mr. Lai has attained his alumnus status of Harvard Business School in July 2017. Mr. Lai is currently an independent non-executive director of Link Holdings Limited (stock code: 8237) whose shares are listed on the Growth Enterprise Market of the HKEx, one of the joint company secretaries of Sinopec Kantons Holdings Limited (stock code: 934) , the company secretary of AB Builders Group Limited (stock code: 1615) and one of the joint company secretaries of Hengxin Technology Ltd. (stock code: 1085) whose shares are listed on the main board of the HKEx. Mr. Lai is a principal of Yang Chau Law Office, a practicing law firm in Hong Kong. He is not an employee of the Company and he provides services to the Company as an external service provider. Mr. Lai has complied with the requirement under Rule 3.29 of the Listing Rules during the period from 14 February 2018 to 31 December 2018.

The Company Secretary is responsible for facilitating the Board's processes and communications among Board members, with shareholders and with the Management. The Company Secretary will undertake at least 15 hours of relevant professional training in the year ending 31 December 2019 to update his skills and knowledge.

The external service provider's primary contact person of the Company is Mr. Li Chik Ming, the chief financial officer of the Company, in relation to any corporate secretarial matters.

## ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for the preparation of consolidated financial statements which give a true and fair view of the state of affairs of the Group. In preparing the consolidated financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

In preparing the consolidated financial statements, the Directors consider that the consolidated financial statements of the Group are prepared on a going concern basis and appropriate accounting policies have been consistently applied. The Directors have also made judgments and estimates that are prudent and reasonable in the preparation of the consolidated financial statements.

The statement of the external auditor about the reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 46 to 49 of the Report.

## AUDITOR'S REMUNERATION

Auditor's remuneration in relation to audit amounted to HK$1,730,000 (2017: HK$1,860,000). The external auditor is refrained from engaging in non-assurance services except for limited tax related services or specifically approved items. The Audit Committee reviews and approves the external auditor's statutory audit scope and non-audit services. The following remuneration was paid by the Group to its auditor, Messrs. Deloitte Touche Tohmatsu:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Audit service | **1,730** | 1,860 |
| Non-audit services | **717** | 981 |
| | **2,447** | 2,841 |

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the maintenance of sound and effective internal controls to safeguard the shareholders' investment and the Group's assets. The Board has entrusted the Audit Committee with the responsibility to review, and has delegated to the Management the implementation of such systems of internal controls as well as the review of relevant financial, operational, and compliance controls, and risk management system.

A risk management system is in place to ensure the regular identification, evaluation and management of risks faced by the Group. Procedures have been set up for, inter alia, safeguarding assets against unauthorised use or disposition, controlling capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publications. The system is regularly reviewed by the Board and amended from time to time.

Formal risk management policies have been put in place to ensure the regular identification, evaluation and management of risks faced by the Group. The system and policies of the Group are designed to help minimise and manage business risks, protect the assets of the Group from misappropriation or impairment, accurately report the results and financial position of the Group, ensure compliance with relevant legal and regulatory requirement, and adopt appropriate recommended best practices. This includes taking into consideration in relation to environmental, social, and corporate governance matters.

The Management maintains and monitors the internal control systems on an ongoing basis. Risk assessment and evaluation are an integral part of the annual planning process. Our internal audit team performs regular review on our internal control system and risk assessment system and reports its recommendation to the Audit Committee. In addition, the Group's external auditor, Messrs. Deloitte Touche Tohmatsu, reports findings to the Audit Committee and contributes an independent perspective on relevant internal controls arising from the audit. The Audit Committee reports to the Board on matters in relation to the oversight of the financial reporting system, internal control procedures and risk management system. The Board has conducted a review on the effectiveness of Company's internal control systems for the year ended 31 December 2018 by considering the work performed by the Audit Committee.

In addition to the internal control review conducted by the Board, the Group has engaged an independent risk advisory consultant from one of reputable accountancy and professional services firms to review the effectiveness of risk management system by performing risk assessment procedures in respect of our risk management functions in relation to the policies and procedures of the hedging activities and proprietary trading activities for the year ended 31 December 2018. Report on the results of assessment and recommendations were provided to the Management and the Audit Committee as well as the Board.

The Audit Committee considered that there was no significant breach of limits or risk management policies during the year that would bring to the attention of the Board. The Board considers that both the risk management and internal control systems are effective and adequate. The Board, with the Management, is following up the recommendations provided by our review team and independent risk advisory consultant in order to enhance the risk management frameworks and procedures of the Company.

A compliance manual has been set to summarise the principal legal, regulatory and compliance issues relating to the Group and its employees. It includes the definition of inside information and also establishes general policies and procedures for handling and dissemination of inside information. The compliance manual would be regularly reviewed and updated to keep abreast with the circumstance.

## INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

The Board recognises the importance of maintaining on-going communication with shareholders. The Company promotes communications with shareholders through several communication channels including publication of circulars and announcements of key developments, interim and annual reports as prescribed under the Listing Rules which can also be accessed via the "Investor Relations" section of the Company's website.

The aims of the Company are to improve its transparency, allow the stakeholders to gain more understanding and confidence in relation to the Group's business developments and acquire more market recognition and support from the shareholders.

Shareholders are encouraged to attend all general meetings of the Company. The notice of the AGM was circulated to all shareholders in accordance with the requirements of the Listing Rules and the articles of association of the Company. It is a standard practice to have the non-executive Directors available to answer questions relating to their roles, tenure, and the Board Committees. The results of voting by poll are published on the websites of the HKEx and the Company after the meetings.

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

There are no provisions under the Company's articles of association or the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands regarding procedures for shareholders to put forward proposals at general meetings other than a proposal of a person for election as director. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

Shareholders may at any time send their enquiries to the Board in writing through Mr. Li Chik Ming, the chief financial officer of the Company, whose contact details are as follows:

Mr. Li Chik Ming
Chief Financial Officer
Strong Petrochemical Holdings Limited
Room 1604, 16th Floor, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong
Tel: (852) 2834 3393
Email: info@strongpetrochem.com

There was no change to the Company's memorandum and articles of association during the year ended 31 December 2018.

The Company adheres the importance of the shareholders' privacy and will not disclose such information without their consent, unless required by law, the HKEx, order or requirement of any court or other competent authority.

# Environmental, Social and Governance Report

## SUSTAINABILITY STRATEGY AND REPORTING

The Group is an energy product trading company specialising in trading a range of energy products including crude oil, petroleum products, petrochemicals and coal. As a responsible corporate, the Group strives to provide quality energy supplies and services for its customers, including the consideration of environmental and social impacts. This Environmental, Social and Governance Report is to address the Group's sustainability performance covering from 1 January 2018 to 31 December 2018 (the "reporting period"), and describe how the Group incorporated sustainable development into its operation.

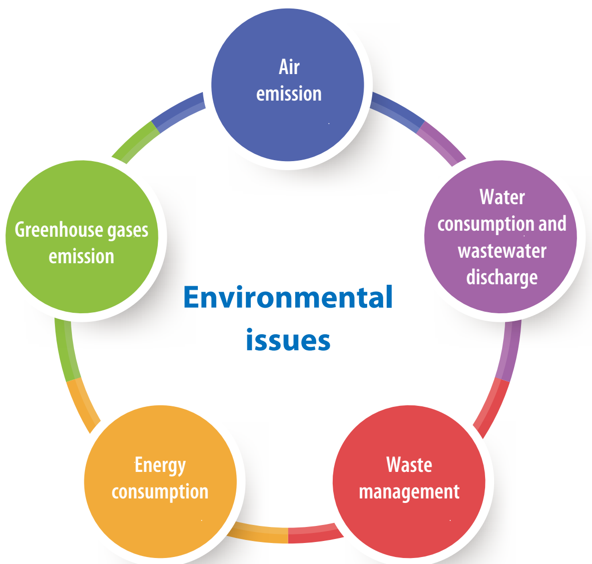
### Reporting Standard and Scope

This report is prepared in accordance with Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Listing Rules. The Group adheres the principles of materiality, quantitative, balance and consistency to report on the measures and performances in this reporting period. Information regarding corporate governance is addressed in the Corporate Governance Report section of the Annual Report according to Appendix 14 to the Listing Rules.

The scope of the report covers (i) the Group's headquarter in Hong Kong, (ii) the Group's two offices in Macao and Singapore, and (iii) the Group's storage business, Strong Nantong, in Jiangsu Province, the PRC, unless otherwise specified.

### Material Topics

In purpose of improving its sustainability reporting approach, the Group has engaged a third-party consultancy company to assist in identifying material sustainability issues. Under the assistance of the consultancy company, the Group held an internal stakeholder session at Strong Nantong, to educate and collect comments relating to material issues. After analysing the employees' feedbacks and consultant's advice, the Board confirmed and identified the following material environmental and social issues associated with the Group's business operations:



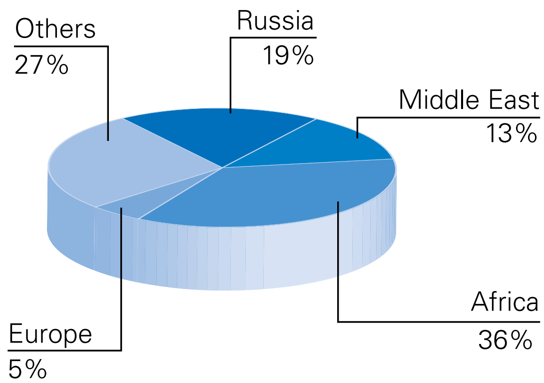

## RESPONSIBLE OPERATIONS

The Group operated in a responsible manner to maintain operation efficiency and sustainable development. This was achieved by first taking responsibility in managing its supplier selection and environmental footprint. Upholding the commitment of conserving resources and reducing emission in day-to-day operations, proper environmental management was incorporated to prevent any associated risks affecting business operation and minimise impacts on environment and natural resources. The Group has formulated relevant environmental policies to reduce emissions and utilise resources. As a result, the Group has complied with all laws and regulations relating to product responsibility, including Trade Marks Ordinance, Competition Ordinance, Law of the PRC on the Protection of Consumer Rights and Interests and Regulations for the Implementation of the Copyright Law of the PRC.

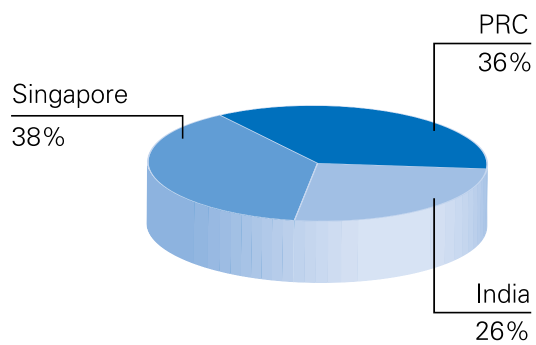
### Supply Chain Management

The Group followed an open and transparent principle in supplier selection, and focused on evaluating suppliers' product quality and business integrity without favouritism. As a prerequisite, the Group conducted background check to ensure suppliers complied with all relevant environmental and social laws and regulations. To maintain a transparent approach and assist suppliers to improve their performance, the Group provided honest selection results and comments to both successful and unsuccessful suppliers. The sources of petroleum products and petrochemicals were defined based on the business location of suppliers while the sources of crude oil and coal were defined based on the actual extraction location. The sources of the Group's crude oil, petroleum products, petrochemicals and coal in the reporting period are shown as below:

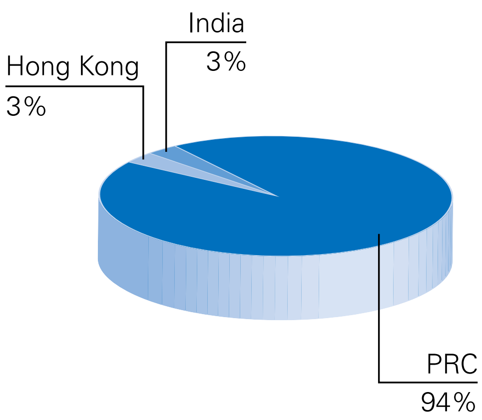
**CRUDE OIL**



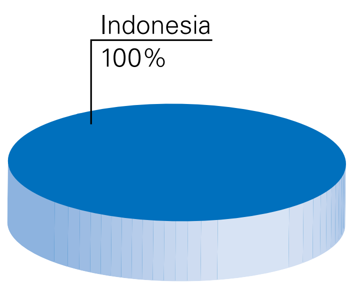

**PETROLEUM PRODUCTS**




**PETROCHEMICALS**




**COAL**



In addition, as a customer-oriented company, the Group placed emphasis on customer engagement, and maintained close contact with the customers through conducting annual customer satisfaction surveys. During the reporting period, the Group has not received any complaints from customers.

### Air Emission

Pollutants including non-methane hydrocarbon, methylbenzene and methanol emitted as a result of oil product storage evaporation in Strong Nantong were the Group's major contribution of air emissions. Recognised such atmospheric emissions can pose health risks and negative impacts on local air quality, the Group was committed to minimise oil product evaporation as to reduce hazardous air emissions' impacts to the environment. Strong Nantong has installed monitoring devices to detect any abnormal leakage and evaporation within the storage tank. Repairments would be consequently carried out to minimise such atmospheric emissions. In addition, the storage tanks were equipped with inner floating roofs inside the tanks to lower vapor escape.

In addition to air pollution, storage evaporation might cause gasoline loss that would reduce resource efficiency. To minimise resource loss, Strong Nantong has set up oil gas reclamation facilities to reclaim oil vapor back to the storage tanks. During the reporting period, the reclamation plant has recovered 32 tonnes of gasoline (2017: 28 tonnes), and has complied with all laws and regulations relating to air emission.

### Water Consumption and Wastewater Discharge

The Group's material water consumption was attributed to the offices, and was supplied by municipal water suppliers. While water sourcing was not a material issue, the Group still endeavoured to improve its water efficiency through daily practices and strictly complied with Water Pollution Control Ordinance and other related laws and regulations the Group subscribed. As such, employees were reminded to turn off the water taps before leaving and report any water leakage incidents for immediate maintenance. The Group achieved a 2% reduction in total water intensity compared to the previous reporting period through the implementation of water conservation measures.

| **Water Consumption** | **Unit** | **2018** | 2017 |
|---|---|---|---|
| Total water consumption | $m^3$ | **1,742** | 1,781 |
| Total water intensity | $m^3$/Total floor area[1] ($m^2$) | **1.17** | 1.20 |

The Group's wastewater was mostly generated from initial rain and sanitary sewage at Strong Nantong. To evacuate surface rainwater and any oil spills, trench drains were installed around the oil loading zone. Rain and sewage diffluence system separated the wastewater into recyclable water and sewage. Recyclable water was used to cool down the incoming oil truck, while sewage was treated by the centralised wastewater treatment facility prior to discharge. The Group has put in place a wastewater monitoring system in Strong Nantong to monitor and ensure the discharge complied with regional wastewater discharge limit.

1 Total floor area represented the sum of (i) gross floor area ("GFA") of offices in Hong Kong headquarter, Macao and Singapore and (ii) the GFA of oil storage site in Strong Nantong.

## Waste Management

Since oil product storage business dealt with hazardous substances, Strong Nantong has formulated appropriate guidelines based on the Waste Disposal Ordinance to ensure wastes were properly sorted, labelled, and disposed properly. To reduce the waste, Strong Nantong encouraged employees to reduce, reuse and recycle wastes, including paper, plastic and metal.

Environmental Health and Safety ("EHS") Department of Strong Nantong was responsible to oversee the implementation of waste management practices. The appointed staff from other departments shall report waste performance to the Strong Nantong EHS Department regularly. Designated waste storage areas were assigned to ensure waste was safely stored and sorted prior to disposal. Strong Nantong has engaged licenced waste disposal service companies to dispose and recycle waste appropriately. As a result of proper waste management, the Group was able to utilise resource effectively and minimise environmental pollution in its operation in Strong Nantong.

| Waste Discharged in Strong Nantong[2] | | Unit | 2018 |
|---|---|---|---|
| Hazardous waste | | tonnes | **1.6** |
| Non-hazardous waste | Recycled materials: | | |
| | Metal, plastic and paper | tonnes | **2.05** |
| | Disposed general waste | tonnes | **10.40** |

## Energy Consumption and Greenhouse Gases ("GHG") Emission

The major type of energy consumed was the electricity use in oil product storage and office activities while it was also the source of the Group's indirect GHG emission. The Group endeavoured to reduce its carbon footprint through conserving energy and promote green practices, these include:

- maintaining average indoor temperature between 24 to 26 degrees Celsius in summer;
- reminding employees to set the computers to sleeping mode when they were idle for 15 minutes; and
- conducting regular electricity consumption audit and identify abnormality.

Comparing to previous reporting period, the Group has increased its energy efficiency and achieved an 8% reduction on electricity intensity compared to the previous reporting period. As a result, the Group's GHG emission has also been reduced as the electricity consumption has decreased.

| Electricity Consumption | Unit | 2018 | 2017 |
|---|---|---|---|
| Offices[3] | kWh | **60,381** | 55,339 |
| Strong Nantong | kWh | **443,679** | 491,605 |
| Total electricity consumption | kWh | **504,060** | 546,944 |
| Total electricity intensity | kWh/Total floor area ($m^2$) | **338** | 367 |

| Source of Scope 2 GHG Emission[4] | Unit | 2018 | 2017 |
|---|---|---|---|
| Office | tonnes of CO2 equivalent (tCO2e-) | **45** | 36 |
| Strong Nantong | tCO2e- | **312** | 346 |
| Total GHG emission | tCO2e- | **357** | 382 |
| GHG intensity | tCO2e-/Total floor area ($m^2$) | **0.24** | 0.26 |

2 In preparation of the on-going waste performance comparison in future year, Strong Nantong has improved its data collection system to incorporate waste records.

3 Offices included the Group's Hong Kong headquarter and the two offices in Singapore and Macao.

4 Scope 2 GHG emission refers to indirect GHG emission resulting from the generation of the electricity which the Group purchased. The Group did not own or control any direct Scope 1 GHG emission sources, such as (i) transportation and (ii) construction machinery usage.

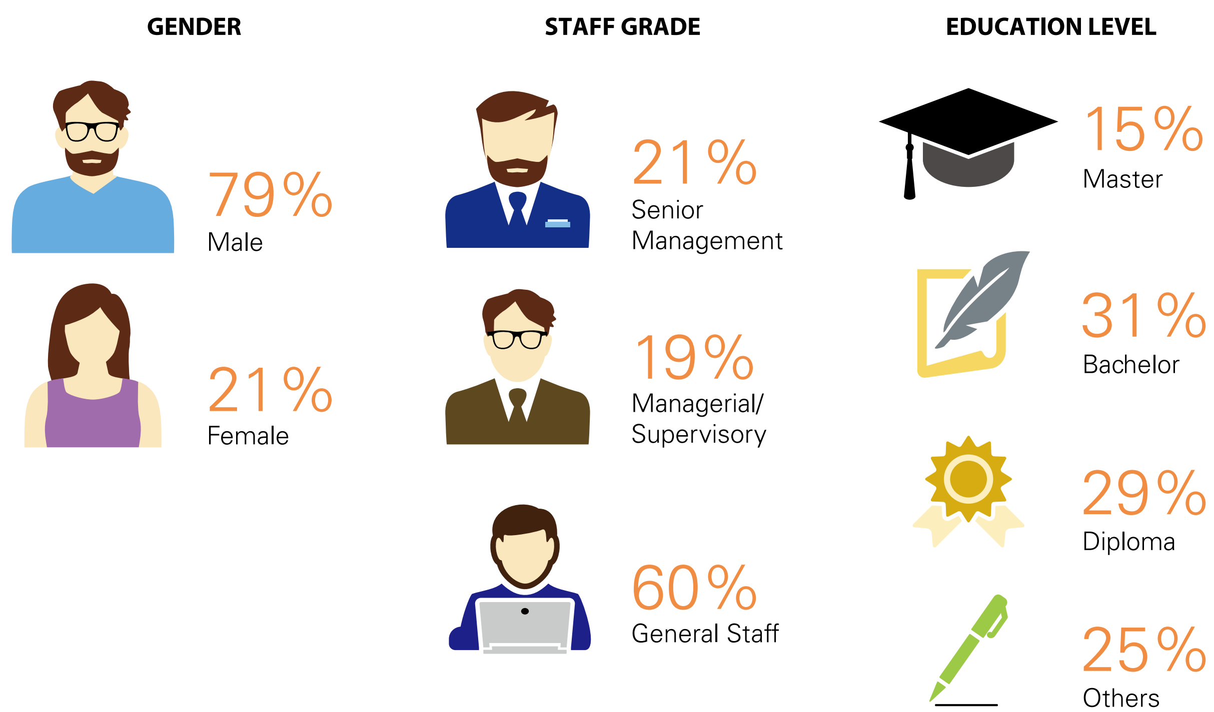
## HARMONIOUS WORKING ENVIRONMENT

As part of its responsible operation, the Group valued employees' health and safety, and committed to providing a harmonious working environment for employees to strive at. In order to create an ideal working atmosphere, the Group promoted a respectful working culture and established a safe workplace.

### Talent Acquisition

In adoption of an equal-opportunity and non-discriminatory recruitment approach, the Group was committed to complying all laws and regulations relating to employment, including Minimum Wage Ordinance. Employees' Compensation Ordinance, Mandatory Provident Fund Scheme Ordinance and other relevant regulations protecting employees in terms of remuneration, compensation and social security, as well as the Discrimination Ordinances to protect employees from any kinds of discrimination. The Group selected suitable talents based on their skills and qualification, and disregard their background. The human resource department of the Company (the "HR Department") was responsible to verify identification and working permits to prevent employment and labour issues such as child labour and forced labour employment. If any forced labour or misuse of child labour were discovered, the HR Department would intervene to stop the infringement actions and offer reasonable compensation. During the reporting period, the Group has complied with all laws and regulations related to employment and labour. The Group offered competitive compensation packages, promotion opportunities, reasonable work hours and rest periods to attract and retain talent.

As of 31 December 2018, the total number of employees in Hong Kong, Macao, the PRC and Singapore was 80, including 79 full-time staff and 1 part-time staff, the breakdown by different categories are listed as below:



## Occupational health and safety

In oil product storage business, occupational injuries and accidents were one of the most key and common concerns. The Group was committed to providing a safe working environment for employees and specifically formulated the Standardised Safety Management System based on Occupational Safety and Health Ordinance and Law of the PRC on Work Safety in Strong Nantong. Strong Nantong promoted a culture of "safety comes first" on operation practices to reduce occupational hazards. The established Special Equipment Safety Technical Supervision Procedures aimed to provide guidelines for equipment inspection to lower the risks caused by malfunction. Its EHS Department oversaw the implementation of workplace safety practices, including:

- identifying, assessing, and mitigating risks based on safety standards and guidelines;
- updating the safety standards to ensure it aligned with the latest industrial practices and local regulations; and
- conducting regular on-site inspection and supervision to ensure a safe workplace.

In addition to the operational safety practice, frontline employees were provided with personal protective equipment, such as safety helmet, safety shoes and gas masks, to protect employees' occupational health and safety. Strong Nantong has also organised emergency trainings and drills to increase employees' responsiveness and awareness when dealing with accidents.

**Health and safety training at Strong Nantong**


**Safety drill at Strong Nantong**




Moreover, Strong Nantong arranged annual occupational health check for frontline employees to monitor their health conditions in order to offer timely help to employees that suffered from occupational hazards.

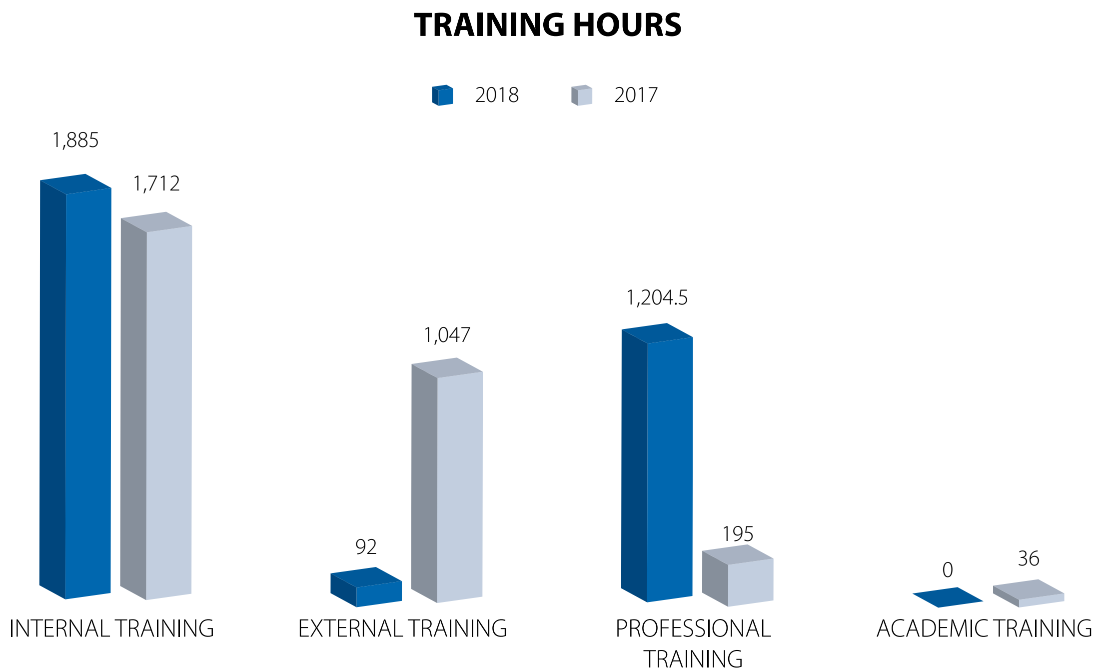
During the reporting period, the Group complied with relevant laws and regulations. With the effort put in safeguarding employees' well-being, the Group was able to maintain a safe working environment with zero case of fatality and injury.

### Talent Cultivation and Development

The Group believed that building employees' capacity was the key to optimise business operation. Essentially, a comprehensive Training Management Standard was provided to the HR Department for training arrangement. Depending on respective roles, position and requirement, training and programmes included orientation, on-job skills development and management were provided to horn their performance and efficiency.

The Group encouraged employees to participate in external training programmes that benefited their professional competency and career development. Furthermore, the Group offered subsidies to employees for attending business seminars, workshops, or trainings in relation to the business needs.

During the reporting period, employees participated in a total of 3,181.5 training hours (2017: 2,990 hours) in various training and development programmes and seminars, and the average training hours per employee was 40.



# Environmental, Social and Governance Report

## Ethical Corporate Image

### Anti-corruption

The Group was committed to maintaining the standards of openness and accountability, and upheld the zero-tolerance principle toward any corruption behaviour, including bribery, extortion, fraud and money laundering.

Whistleblowing policy has been established to provide employees with channels and guidance on reporting suspected misconduct within the Group. Employees were encouraged to report any misconduct to the Compliance Officer or the chairman of the Audit Committee. Once the report was received, the Compliance Officer would conduct investigation and generate a report to the Audit Committee stating the findings, results of the investigation and corrective actions taken to resolve the case.

The Group has complied with all laws and regulations relating to anti-corruption, including Prevention of Bribery Ordinance. In the reporting period, the Group has not noticed any material non-compliance with local laws and regulations relating to anti-corruption.

### Data Protection

The Group held high regards to its customers' and suppliers' privacy and handled all confidential information, including supplier and customer data, business information and technologies carefully to prevent unauthorised access. There were no substantiated complaints regarding breaches of customer and supplier privacy or loss of the data during the reporting period.

## PROSPEROUS COMMUNITY

The Group was dedicated to contribute to the communities in which it operated. Strong Nantong donated approximately RMB12,000 (equivalent to approximately HK$13,000) to Nantong Charity Association during the reporting period to help vulnerable groups including children and elderlies. Furthermore, the Group strived to empower the future community through dedicating resources on supporting youth development. Since 2015, the Group has partnered with Youth College of Vocational Training Council and offered scholarship to diligent students. In the reporting period, 25 students were sponsored with a total of HK$50,000.

## LOOKING FORWARD

Through aligning potential sustainability solutions with business strategies, the Group will continue managing its supply chain and environmental footprint to minimise its operational impacts on the surroundings, which in turn lower the associated risks. In view of generating social values, the Group will endeavour to take employee and society's well-being as parts of its responsibility that contribute to the community's betterment.

## ESG CONTENT INDEX

| Aspect | KPI | Description | Section | Page No. |
|---|---|---|---|---|
| **SUBJECT AREA (A) ENVIRONMENT** | | | | |
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| | *A1.2* | Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Energy Consumption and GHG Emission | 29 |
| | *A1.3* | Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Waste Management | 29 |
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| Aspect | KPI | Description | Section | Page No. |
|---|---|---|---|---|
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| **B2: HEALTH AND SAFETY** | | | | |
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| Aspect | KPI | Description | Section | Page No. |
|---|---|---|---|---|
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| **B6: PRODUCT RESPONSIBILITY** | | | | |
| B6 | *General disclosure* | Information on:<br>(a) the policies; and<br>(b) compliance | Supply Chain Management | 27 |
| | *B6.1* | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | Supply Chain Management | 27 |
| | *B6.2* | Number of products and service related complaints received and how they are dealt with. | Supply Chain Management | 27 |
| | *B6.3* | Description of practices relating to observing and protecting intellectual property rights. | Not applicable | |
| | *B6.4* | Description of quality assurance process and recall procedures. | Supply Chain Management | 27 |
| | *B6.5* | Description of consumer data protection and privacy policies, how they are implemented and monitored. | Ethical Corporate Image | 34 |
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| B7 | *General disclosure* | Information on:<br>(a) the policies; and<br>(b) compliance | Ethical Corporate Image | 34 |
| | *B7.1* | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | Ethical Corporate Image | 34 |
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# Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2018.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal associates and subsidiaries are set out in notes 17 and 40 to the consolidated financial statements respectively.

## BUSINESS REVIEW

Detailed business review as required by Schedule 5 to the new Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including the particulars of important events affecting the Group, a discussion of the principal risks and uncertainties facing the Group, an indication of likely future developments in the Group's business and an analysis of the Group's performance using financial key performance indicators, is set out in the Chairman's Statement and the Management Discussion and Analysis on pages 4 to 5 and pages 6 to 9 respectively.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

Environmental policies have been adopted by the Group for the implementation of environmentally friendly measures and practices in the operation of the Group's businesses, which include, among others, discharging wastewater produced to sewage treatment plant, encouraging employees to adopt green lifestyle in office by using recycled paper and printing on both sides and encouraging the use of video conferencing or telephone conferencing as a substitute to business travel.

The Group has also reviewed its environmental policies and performance from time to time in order to minimise the environmental impacts from our operations. During the year, the Company was not aware of any non-compliance with any regulations related to environmental protection that had a significant impact on the Group.

Detailed environmental policies and performance of the Group are set out in the Environmental, Social and Governance Report on pages 26 to 37.

## COMPLIANCE WITH LAWS AND REGULATIONS

During the year, the Company was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on the Group.

## RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

### Employees

Employees are regarded as one of the most important and valuable assets of the Group. The Group strives to reward and recognise performing employees by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within the Group for career advancement.

### Customers and Suppliers

The Group maintains stable and cooperative relationships with its customers. To ensure that our traded products remain competitive, the Group closely monitors market movements and collaborates with customers for new products development. Our traders communicate with our customers frequently to ensure different varieties of energy products the Group trades can meet the demands and changing requirements of customers. The Group also manages its relationship with suppliers to ensure reliability, stability and quality of different energy products supplied to the Group.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 50.

The Board does not recommend the payment of final dividends for the year ended 31 December 2018 (2017: nil).

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from, Thursday, 23 May 2019 to Tuesday, 28 May 2019, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the AGM to be held on 28 May 2019, all completed share transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 22 May 2019.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

## SHARE CAPITAL

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

## FIVE YEARS FINANCIAL SUMMARY

A summary of the results, total assets and equity of the Group for the last five financial years is set out on page 3.

## DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2018, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately HK$979.1 million.

# Directors' Report

## DIRECTORS

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

| Executive Directors | Independent Non-executive Directors |
|---|---|
| Mr. Wang Jian Sheng | Ms. Cheung Siu Wan |
| Mr. Yao Guoliang | Mr. Guo Yan Jun (resigned on 1 January 2018) |
| | Dr. Chan Yee Kwong |
| | Mr. Deng Heng (appointed on 1 January 2018) |

In accordance with Article 87 of the Company's articles of association, Mr. Yao Guoliang and Mr. Wang Jian Sheng should retire at the forthcoming AGM and, being eligible, offer themselves for re-election at the forthcoming AGM.

The Directors' biographical details are set out on pages 10 to 11.

The Company received confirmation from each of the INEDs of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considered all the INEDs as independent from the date of their appointment to 31 December 2018.

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

## MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the section headed "Continuing Connected Transactions" of this report and note 34 to the consolidated financial statements, no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at any time during the year or at the end of the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the date of this report, none of the Directors, the management shareholders of the Company and their respective associates (as defined in the Listing Rules) had any interest in a business which causes or may cause a significant competition with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

## INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of Company's associated corporations (within the meaning of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")), as recorded in the register required to be kept under Section 352 of Part XV of the SFO, or as otherwise notified to the Company and the HKEx pursuant to the Model Code are set out below:

### Long position in ordinary shares of HK$0.025 each of the Company

| Name of Director | Nature of interest | Number of ordinary shares held | Approximate percentage of the issued share capital of the Company (%) |
|---|---|---|---|
| Mr. Wang Jian Sheng | Interest of a controlled corporation (Note 1) | 1,041,746,000 | 49.04 |
| | Interest of concert parties (Note 2) | 124,222,000 | 5.84 |
| Mr. Yao Guoliang | Beneficial owner | 124,222,000 | 5.84 |
| | Interest of a controlled corporation (Note 1) | 1,041,746,000 | 49.04 |

Notes:

1. Each of Sino Century and Jin Yao holds 50% of the entire issued share capital of Forever Winner. Mr. Wang holds the entire issued share capital of Sino Century. Mr. Yao holds the entire issued share capital of Jin Yao.

2. Since Mr. Wang and Mr. Yao jointly control Forever Winner which in turn holds 1,041,746,000 shares of the Company, Mr. Wang and Mr. Yao are deemed as parties acting in concert. Therefore, as Mr. Yao currently beneficially owns approximately 5.84% equity interest in the Company, Mr. Wang shall be deemed to hold the same equity interest in the Company.

Save for those disclosed above, as at 31 December 2018, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to Company and the HKEx pursuant to the Model Code.

Apart from the section headed "Share Options" as disclosed later in this report, none of the Directors or chief executive of the Company (including their spouses and children under the age of 18), during the year ended 31 December 2018, held any interests in or was granted any right to subscribe for the securities of Company and its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

## SHARE OPTIONS

In 2014, the old share option scheme adopted on 28 November 2008 (the "Old Share Option Scheme") was terminated and the new share option scheme (the "New Share Option Scheme") was adopted on 15 May 2014 in view of the New Share Option Scheme being able to provide the Company with more flexibility in long term planning of granting of the share options to the employees, Directors, consultants, advisers and shareholders of the Group in a longer period in the future so as to provide appropriate incentives or rewards to them for their contributions or potential contributions to the Group. All outstanding share options granted under the Old Share Option Scheme were lapsed during the year.

The movements in the share options of the Company under the Old Share Option Scheme during the year are set out as follows:

| Nature or category of participant | Date of grant[1] (dd/mm/yy) | Price of share of the Company: Exercise price HK$ | At the grant date of share options HK$ | At the exercise date of share options HK$ | Number of share options[2]: Outstanding at 01/01/2018 | Exercised during the year | Lapsed during the year | Outstanding at 31/12/2018 |
|---|---|---|---|---|---|---|---|---|
| **Employees** | 07/05/09 | 0.645 | 0.655 | N/A | 240,000 | – | (240,000) | – |
| **Other participants in aggregate** | 07/05/09 | 0.645 | 0.655 | N/A | 25,940,000 | – | (25,940,000) | – |
| **Total** | | | | | 26,180,000 | – | (26,180,000) | – |

Notes:

1. Options granted were exercisable during the period starting from 8 May 2009 to 28 November 2018. The options granted under the Old Share Option Scheme had vesting period in three tranches of 40%, 30% and 30% of its options granted from the grant date to 8 May 2009, 8 May 2010 and 8 May 2011 respectively.

2. During the year, 26,180,000 share options of the Company were lapsed.

The movements in the share options of the Company under the New Share Option Scheme during the year are set out as follows:

| Nature or category of participant | Date of grant[1] (dd/mm/yy) | Price of share of the Company: Exercise price HK$ | At the grant date of share options HK$ | At the exercise date of share options HK$ | Number of share options[2]: Outstanding at 01/01/2018 | Exercised during the year | Lapsed during the year | Outstanding at 31/12/2018 |
|---|---|---|---|---|---|---|---|---|
| **Other participants in aggregate** | 05/09/14 | 0.78 | 0.77 | N/A | 138,000,000 | – | – | 138,000,000 |
| **Total** | | | | | 138,000,000 | – | – | 138,000,000 |

Notes:

1. Options granted are exercisable during the period starting from 6 September 2014 to 14 May 2024.

2. During the year, no share options of the Company were lapsed or exercised.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## INTERESTS OF SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, the Directors are not aware of any other person, (other than the interests of the Director or 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 Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO:

### Long position in shares of the Company

| Name of shareholder | Nature of interest | Number of ordinary shares | Approximate percentage of shareholding (%) |
|---|---|---|---|
| Forever Winner | Beneficial Owner (Note 1) | 1,041,746,000 | 49.04 |
| Mr. Yao Guoliang | Beneficial Owner | 124,222,000 | 5.84 |
| Hongkong Hengyuan Investment Limited | Beneficial Owner (Note 2) | 353,603,681 | 16.64 |

Notes:

1. Each of Sino Century and Jin Yao holds 50% of the entire issued share capital of Forever Winner. Mr. Wang holds the entire issued share capital of Sino Century. Mr. Yao holds the entire issued share capital of Jin Yao.

2. Mr. Chang Liang holds the entire issued share capital of Hongkong Hengyuan Investment Limited.

## CONTINUING CONNECTED TRANSACTIONS

During the year, the Group entered into a tenancy agreement with Strong Property Limited, which constituted continuing connected transaction and related party transaction and is set out in note 34 to the consolidated financial statements.

The continuing connected transaction under the above tenancy agreement falls within the de minimis threshold under Rule 14A.76(1) of the Listing Rules and therefore is exempted from the reporting, annual review, announcement and independent shareholders' approval requirements contemplated under the Listing Rules.

## CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to approximately HK$63,000 (2017: HK$168,000).

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers and purchases from the five largest suppliers accounted for approximately 76% and 45% of the total sales and purchases for the year, respectively. The Group's largest customer and supplier accounted for approximately 29% and 13% of the total sales and purchases for the year, respectively.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has a beneficial interest in these major customers or suppliers.

## EMOLUMENT POLICY

The Group mainly determines staff remuneration in accordance with market terms and individual qualifications.

The Group implemented its remuneration policy, bonus and share option schemes based on the achievements and performance of employees.

The emoluments of the Directors will be decided by the Remuneration Committee having regard to the Group's operating results, individual performance and comparable market statistics. Details of Directors' emolument and other staff costs are set out in notes 11 and 10 respectively to the consolidated financial statements.

## RETIREMENT BENEFIT SCHEME

Other than operating a Hong Kong Mandatory Provident Fund Scheme, participating in the defined contribution pension scheme operated by the Macao government authority, the Central Provident Fund operated by Singapore government and the PRC state-managed retirement benefit scheme, the Group has not operated any other retirement benefit scheme for the Group's employees. Particulars of the retirement benefit scheme are set out in note 30 to the consolidated financial statements.

## PERMITTED INDEMNITY PROVISION

Pursuant to the articles of association of the Company, every Director shall be entitled to be indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he or she may incur or sustain in or about the execution of the duties of his or her office or otherwise in relation thereto.

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group throughout the year.

## EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 41 to the consolidated financial statements, the Group had no significant events after 31 December 2018.

## EQUITY-LINKED AGREEMENT

Save as disclosed in the section headed "Share Options" of this report, no equity-linked agreements were entered into during the year or subsisted at the end of the year ended 31 December 2018.

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

During the year, the Company repurchased a total of 1,310,000 ordinary shares of the Company at an aggregate purchase price of approximately HK$650,000 on the HKEx, representing approximately 0.06% of the issued share capital of the Company as at the date of the passing of the ordinary resolution under which the general mandate to repurchase shares was granted. Particulars of the shares repurchase are as follows:

| Month of repurchase | No. of ordinary shares of HK$0.025 each | Purchase price paid per share | | Aggregate consideration paid |
|---|---|---|---|---|
| | | Highest | Lowest | |
| | | HK$ | HK$ | HK$ |
| September 2018 | 1,240,000 | 0.51 | 0.475 | 617,000 |
| October 2018 | 70,000 | 0.50 | 0.46 | 33,000 |
| Total | 1,310,000 | | | 650,000 |

The repurchased shares were cancelled during the year and the issued share capital of the Company was reduced by the nominal value thereof.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the year.

## PRE-EMPTIVE RIGHTS

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

## SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained a sufficient public float.

## AUDITOR

A resolution will be proposed at the forthcoming AGM to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board
**Wang Jian Sheng**
*Chairman*

27 March 2019

# Independent Auditor's Report

Deloitte. 德勤

To the Shareholders of
**Strong Petrochemical Holdings Limited**
*(incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of Strong Petrochemical Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 50 to 132, 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, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of interest in an associate** | |
| We identified the valuation of interest in an associate located in the People's Republic of China (the "PRC"), namely Sinochem Tianjin Port Petrochemical Terminal Co., Ltd. 中化天津港石化倉儲有限公司 ("Sinochem Port"), as a key audit matter due to the significant estimation involved by the management of the Group in determining the recoverable amount of Sinochem Port.<br><br>As set out in note 4 to the consolidated financial statements, the carrying amount of the Group's interest in Sinochem Port as at 31 December 2018 is approximately HK$52,224,000 and the Group has recognised share of loss of this associate of approximately HK$3,349,000 for the year ended 31 December 2018. This associate is principally engaged in provision of crude oil and petrochemicals storage services in the PRC. Its financial performance is highly dependent on the service charges of crude oil and petrochemicals storage services and the demand for these services, both of which are influenced by market conditions. This associate continues to be loss-making for the year ended 31 December 2018. This indicates that the carrying amount of the Group's interest in this associate may be impaired. Details are set out in note 17 to the consolidated financial statements.<br><br>The management of the Group has performed an impairment assessment on the Group's interest in this associate and concluded that an impairment loss of approximately HK$4,763,000 is recognised in profit or loss. This conclusion is based on the value in use calculation using a discounted cash flow model developed by the management of the Group with the assistance of an independent qualified professional valuer (the "Valuer") engaged by the Group and the model requires significant estimation on growth rates, gross profit margin and expected changes in capital expenditures which form parts of the underlying future cash flows of this associate and the appropriate discount rate. | Our procedures in relation to the valuation of the Group's interest in this associate included:<br><br>• Obtaining an understanding of the basis adopted in the valuation methodology prepared by the management of the Group;<br><br>• Assessing the reasonableness of the key assumptions made by the management of the Group, including growth rates, gross profit margin and expected changes in capital expenditures with reference to the current market circumstances;<br><br>• Testing the appropriateness of key inputs applied by the management of the Group in preparing the cash flow forecasts against historical performance, including revenue, cost of sales and operating expenses and with reference to the future strategic plans of this associate;<br><br>• Evaluating the competence, capabilities and objectivity of the Valuer and obtaining understanding of the Valuer's scope of work and their terms of engagement; and<br><br>• Involving our internal valuation expert in evaluating reasonableness of the discount rate used in the impairment assessment. |

## OTHER INFORMATION

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

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

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

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

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company 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 objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Wong Wang Hei.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
27 March 2019

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

*For the year ended 31 December 2018*

| | NOTES | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| Revenue — trading of energy products | 5 | **22,810,604** | 12,162,601 |
| Cost of sales | | **(22,565,318)** | (11,975,477) |
| Gross profit | | **245,286** | 187,124 |
| Other income | 7 | **110,622** | 75,009 |
| Other gains and losses | 7 | **95,449** | 7,793 |
| Loss on changes in fair value of derivative financial instruments, net | | **(281,494)** | (60,646) |
| Distribution and selling expenses | | **(41,381)** | (86,831) |
| Administrative expenses | | **(87,382)** | (75,438) |
| Other expenses | | **(457)** | (447) |
| Finance costs | 8 | **(28,088)** | (19,342) |
| Share of results of associates | | **(4,327)** | (6,236) |
| Share of results of a joint venture | | **(1)** | (1) |
| Profit before taxation | | **8,227** | 20,985 |
| Income tax expense | 9 | **(776)** | (21) |
| Profit for the year | 10 | **7,451** | 20,964 |
| Other comprehensive (expense) income | | | |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences arising on translation of foreign operations | | **(11,850)** | 20,648 |
| Total comprehensive (expense) income for the year | | **(4,399)** | 41,612 |
| Profit (loss) for the year attributable to: | | | |
| Owners of the Company | | **7,452** | 21,234 |
| Non-controlling interests | | **(1)** | (270) |
| | | **7,451** | 20,964 |
| Total comprehensive (expense) income for the year attributable to: | | | |
| Owners of the Company | | **(4,375)** | 41,846 |
| Non-controlling interests | | **(24)** | (234) |
| | | **(4,399)** | 41,612 |
| Earnings per share | 13 | | |
| — basic (HK cents) | | **0.35** | 1.10 |
| — diluted (HK cents) | | **0.35** | 1.08 |

# Consolidated Statement of Financial Position

*At 31 December 2018*

| | NOTES | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 14 | **75,433** | 84,805 |
| Prepaid lease payments | 15 | **16,877** | 18,153 |
| Other assets | 16 | **1,059** | 1,059 |
| Interests in associates | 17 | **64,872** | 101,989 |
| Interest in a joint venture | 18 | **–** | 77,999 |
| | | **158,241** | 284,005 |
| Current assets | | | |
| Inventories | 20 | **16,976** | 32,243 |
| Prepaid lease payments | 15 | **441** | 462 |
| Trade and bills receivables | 21 | **2,764,771** | 2,192,760 |
| Other receivables, deposits and prepayments | 21 | **246,615** | 317,271 |
| Taxation recoverable | | **–** | 147 |
| Tax reserve certificates | | **3,675** | 2,475 |
| Derivative financial instruments | 28 | **1,932** | 93,266 |
| Financial assets at fair value through profit or loss | 22 | **33,463** | – |
| Held for trading investments | 23 | **–** | 304 |
| Deposits placed with brokers | 24 | **112,479** | 83,461 |
| Pledged bank deposits | 25 | **42,207** | 44,585 |
| Bank balances and cash | 25 | **204,311** | 715,085 |
| | | **3,426,870** | 3,482,059 |
| Assets classified as held for sale | 19 | **77,999** | – |
| | | **3,504,869** | 3,482,059 |
| Current liabilities | | | |
| Trade and bills payables | 26 | **1,730,746** | 2,203,898 |
| Other payables and accrued charges | 26 | **24,719** | 78,189 |
| Receipts in advance | | **–** | 1,277 |
| Contract liabilities | 26 | **518,509** | – |
| Taxation payable | | **348** | 27 |
| Bank borrowings | 27 | **14,837** | – |
| Derivative financial instruments | 28 | **–** | 103,673 |
| | | **2,289,159** | 2,387,064 |
| Net current assets | | **1,215,710** | 1,094,995 |
| Net assets | | **1,373,951** | 1,379,000 |

# Consolidated Statement of Financial Position

*At 31 December 2018*

| | NOTE | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | 29 | **53,110** | 53,143 |
| Reserves | | **1,320,357** | 1,325,349 |
| Equity attributable to owners of the Company | | **1,373,467** | 1,378,492 |
| Non-controlling interests | | **484** | 508 |
| Total equity | | **1,373,951** | 1,379,000 |

The consolidated financial statements on pages 50 to 132 were approved and authorised for issue by the Board of Directors on 27 March 2019 and are signed on its behalf by:

**Wang Jian Sheng**
*DIRECTOR*

**Yao Guoliang**
*DIRECTOR*

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2018*

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** HK$'000 | **Share premium** HK$'000 | **Special reserve** HK$'000 (note (i)) | **Legal reserve** HK$'000 (note (ii)) | **Share option reserve** HK$'000 | **Translation reserve** HK$'000 | **Other reserve** HK$'000 (note (iii)) | **Retained profits** HK$'000 | **Sub-total** HK$'000 | **Non-controlling interests** HK$'000 | **Total** HK$'000 |
| At 1 January 2017 | 44,200 | 339,520 | (1,922) | 49 | 51,564 | (14,569) | 12,295 | 797,497 | 1,228,634 | 742 | 1,229,376 |
| Profit (loss) for the year | – | – | – | – | – | – | – | 21,234 | 21,234 | (270) | 20,964 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | – | 20,612 | – | – | 20,612 | 36 | 20,648 |
| Total comprehensive income (expense) for the year | – | – | – | – | – | 20,612 | – | 21,234 | 41,846 | (234) | 41,612 |
| Issue of shares (Note 29) | 8,840 | 223,831 | – | – | – | – | – | – | 232,671 | – | 232,671 |
| Issue of shares upon exercise of share options (Note 29) | 103 | 3,714 | – | – | (1,173) | – | – | – | 2,644 | – | 2,644 |
| Dividends paid (Note 12) | – | – | – | – | – | – | – | (127,303) | (127,303) | – | (127,303) |
| | 8,943 | 227,545 | – | – | (1,173) | – | – | (127,303) | 108,012 | – | 108,012 |
| At 31 December 2017 | 53,143 | 567,065 | (1,922) | 49 | 50,391 | 6,043 | 12,295 | 691,428 | 1,378,492 | 508 | 1,379,000 |
| Profit (loss) for the year | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **7,452** | **7,452** | **(1)** | **7,451** |
| Exchange differences arising on translation of foreign operations | **–** | **–** | **–** | **–** | **–** | **(11,827)** | **–** | **–** | **(11,827)** | **(23)** | **(11,850)** |
| Total comprehensive (expense) income for the year | **–** | **–** | **–** | **–** | **–** | **(11,827)** | **–** | **7,452** | **(4,375)** | **(24)** | **(4,399)** |
| Repurchase of shares (Note 29) | **(33)** | **(617)** | **–** | **–** | **–** | **–** | **–** | **–** | **(650)** | **–** | **(650)** |
| At 31 December 2018 | **53,110** | **566,448** | **(1,922)** | **49** | **50,391** | **(5,784)** | **12,295** | **698,880** | **1,373,467** | **484** | **1,373,951** |

Notes:

(i) The special reserve represents the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the shares of Strong Petrochemical Holdings Limited (the "Company") issued for the acquisition at the time of the corporate reorganisation to rationalise the structure of the Company and its subsidiaries (collectively referred to as the "Group") prior to the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

(ii) According to the law and regulation of Macao Special Administrative Region ("Macao"), a legal reserve is required to be established up to a minimum of 50% of a company's paid up capital and is established in any year in which a dividend is appropriated. A subsidiary of the Company established in Macao appropriated a final dividends for the year ended 31 March 2006 to its holding company, as a result, 50% of the issued capital of Macau Patacas ("MOP") 100,000 was transferred to the legal reserve.

(iii) Other reserve was resulted from (a) the deemed disposal of partial interests in subsidiaries without losing the Group's control over the subsidiaries, and (b) the difference between the fair value of ordinary shares issued by the Company and the carrying amount of the additional interests in a subsidiary acquired by the Group in previous years.

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2018*

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before taxation | **8,227** | 20,985 |
| Adjustments for: | | |
| Bank interest income | **(5,716)** | (1,870) |
| Interest income from loans receivables | **(1,200)** | (12,731) |
| Interest income from deposits placed with brokers | **(13)** | – |
| Dividend income from held for trading investments | **–** | (725) |
| Dividend income from financial assets at fair value through profit or loss | **(222)** | – |
| Finance costs | **28,088** | 19,342 |
| Depreciation | **7,314** | 7,074 |
| Release of prepaid lease payments | **457** | 447 |
| Gains on changes in fair value of held for trading investments, net | **–** | (7,011) |
| Losses on changes in fair value of financial assets at fair value through profit or loss, net | **3,731** | – |
| Impairment loss on interest in an associate | **4,763** | – |
| (Gains) losses on disposal of property, plant and equipment | **(174)** | 1 |
| Share of results of associates | **4,327** | 6,236 |
| Share of results of a joint venture | **1** | 1 |
| Operating cash flows before movements in working capital | **49,583** | 31,749 |
| Decrease in inventories | **14,587** | 899,458 |
| Increase in trade and bills receivables | **(572,859)** | (774,127) |
| Decrease (increase) in other receivables, deposits and prepayments | **82,519** | (287,055) |
| Increase in tax reserve certificate | **(1,200)** | (2,475) |
| Increase in trade and bills payables | **24,470** | 1,512,586 |
| (Decrease) increase in other payables and accrued charges | **(42,964)** | 59,952 |
| Increase in receipts in advance | **–** | 36 |
| Increase in contract liabilities | **20,381** | – |
| Changes in derivative financial instruments | **(12,339)** | (87,214) |
| Cash (used in) generated from operations | **(437,822)** | 1,352,910 |
| Interest paid and bank charges | **(15,715)** | (19,342) |
| Income tax paid | **(445)** | (3) |
| Income tax refunded | **139** | 210 |
| NET CASH (USED IN) FROM OPERATING ACTIVITIES | **(453,843)** | 1,333,775 |

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2018*

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| INVESTING ACTIVITIES | | |
| New loan granted | **(30,000)** | (256,200) |
| Repayment of loans receivables | **30,000** | 256,200 |
| (Increase) decrease in deposits placed with brokers | **(24,455)** | 223,015 |
| Purchase of property, plant and equipment | **(3,838)** | (2,119) |
| Withdrawal of pledged bank deposits | **2,378** | 22,874 |
| Proceeds from disposal of property, plant and equipment | **188** | – |
| Interest received | **6,929** | 14,601 |
| Acquisition of a joint venture | **–** | (78,000) |
| Dividend received from financial assets at fair value through profit or loss | **222** | – |
| Purchase of financial assets at fair value through profit or loss | **(51,808)** | – |
| Proceeds from disposal of financial assets at fair value through profit or loss | **14,884** | – |
| Purchase of held for trading investments | **–** | (13,203) |
| Proceeds from disposal of held for trading investments | **–** | 49,965 |
| NET CASH (USED IN) FROM INVESTING ACTIVITIES | **(55,500)** | 217,133 |
| FINANCING ACTIVITIES | | |
| New bank borrowings raised | **3,957,929** | 15,143,742 |
| Repayment of bank borrowings | **(3,942,484)** | (16,322,432) |
| Payment on repurchase of shares | **(650)** | – |
| Proceeds from issue of shares | **–** | 232,671 |
| Exercise of share options | **–** | 2,644 |
| Interests paid | **(12,373)** | – |
| Dividends paid | **–** | (127,303) |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | **2,422** | (1,070,678) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | **(506,921)** | 480,230 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | **715,085** | 230,256 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | **(3,853)** | 4,599 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH | **204,311** | 715,085 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2018*

## 1. GENERAL

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 1 February 2008. The shares of the Company have been listed on the Main Board of the Stock Exchange since 12 January 2009. Its parent and ultimate holding company is Forever Winner International Ltd. ("Forever Winner"), a limited company incorporated in the British Virgin Islands. Mr. Wang Jian Sheng, the chairman and executive director of the Company, and Mr. Yao Guoliang, the chief executive officer and executive director of the Company, each holds 50% equity interest in Forever Winner. The addresses of the registered office and principal place of business of the Company are disclosed in the section of "Corporate Information" in the Company's annual report.

The Company acts as an investment holding company. The principal activities of the Company's subsidiaries are mainly trading of energy products, including crude oil, petroleum products, petrochemicals and coal. Details of the principal subsidiaries of the Company are set out in note 40.

The principal operations of the Group are conducted in Hong Kong Special Administrative Region ("Hong Kong"), Macao, the People's Republic of China (other than Hong Kong and Macao) (the "PRC") and Singapore. The functional currency of the Company and most of its subsidiaries is United States Dollar ("US$"), as the Group mainly trades in US$ with its customers and suppliers. However, for the convenience of the financial statements' users, the consolidated financial statements are presented in Hong Kong Dollar ("HK$").

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### New and amendments to HKFRSs that are mandatorily effective for the current year

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

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments |
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to HKFRS 4 | Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts" |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014–2016 Cycle |
| Amendments to HKAS 40 | Transfers of Investment Property |

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

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

### New and amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

**HKFRS 15 "Revenue from Contracts with Customers"**

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

The Group recognises revenue from the following major sources which arise from the contracts with customers in respect of trading of energy products which include:

- Trading of crude oil;
- Trading of petroleum products;
- Trading of petrochemicals; and
- Trading of coal.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

### New and amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

**HKFRS 15 "Revenue from Contracts with Customers"** *(continued)*

*Summary of effects arising from initial application of HKFRS 15*

There is no impact of transition from HKAS 18 to HKFRS 15 on the Group's retained profits as at 1 January 2018.

The following adjustment was made to the amounts recognised in the consolidated statement of financial position as at 1 January 2018. Line items were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

| | Note | Carrying amount previously recorded at 31 December 2017<br>HK$'000 | Reclassification<br>HK$'000 | Carrying amount under HKFRS 15 at 1 January 2018*<br>HK$'000 |
|---|---|---|---|---|
| **Current liabilities** | | | | |
| Receipts in advance | (i) | 1,277 | (1,277) | – |
| Contract liabilities | (i) | – | 1,277 | 1,277 |

* The amount in this column is before the adjustments from application of HKFRS 9 "Financial Instruments".

Note:

(i) As at 1 January 2018, advances received from customers of approximately HK$1,277,000 in respect of sales of goods under contracts with customers previously included in receipts in advance were reclassified to contract liabilities.

In the opinion of the directors of the Company, except for the reclassification mentioned above, the application of HKFRS 15 in the current year has had no material impact on the Group's financial performance and positions for current and prior years but results in more extensive disclosures in the consolidated financial statements.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

### New and amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

**HKFRS 15 "Revenue from Contracts with Customers"** *(continued)*

*Summary of effects arising from initial application of HKFRS 15 (continued)*

Impact on the consolidated statement of financial position

| | As reported<br>HK$'000 | Adjustment<br>HK$'000 | Amount without application of HKFRS 15<br>HK$'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Receipts in advance | – | 518,509 | 518,509 |
| Contract liabilities | 518,509 | (518,509) | – |

Impact on the consolidated statement of cash flows

| | As reported<br>HK$'000 | Adjustment<br>HK$'000 | Amount without application of HKFRS 15<br>HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash used in operations | | | |
| Increase in receipts in advance | – | 20,381 | 20,381 |
| Increase in contract liabilities | 20,381 | (20,381) | – |

**HKFRS 9 "Financial Instruments"**

In the current year, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (a) the classification and measurement of financial assets and financial liabilities, (b) expected credit losses ("ECL") for financial assets and (c) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

### New and amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

**HKFRS 9 "Financial Instruments"** *(continued)*

*Summary of effects arising from initial application of HKFRS 9*

The following adjustments were made to the amounts recognised in the consolidated statement of financial position as at 1 January 2018. Line items that were not affected by the changes have not been included.

| | Notes | Held for trading investments HK$'000 | Financial assets at fair value through profit or loss ("FVTPL") required by HKFRS 9 HK$'000 | Trade receivables at amortised cost (previously classified as loans and receivables) HK$'000 | Trade payables at amortised cost HK$'000 | Trade receivables at FVTPL required by HKFRS 9 HK$'000 | Trade payables designated at FVTPL HK$'000 |
|---|---|---|---|---|---|---|---|
| Closing balance at 31 December 2017 — HKAS 39 | | 304 | – | 1,691,405 | 1,702,712 | – | – |
| Effects arising from initial application of HKFRS 9: | | | | | | | |
| Reclassification | | | | | | | |
| From held for trading investments | (i) | (304) | 304 | – | – | – | – |
| From loans and receivables | (ii) | – | – | (281,301) | – | 281,301 | – |
| From trade payables | (ii) | – | – | – | (280,033) | – | 280,033 |
| Opening balance at 1 January 2018 | | – | 304 | 1,410,104 | 1,422,679 | 281,301 | 280,033 |

Notes:

(i) The Group has reassessed its investments in equity securities classified as held for trading under HKAS 39 as if the Group had purchased these investments at the date of initial application of HKFRS 9. Based on the facts and circumstances as at the date of initial application, approximately HK$304,000 of the Group's investments were held for trading and continued to be measured at FVTPL.

The remaining financial assets at FVTPL of the Group are derivatives not designated as effective hedging instruments and are continued to be measured at FVTPL under HKFRS 9.

There was no impact on the amounts recognised in relation to these assets from the application of HKFRS 9.

(ii) Trade receivables and trade payables at amortised cost

Trade receivables arising from provisionally priced sales previously classified as loans and receivables were reclassified to trade receivables at FVTPL upon the application of HKFRS 9 because the embedded derivative component for the provisionally priced trade receivables does not meet the HKFRS 9 criteria as solely payments of principal and interest on the principal amount outstanding. They are now accounted for as one instrument measured at FVTPL until final settlement. Furthermore, upon the application of HKFRS 9, the Group elected to designate trade payables containing embedded derivative component at FVTPL consistent with the accounting required for trade receivables containing the embedded derivative component to eliminate any accounting mismatches that would have arisen.

As at 1 January 2018, no credit loss allowance was recognised against retained profits, in the opinion of the directors of the Company, the estimated allowance under the ECL model was not significant.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

### New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| HKFRS 16 | Leases[1] |
| HKFRS 17 | Insurance Contracts[2] |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments[1] |
| Amendments to HKFRS 3 | Definition of a Business[4] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material[5] |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement[1] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015–2017 Cycle[1] |

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after 1 January 2021.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for business combinations and asset acquisition for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after 1 January 2020.

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

**HKFRS 16 "Leases"**

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

### New and amendments to HKFRSs in issue but not yet effective *(continued)*

**HKFRS 16 "Leases"** *(continued)*

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, among others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance with the nature, as appropriate.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$3,478,000 as disclosed in note 35. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of approximately HK$579,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) — Int 4 "Determining whether an Arrangement Contains a Lease". Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

### New and amendments to HKFRSs in issue but not yet effective *(continued)*

**HK(IFRIC)-Int 23 "Uncertainty over Income Tax Treatments"**

HK(IFRIC)-Int 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group; and assess whether it is probable that a tax authority will accept an uncertain tax treatment used or proposed to be used by an entity in its income tax filings.

The directors of the Company do not anticipate the application of HK(IFRIC)-Int 23 will have a material impact on the taxation recognised on the ground that the field audit is at preliminary fact-finding stage as set out in note 9 and the relevant tax authority has not raised any disagreement up to the date of the consolidated financial statements are authorised for issue.

**Amendments to HKFRS 3 "Definition of a Business"**

The amendments clarify the definition of a business and provide additional guidance with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. Furthermore, an optional concentration test is introduced to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments will be mandatorily effective to the Group prospectively for acquisition transactions completed on or after 1 January 2020.

**Amendments to HKAS 1 and HKAS 8 "Definition of Material"**

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

### Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is or the portion so classified is accounted for in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The financial statements of the associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in associates and joint ventures are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates and joint ventures. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate and a joint venture exceeds the Group's interest in that associate/joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate and joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investments in associates and joint ventures *(continued)*

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with its associate or joint venture, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in the relevant subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment (or a portion of the investment) is classified as held for sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

### Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) *(continued)*

**Provisional pricing arrangements in relation to trading of energy products**

For trading of energy products, the sales price is determined on a provisional basis at the date of sale, as the final sales price is subject to (a) final assay for the quality and quantity of energy products after discharge and (b) movements in prevailing spot prices up to the date of final pricing, normally ranging from 30 to 90 days from the date at which the energy products are delivered to customers (i.e. quotational period). Revenue on provisionally priced sales is recognised based on the estimated quality and quantity of energy products and fair value of the total consideration receivable.

The Group estimates the amount of the variable consideration of trading of energy products to which it will be entitled using the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled. The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved. At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Adjustment to the sales price occurs based on movements in prevailing spot prices up to the completion of quotational period and, thus, the revenue adjustment mechanism has the character of a derivative contract. Accordingly, the fair value of the total consideration receivable subject to the final sales price adjustment is re-estimated continuously by reference to prevailing spot prices and changes in fair value are recognised in profit or loss. Such fair value adjustments do not form part of the revenue recognised from the contracts with customers but included in "other gains and losses" line item in the consolidated financial statements. These trade receivables are governed under HKFRS 9 "Financial Instruments" and are recognised at fair value through profit or loss.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

**Principal versus agent**

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebate and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have been passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

### Leases

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

#### The Group as lessor

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

#### The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Prepaid lease payments represent leasehold interests in land under operating lease arrangements and are released over the lease term on a straight-line basis.

### Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated 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.

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 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. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of tangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element 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 property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of the entity ("foreign currencies") are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

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 a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

### 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.

### Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme"), Macao Social Security Fund and the state-managed retirement benefit schemes of the PRC and Singapore, which are defined contribution plans, are recognised as an expense when employees have rendered services entitling them to the contributions.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

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. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interest in a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Taxation *(continued)*

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

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

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

Current and deferred tax are recognised in profit or loss.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

**Financial assets**

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

**Financial assets** *(continued)*

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)*

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item in the consolidated statement of profit or loss and other comprehensive income.

*Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables at amortised cost, bills receivables, other receivables, deposits placed with brokers, pledged bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables at amortised cost. The ECL on trade receivables are assessed individually.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

**Financial assets** *(continued)*

*Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (continued)*

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, 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:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

**Financial assets** *(continued)*

*Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (continued)*

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

**Financial assets** *(continued)*

*Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (continued)*

(v) Measurement and recognition of ECL *(continued)*

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income 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 amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables at amortised cost where the corresponding adjustment is recognised through a loss allowance account.

*Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)*

Financial assets are classified into financial assets at FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Financial assets at FVTPL

Financial assets at FVTPL are financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising from remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets which is reported in the "other income" line item in the consolidated statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in note 33.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including certain trade receivables, bills receivables, other receivables and deposits, deposits placed with brokers, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

**Financial assets** *(continued)*

*Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)*
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For all financial assets other than those at FVTPL, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the financial assets' original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables at amortised cost, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Derecognition*
The Group derecognises a financial asset only when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the financial asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

**Financial liabilities and equity**

*Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

*Financial liabilities*

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

*Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9/HKAS 39 permits the entire combined contract to be designated as at FVTPL.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

**Financial liabilities and equity** *(continued)*

*Financial liabilities at FVTPL (continued)*

Upon application of HKFRS 9, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

For financial liabilities that contain embedded derivatives, such as certain trade payables with provisional pricing arrangements, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

*Provisional pricing arrangements in relation to purchase of energy products*

The Group designated financial liabilities at FVTPL if it contains embedded derivatives arising from provisional pricing arrangements in relation to purchase of energy products. The Group purchases energy products under provisional pricing arrangements where final purchase prices are determined with reference to the movements in prevailing spot prices over a specified future period after shipment by suppliers.

*Financial liabilities at amortised cost*

Financial liabilities, including trade and bills payables, other payables and bank borrowings, are subsequently measured at amortised cost, using the effective interest method.

**Derivative financial instruments**

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised immediately in profit or loss.

*Embedded derivatives (under HKFRS 9 since 1 January 2018)*

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

*Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Share-based payments

**Equity-settled share-based payment transactions**

*Share options granted to employees*
Equity-settled share-based payment to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in share option reserve.

At the end of the reporting period, the Group revises its estimates of the number of equity instruments that are expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss, such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When the share options are exercised, the amount previously recognised in the share option reserve will be transferred to share capital and share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will continue to be held in share option reserve.

*Share options granted to suppliers/consultants/advisers*
Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses (unless the goods or services qualify for recognition as assets).

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group' s accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going 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.

### Critical judgment in applying accounting policies

The following is the critical judgment, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

#### Principal versus agent consideration (principal)

The Group engages in trading of energy products, mainly crude oil, petroleum products, petrochemicals and coal. Upon application of HKFRS 15, the Group reassessed whether the Group should continue to recognise revenue on gross basis based on the requirements in HKFRS 15. The directors of the Company concluded that the Group acts as the principal for such transactions as the Group controls the specified goods before the goods are transferred to customers after taking into consideration of indicators such as the Group is primarily responsible for fulfilling the promise to provide the goods, the Group has certain level inventory risk before transferring the goods to customers and the Group has discretion in establishing the prices for the goods in form of a premium over the market price of the goods. Before transferring the goods to customers, the Group has ability to direct the use of, and obtain substantially all of the remaining benefits from, the goods by determining the customers and the timing to which the goods will be sold.

### Key source of estimation uncertainty

The following is the key assumption concerning the future, and other key source of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amount of the assets within the next financial year.

#### Valuation of interest in an associate

The share of results of associates is mainly contributed by an associate which is principally engaged in provision of crude oil and petrochemicals storage services. The service charges of crude oil and petrochemicals storage services and the demand for these services are influenced by the market conditions. This increases the risk that the carrying amount of the Group's interest in this associate may be impaired if the situation is worse off.

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

### Key source of estimation uncertainty *(continued)*

**Valuation of interest in an associate** *(continued)*

The management of the Group has performed an impairment assessment and concluded that an impairment loss of approximately HK$4,763,000 is recognised in profit or loss. This conclusion is based on the value in use calculation using a discounted cash flow model developed by the management of the Group with the assistance of an independent qualified professional valuer engaged by the Group and the model requires significant estimation on growth rates, gross profit margin and expected changes in capital expenditures which form parts of the underlying future cash flows of this associate and the appropriate discount rate.

As at 31 December 2018, the carrying amount of interest in this associate is approximately HK$52,224,000, net of impairment of approximately HK$4,763,000, (2017: approximately HK$63,212,000, with no impairment) and, for the year ended 31 December 2018, the Group has share of loss of this associate of approximately HK$3,349,000 (2017: approximately HK$8,045,000).

Details of this associate and its impairment assessment are set out in note 17.

## 5. REVENUE

### A. For the year ended 31 December 2018

#### (i) Disaggregation of revenue from contracts with customers

| | 2018<br>HK$'000 |
|---|---|
| Revenue from trading of energy products: | |
| Crude oil | **20,405,367** |
| Petroleum products | **1,401,891** |
| Petrochemicals | **708,998** |
| Coal | **294,348** |
| | **22,810,604** |

The revenue from the above trading of energy products is recognised at a point in time when the performance obligation as specified in the contracts with customers is satisfied.

## 5. REVENUE *(continued)*

### A. For the year ended 31 December 2018 *(continued)*

**(ii) Performance obligations for contracts with customers**

The Group recognises revenue from the sale of crude oil, petroleum products, petrochemicals and coal in the period that the performance obligations are satisfied which refers to delivery of the goods to the destination specified by the customers. The destination may be the vessel on which the goods is shipped, destination port or the customer's premises. The quantity of crude oil, petroleum products, petrochemicals or coal as specified in each sales contract is separately identifiable and represents a distinct performance obligation to which the transaction price is allocated. Performance obligations are satisfied at a point in time once control of the goods has been transferred to the customers. The customers have obtained control on the goods through their ability to direct the use of and obtain substantially all the benefits from the goods.

The sales price is determined on a provisional basis at the date of sale as the final sales price is subject to final assay after the goods discharged and movements of prevailing spot prices subsequent to the transfer of control of the goods. Details of the accounting policy in respect of the provisional pricing arrangement included in the contracts with customers are set out in note 3.

The Group has no particular policy on the amounts received prior to the delivery of goods and it is negotiated with customers on contract by contract basis. The advance payments received from customers are recognised as liabilities throughout the period before the control on the goods is transferred to customers.

**(iii) Transaction price allocated to the remaining performance obligation for contracts with customers**

All sales transactions in respect of trading of energy products take place within a year and, thus, the transaction prices allocated to the unsatisfied contracts are not disclosed according to the practical expedient of HKFRS 15.

### B. For the year ended 31 December 2017

An analysis of the Group's revenue from its major activities is as follows:

| | 2017<br>HK$'000 |
|---|---|
| Revenue from trading of energy products: | |
| Crude oil | 11,384,202 |
| Petroleum products | 401,786 |
| Petrochemicals | 363,739 |
| Coal | 12,874 |
| | 12,162,601 |

## 6. SEGMENT INFORMATION

### Geographical information

The Group's operations are currently carried out by the subsidiaries operating in Hong Kong, Macao, the PRC and Singapore. Based on the terms of the contracts, the energy products are either arranged to be delivered to the particular locations as designated by the customers or the customers are instructed to pick up the energy products at the particular locations as determined by the Group.

The Group's revenue from external customers as categorised by (a) the locations of shipment/delivery as designated by the customers and (b) the locations that the customers are instructed to pick up the energy products as determined by the Group and information about the Group's non-current assets by geographical location of assets are presented below:

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong | **–** | – | **1,311** | 1,449 |
| Macao | **–** | – | **524** | 598 |
| PRC | **19,434,996** | 8,701,732 | **143,229** | 242,166 |
| Thailand | **30,257** | 137,238 | **12,648** | 38,777 |
| Malaysia | **116,276** | 504,943 | **–** | – |
| Korea | **19,609** | 456,752 | **–** | – |
| United States of America ("USA") | **–** | 674,394 | **–** | – |
| United Arab Emirates | **–** | 433,826 | **–** | – |
| Singapore | **–** | 313,311 | **529** | 1,015 |
| Philippines | **–** | 339,552 | **–** | – |
| Indonesia | **–** | 192,575 | **–** | – |
| Egypt | **1,871,657** | – | **–** | – |
| India | **354,859** | – | **–** | – |
| Japan | **261,940** | – | **–** | – |
| Vietnam | **661,402** | 283,345 | **–** | – |
| Turkey | **–** | 124,933 | **–** | – |
| Pakistan | **30,426** | – | **–** | – |
| Taiwan | **29,182** | – | **–** | – |
| | **22,810,604** | 12,162,601 | **158,241** | 284,005 |

### Information about major customers

Revenue from customers of the corresponding year which contributed over 10% of the total revenue of the Group are as follows:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Customer A | **6,632,748** | 5,945,038 |
| Customer B | **5,282,470** | 1,294,331 |

## 7. OTHER INCOME AND GAINS AND LOSSES

### A. Other income

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Rental income from property, plant and equipment | **21,496** | 18,316 |
| Bank interest income | **5,716** | 1,870 |
| Dividend income from held for trading investments | **–** | 725 |
| Dividend income from financial assets at FVTPL | **222** | – |
| Interest income from loans receivables (note (i)) | **1,200** | 12,731 |
| Non-performance and insurance claims (note (ii)) | **10,192** | 31,200 |
| Penalty interest income (note (iii)) | **69,769** | – |
| Others (note (iv)) | **2,027** | 10,167 |
| | **110,622** | 75,009 |

Notes:

(i) On 6 March 2018, the Group enters into a secured loan agreement with a borrower and, pursuant to the terms in the agreement, the Group advances a loan with a principal amount of HK$30,000,000, carrying a fixed interest rate of 16% per annum and having a maturity date of three months from the date of grant, to the borrower. The loan is fully repaid to the Group during the year ended 31 December 2018.

On 8 June 2017, the Group entered into a secured loan agreement with a borrower and, pursuant to the terms in the agreement, the Group advanced a loan with a principal amount of US$29,000,000 (equivalent to approximately HK$226,200,000), carrying a fixed interest rate of 18% per annum and having a maturity date of one month from the date of grant, to the borrower. The loan was fully repaid to the Group in late September 2017 and, in addition to the agreed loan interests, certain penalty interests for late repayment of the loan were received from the borrower.

(ii) During the year ended 31 December 2017, the Group entered into a purchase contract with a supplier, which was an independent third party to the Group, for the purchase of petroleum products for the Group's trading business in petroleum products. Pursuant to the terms of the purchase contract, the Group was required to advance US$40,000,000 (equivalent to approximately HK$312,000,000) to the supplier as a refundable deposit to secure the supply. As at 31 December 2018, the outstanding balance of the deposit was approximately US$13,423,000 (equivalent to approximately HK$104,702,000) (2017: US$25,000,000 (equivalent to approximately HK$195,000,000)). Details of this deposit are set out in note 21. During the year ended 31 December 2018, due to the supplier's failure in delivery of the petroleum products as scheduled, the Group is entitled to a compensation of US$1,300,000 (equivalent to approximately HK$10,140,000) (2017: US$4,000,000 (equivalent to approximately HK$31,200,000)) according to the terms set out in the purchase contract and the first supplemental and amendment deed in respect of the purchase contract. The remaining amount of approximately HK$52,000 (2017: nil) represents non-performance and issurance claims that the Group received from its operations in the PRC and Macao.

(iii) In addition to the compensation from the supplier mentioned in note (ii), the Group is also entitled to a penalty interest at a pre-agreed daily rate on the outstanding balance of the deposit since 1 April 2018 and until the deposit has been fully repaid.

(iv) The amount includes an interest income of approximately HK$13,000 (2017: nil) from the deposits placed with brokers.

## 7. OTHER INCOME AND GAINS AND LOSSES *(continued)*

### B. Other gains and losses

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Unrealised gains on changes in fair value of held for trading investments, net | – | 4,030 |
| Realised gains on changes in fair value of held for trading investments, net | – | 2,981 |
| | – | 7,011 |
| Unrealised losses on changes in fair value of financial assets at FVTPL, net | (4,569) | – |
| Realised gains on changes in fair value of financial assets at FVTPL, net | 838 | – |
| | (3,731) | – |
| Gains (losses) on disposal of property, plant and equipment | 174 | (1) |
| Gains on changes in fair value under provisional pricing arrangements, net | 101,581 | – |
| Impairment loss on interest in an associate | (4,763) | – |
| Others | 2,188 | 783 |
| | 95,449 | 7,793 |

## 8. FINANCE COSTS

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Bank charges on letter of credit facilities | 15,715 | 5,595 |
| Interests on bank borrowings | 12,373 | 13,747 |
| | 28,088 | 19,342 |

## 9. INCOME TAX EXPENSE

Income tax expense in the consolidated statement of profit or loss and other comprehensive income represents:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Enterprise Income Tax ("EIT") in the PRC | | |
| Current tax | 776 | 26 |
| Overprovision in prior years | – | (5) |
| | 776 | 21 |

## 9. INCOME TAX EXPENSE *(continued)*

On 21 March 2018, the Hong Kong Legislative Council passes The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill is signed into law on 28 March 2018 and is gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2,000,000 of profits of a qualifying group entity will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The directors of the Company consider the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Accordingly, Hong Kong Profits Tax for subsidiaries operating in Hong Kong is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made for both years since tax losses are incurred for the subsidiaries operating in Hong Kong or the assessable profit is wholly absorbed by tax losses brought forward from previous years.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law in the PRC, the tax rate of the PRC subsidiaries is 25% for both years.

Pursuant to the Decree Law No. 58/99M, Chapter 2, Article 12 dated 18 October 1999, issued by Macao, Strong Petrochemical Limited (Macao Commercial Offshore) ("Strong Petrochemical (Macao)") is exempted from Macao Complementary Tax for both years.

The Singapore Income Tax is determined by applying the Singapore tax rate of 17%. With the approval of the Group's application for Global Trader Programme by International Enterprise Singapore, certain qualified income generated by a subsidiary operating in Singapore during the year from physical trading of energy products is taxed at a concessionary rate of 10% until the end of year 2018. No provision for Singapore Income Tax has been made for both years as the subsidiary operating in Singapore incurred tax losses in previous years and it utilises the tax losses brought forward in current year.

The Inland Revenue Department of Hong Kong (the "IRD") initiated a tax field audit on the Company and certain of its subsidiaries for the years of assessment from 2010/11 onwards in 2017. In March 2017, assessment/estimated assessments (the "Protective Assessments") totaling HK$10,725,000 for the year of assessment 2010/11 were issued to two of the subsidiaries of the Group (the "Relevant Subsidiaries"). In January 2018, Protective Assessments totaling HK$6,576,000 for the year of assessment 2011/12 were issued to the Relevant Subsidiaries. The Relevant Subsidiaries lodged objections against the Protective Assessments with the IRD and the tax demanded was held over on the condition that tax reserve certificates ("TRC") would be purchased. As at 31 December 2018, the Group purchases TRC of HK$3,675,000 in total in relation to years of assessment 2010/11 and 2011/12 (2017: HK$2,475,000 in relation to year of assessment 2010/11). The potential tax liabilities (if any) in respect of the Protective Assessments for the years of assessment 2010/11 and 2011/12 are dependent on the outcome of the tax field audit. Since the tax field audit is at the preliminary fact-finding stage, the directors of the Company considers that no Hong Kong Profits Tax is necessary to be provided for in the consolidated financial statements for the years of assessment in issue. In December 2018, Protective Assessments totaling HK$57,400,000 for the year of assessment 2012/13 are issued to the Relevant Subsidiaries. The Relevant Subsidiaries lodge objections against the Protective Assessments with the IRD and the tax demanded is held over on the condition that TRC has been purchased. Subsequent to the end of the reporting period, the Group further purchases TRC of HK$4,500,000 in relation to the year of assessment of 2012/13.

## 9. INCOME TAX EXPENSE *(continued)*

The income tax expense for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Profit before taxation | **8,227** | 20,985 |
| Tax at applicable Hong Kong Profits Tax rate of 16.5% | **1,358** | 3,463 |
| Tax effect of income not taxable for tax purpose | **(456)** | (524) |
| Tax effect of expenses not deductible for tax purpose | **6,578** | 1,544 |
| Effect of tax exemption granted to Macao subsidiary | **–** | (6,131) |
| Tax effect of different rate of subsidiaries operating into other jurisdictions | **77** | (599) |
| Tax effect of share of results of associates | **714** | 1,029 |
| Utilisation of tax losses previously not recognised | **(8,922)** | (4,598) |
| Tax effect of tax losses not recognised | **1,439** | 5,884 |
| Overprovision in prior years | **–** | (5) |
| Others | **(12)** | (42) |
| Income tax expense for the year | **776** | 21 |

At the end of the reporting period, the Group has estimated tax losses of approximately HK$156,503,000 (2017: approximately HK$201,855,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in the unrecognised tax losses are losses of approximately HK$28,237,000 (2017: approximately HK$29,177,000) that will expire up to 2023 (2017: 2022). Other losses may be carried forward indefinitely.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries amounting to approximately HK$9,256,000 (2017: approximately HK$8,572,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future.

## 10. PROFIT FOR THE YEAR

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Profit for the year is arrived after charging (crediting): | | |
| Auditor's remuneration | 2,126 | 1,985 |
| Depreciation of property, plant and equipment | 7,314 | 7,074 |
| Release of prepaid lease payments | 457 | 447 |
| Net foreign exchange (gain) loss | (1,172) | 1,685 |
| Operating lease rentals in respect of storage facilities, a vessel and premises | 8,446 | 67,528 |
| Directors' emoluments (Note 11) | 480 | 435 |
| Other staff costs | | |
| Salaries, bonus and other allowances | 45,391 | 31,836 |
| Retirement benefit schemes contributions | 1,552 | 1,345 |
| | 47,423 | 33,616 |
| Cost of inventories recognised as an expense (included in cost of sales) | 22,565,318 | 11,975,477 |

## 11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the 6 (2017: 6) directors of the Company, including the chief executive, are as follows:

| | Executive directors | | Independent non-executive directors | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Wang Jian Sheng HK$'000 | Yao Guoliang HK$'000 (Note) | Chan Yee Kwong# HK$'000 | Deng Heng## HK$'000 | Lin Yan* HK$'000 | Guo Yan Jun** HK$'000 | Cheung Siu Wan HK$'000 | Total HK$'000 |
| Fees | **–** | **–** | **150** | **150** | **–** | **–** | **180** | **480** |
| Other emoluments: | | | | | | | | |
| Salaries and other benefits | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Share-based payments | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Discretionary bonus | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Contributions to retirement benefits schemes | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Total emoluments for the year ended 31 December 2018 | **–** | **–** | **150** | **150** | **–** | **–** | **180** | **480** |
| Fees | – | – | 75 | – | 60 | 120 | 180 | 435 |
| Other emoluments: | | | | | | | | |
| Salaries and other benefits | – | – | – | – | – | – | – | – |
| Share-based payments | – | – | – | – | – | – | – | – |
| Discretionary bonus | – | – | – | – | – | – | – | – |
| Contributions to retirement benefits schemes | – | – | – | – | – | – | – | – |
| Total emoluments for the year ended 31 December 2017 | – | – | 75 | – | 60 | 120 | 180 | 435 |

Note: Mr. Yao Guoliang is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

\# Appointed on 1 July 2017
\## Appointed on 1 January 2018
* Resigned on 1 July 2017
** Resigned on 1 January 2018

The executive directors' emoluments shown above were paid for their services in connection with the management of the affairs of the Company and the Group.

## 11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' EMOLUMENTS *(continued)*

The independent non-executive directors' emoluments shown above were paid for their services as directors of the Company.

During the years ended 31 December 2018 and 2017, no emoluments have been paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived or agreed to waive any emoluments during both years.

### Employees' emoluments

For the year ended 31 December 2018, of the five individuals with the highest emoluments in the Group, none (2017: none) of them was the director of the Company. The emoluments of these five (2017: five) individuals were as follows:

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Salaries and other benefits | **8,597** | 11,169 |
| Discretionary bonus | **8,343** | 679 |
| Contributions to retirement benefits schemes | **244** | 163 |
| | **17,184** | 12,011 |

Their emoluments were within the following bands:

| | **2018 Number of employees** | 2017 Number of employees |
|---|---|---|
| HK$1,000,001 to HK$1,500,000 | **1** | 1 |
| HK$1,500,001 to HK$2,000,000 | **2** | 1 |
| HK$2,000,001 to HK$2,500,000 | **–** | 1 |
| HK$2,500,001 to HK$3,000,000 | **1** | 1 |
| HK$3,000,001 to HK$3,500,000 | **–** | 1 |
| HK$9,500,001 to HK$10,000,000 | **1** | – |

During the year ended 31 December 2018, certain emoluments (2017: Nil) have been paid by the Group to one of the five employees with the highest emoluments as an inducement to join or upon joining the Group and no emoluments have been paid by the Group to them as compensation for loss of office.

## 12. DIVIDENDS

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Dividends recognised as distribution during the year: | | |
| Final dividends paid: | | |
| Nil in respect of 2017 (2017: HK6 cents per share in respect of 2016) | – | 106,081 |
| Interim dividends paid: | | |
| Nil in respect of 2018 (2017: HK1 cent per share in respect of 2017) | – | 21,222 |
| | – | 127,303 |

The directors of the Company do not recommend the payment of final dividends for the year ended 31 December 2018.

## 13. EARNINGS PER SHARE

The calculations of the basic and diluted earnings per share attributable to owners of the Company are based on the following data:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **Earnings** | | |
| Earnings for the purposes of calculating basic and diluted earnings per share | | |
| Profit for the year attributable to owners of the Company | **7,452** | 21,234 |

| | 2018 | 2017 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | **2,125,679,022** | 1,923,593,721 |
| Effect of dilutive potential ordinary shares: | | |
| Share options of the Company | **6,405,463** | 38,124,962 |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | **2,132,084,485** | 1,961,718,683 |

The calculation of diluted earnings per share is based on the profit for the year attributable to owners of the Company and the weighted average number of ordinary shares adjusted by the weighted average number of ordinary shares assumed to have been issued under the Company's share option schemes.

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Storage tanks | Leasehold improvements | Plant and machinery | Furniture and fixtures | Office equipment | Motor vehicle | Total |
|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| COST | | | | | | | | |
| At 1 January 2017 | 1,699 | 83,194 | 1,067 | 19,510 | 738 | 1,974 | 5,597 | 113,779 |
| Exchange realignment | – | 5,832 | – | 1,368 | – | 42 | 19 | 7,261 |
| Additions | – | 2,440 | – | 541 | 12 | 314 | 380 | 3,687 |
| Disposals | – | – | – | – | – | (122) | – | (122) |
| At 31 December 2017 | 1,699 | 91,466 | 1,067 | 21,419 | 750 | 2,208 | 5,996 | 124,605 |
| Exchange realignment | **–** | **(4,206)** | **–** | **(985)** | **(1)** | **(38)** | **(14)** | **(5,244)** |
| Additions | **–** | **636** | **–** | **825** | **2** | **69** | **–** | **1,532** |
| Disposals | **–** | **–** | **–** | **(199)** | **–** | **(91)** | **(812)** | **(1,102)** |
| At 31 December 2018 | **1,699** | **87,896** | **1,067** | **21,060** | **751** | **2,148** | **5,170** | **119,791** |
| ACCUMULATED DEPRECIATION | | | | | | | | |
| At 1 January 2017 | 1,041 | 15,458 | 1,024 | 7,164 | 718 | 1,425 | 4,181 | 31,011 |
| Exchange realignment | – | 1,226 | – | 573 | – | 19 | 18 | 1,836 |
| Provided for the year | 85 | 4,098 | 43 | 2,063 | 17 | 255 | 513 | 7,074 |
| Eliminated on disposals | – | – | – | – | – | (121) | – | (121) |
| At 31 December 2017 | 1,126 | 20,782 | 1,067 | 9,800 | 735 | 1,578 | 4,712 | 39,800 |
| Exchange realignment | **–** | **(1,108)** | **–** | **(526)** | **–** | **(21)** | **(13)** | **(1,668)** |
| Provided for the year | **85** | **4,305** | **–** | **2,120** | **7** | **242** | **555** | **7,314** |
| Eliminated on disposals | **–** | **–** | **–** | **(190)** | **–** | **(86)** | **(812)** | **(1,088)** |
| At 31 December 2018 | **1,211** | **23,979** | **1,067** | **11,204** | **742** | **1,713** | **4,442** | **44,358** |
| CARRYING VALUES | | | | | | | | |
| At 31 December 2018 | **488** | **63,917** | **–** | **9,856** | **9** | **435** | **728** | **75,433** |
| At 31 December 2017 | 573 | 70,684 | – | 11,619 | 15 | 630 | 1,284 | 84,805 |

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum/over the following years:

| | |
|---|---|
| Buildings | Over the shorter of the term of the lease, or 20 years |
| Storage tanks | Over the shorter of the term of the lease, or 20 years |
| Leasehold improvements | Over the shorter of the term of the lease, or 3–4 years |
| Plant and machinery | 10% |
| Furniture and fixtures | 20%–33$^1/_3$% |
| Office equipment | 19%–33$^1/_3$% |
| Motor vehicle | 17%–30% |

## 15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise leasehold interest in land in the PRC for 50 years.

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| The carrying amount of the prepaid lease payments is presented as: | | |
| Non-current asset | **16,877** | 18,153 |
| Current asset | **441** | 462 |
| | **17,318** | 18,615 |

All of the prepaid lease payments are pledged to secure bank borrowings (2017: certain banking facilities) granted to the Group.

## 16. OTHER ASSETS

The amounts represent a golf club membership and an art work that are carried at cost.

## 17. INTERESTS IN ASSOCIATES

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Cost of investments in associates, unlisted | **141,846** | 141,846 |
| Share of post-acquisition results, net of dividend | **(75,065)** | (45,688) |
| Less: Impairment loss recognised | **(9,173)** | (4,410) |
| Exchange realignment | **7,264** | 10,241 |
| | **64,872** | 101,989 |

## 17. INTERESTS IN ASSOCIATES *(continued)*

As at 31 December 2018 and 2017, the Group had interests in the following associates:

| Name of the entity | Form of business structure | Place of establishment and principal place of business | Paid up registered capital 2018 | 2017 | Equity interest attributable to the Group 2018 % | 2017 % | Principal activity |
|---|---|---|---|---|---|---|---|
| 中化天津港石化倉儲有限公司<br>Sinochem Tianjin Port Petrochemical Terminal Co., Ltd. ("Sinochem Port") | Sino-foreign owned enterprise | PRC | **Renminbi ("RMB") 628,060,000** | RMB628,060,000 | **15 (note (i))** | 15 (note (i)) | Provision of crude oil and petrochemicals storage services |
| 天津港中化石化碼頭有限公司<br>Tianjin Port Sinochem Petrochemical Dock Co., Ltd. ("Tianjin Port") | Sino-foreign owned enterprise | PRC | **RMB139,388,000** | RMB139,388,000 | **15 (note (i))** | 15 (note (i)) | Development and operation of dock and related ancillary facilities |
| Srithai Capital Co., Ltd. ("Srithai") (note (ii)) | Ordinary | Thailand | **Thailand Baht ("THB") 100,000,000** | THB100,000,000 | **49** | 49 | Inactive (2017: vessel holding and leasing) |

Notes:

(i) The Group is able to exercise significant influence over Sinochem Port and Tianjin Port because it has the power to appoint one out of the five directors of these entities under the provisions stated in the articles of association of these entities.

(ii) Srithai became an inactive company after its disposal of a vessel which was leased to Strong Petrochemical (Macao) for earning rental income.

As at 31 December 2018, in view of the continuous losses of Sinochem Port, the management of the Group carries out a review on impairment of the carrying amount of the Group's interest in Sinochem Port by comparing its recoverable amount with its carrying amount. The recoverable amount is determined using value in use calculation. In determining the value in use of Sinochem Port, the management of the Group estimates the proceeds on ultimate disposal of Sinochem Port based on the estimation of the present value of the future cash flows expected to arise from the operation of Sinochem Port and applies a discount rate of 12.0% (2017: 12.5%). Based on the result of the review, the recoverable amount of the Group's interest in Sinochem Port is estimated to be lower than its carrying amount and, thus, an impairment loss of approximately HK$4,763,000 is recognised during the year ended 31 December 2018.

## 17. INTERESTS IN ASSOCIATES *(continued)*

### Summarised financial information of the material associate

Summarised financial information in respect of the Group's material associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

**Sinochem Port**

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Current assets | **63,124** | 104,403 |
| Non-current assets | **1,030,178** | 1,158,258 |
| Current liabilities | **(32,237)** | (200,792) |
| Non-current liabilities | **(681,149)** | (640,454) |

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Revenue | **182,502** | 152,403 |
| Loss and total comprehensive expense for the year | **(22,327)** | (53,637) |

Reconciliation of the above summarised financial information to the carrying amount of the Group's interest in Sinochem Port recognised in the consolidated financial statements is as follows:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Net assets of Sinochem Port | **379,916** | 421,415 |
| Proportion of the Group's ownership interest in Sinochem Port | **15%** | 15% |
| The Group's share of net assets in Sinochem Port | **56,987** | 63,212 |
| Less: Impairment loss recognised | **(4,763)** | – |
| Carrying amount of the Group's interest in Sinochem Port | **52,224** | 63,212 |
| The Group's share of results of Sinochem Port for the year | **(3,349)** | (8,045) |

## 17. INTERESTS IN ASSOCIATES *(continued)*

**Aggregate information of associates that are not individually material**

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| The Group's share of results of these associates for the year | **(978)** | 1,809 |

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Aggregate carrying amount of the Group's interests in these associates | **12,648** | 38,777 |

All of the above associates are accounted for using the equity method in the consolidated financial statements.

The exchange loss arising from translation of financial information of the associates of approximately HK$2,977,000 for the year ended 31 December 2018 (2017: exchange gain of approximately HK$8,403,000) is recognised in other comprehensive income and accumulated in equity under the heading of "translation reserve".

## 18. INTEREST IN A JOINT VENTURE

| | 2017 HK$'000 |
|---|---|
| Cost of investment in a joint venture, unlisted | 78,000 |
| Share of post-acquisition results | (1) |
| | 77,999 |

As at 31 December 2017, the Group had interest in the following joint venture:

| Name of the entity | Form of business structure | Place of establishment and principal place of business | Paid up registered capital 2017 | Equity interest attributable to the Group 2017 % | Principal activity |
|---|---|---|---|---|---|
| GSR GO Scale Capital Advisors, Ltd. ("GSR GO") | Ordinary | Cayman Islands | US$73 | 49.3 (note) | License holding |

Note: During the year ended 31 December 2017, the Group acquired 49.3% equity interest of GSR GO from an independent third party at a consideration of US$10,000,000 (equivalent to approximately HK$78,000,000). The directors of the Company were of the view that the Group had joint control over GSR GO given the Group had power to cast the majority of votes at meeting of the board of directors of GSR GO whereas certain relevant activities of GSR GO required the unanimous written approval of all the shareholders of GSR GO.

## 18. INTEREST IN A JOINT VENTURE *(continued)*

### Summarised financial information of the joint venture

Summarised financial information in respect of the Group's joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

The joint venture was accounted for using the equity method in the consolidated financial statements.

**GSR GO**

| | 2017<br>HK$'000 |
|---|---|
| Current assets | 62 |

The above assets include the following:

| | |
|---|---|
| Bank balances and cash | 62 |

| | 2017<br>HK$'000 |
|---|---|
| Loss and total comprehensive expense for the year | (1) |

Reconciliation of the above summarised financial information to the carrying amount of the interest in GSR GO recognised in the consolidated financial statements is as follows:

| | 2017<br>HK$'000 |
|---|---|
| Net assets of GSR GO | 62 |
| Proportion of the Group's ownership interest in GSR GO | 49.3% |
| The Group's share of net assets in GSR GO | 30 |
| Recognition of intangible assets (note) | 77,969 |
| Carrying amount of the Group's interest in GSR GO | 77,999 |

Note: Intangible asset recognised in the interest in a joint venture represented a licensing agreement related to a lithium-ion battery business entered by the joint venture with Nissan Motor Co., Ltd. As at 31 December 2017, the management of the Group performed a review on impairment of the carrying amount of the Group's interest in GSR GO by comparing its recoverable amount with its carrying amount. The recoverable amount was determined using the value in use calculation. In determining the value in use of GSR GO, the management of the Group estimated the proceeds on ultimate disposal of GSR GO based on estimation of present value of the future cash flows expected to arise from the operation of GSR GO and applied an appropriate discount rate. Based on the result of the review, the recoverable amount of the Group's interest in GSR GO was estimated to be higher than its carrying amount and, thus, no impairment loss was recognised during the year ended 31 December 2017.

During the year ended 31 December 2018, the Group enters into a sale and purchase agreement (the "Agreement") with a buyer in relation to the disposal of the Group's interest in GSR GO. Accordingly, the Group's interest in GSR GO is reclassified to assets classified as held for sale. Details of this disposal are set out in note 19.

## 19. ASSETS CLASSIFIED AS HELD FOR SALE

On 17 August 2018, the Group enters into the Agreement with a buyer (the "Buyer") in relation to disposal of the Group's entire interest in GSR GO at a consideration of US$10,000,000 (equivalent to approximately HK$78,000,000). The disposal is conditional, among others, upon completion of due diligence performed by the Buyer in relation to GSR GO and its subsidiaries and any shareholder of GSR GO has neither exercised nor waived the right of first refusal under the shareholders' agreement entered into between the Group and the other shareholder of GSR GO (the "Shareholder").

On 21 December 2018, the Group acknowledges and accepts the notice of exercise of the right of first refusal delivered by the Shareholder who agrees to purchase the Group's entire interest in GSR GO through a designated company at a consideration of US$10,000,000 (equivalent to approximately HK$78,000,000), which is payable either in cash or in-kind value creation, at completion on or before 30 May 2019. The Shareholder executes a personal guarantee for the payment performance of the designated company. On the same date, the Group enters into a termination agreement with the Buyer in respect of the Agreement after obtaining mutual consensus.

Given the disposal is not completed at the end of the reporting period, the Group's interest in GSR GO is then reclassified to assets classified as held for sale in the consolidated statement of financial position. Up to the date the consolidated financial statements are authorised for issue, the disposal has not been completed.

## 20. INVENTORIES

The amounts mainly relate to petrochemicals held for resale purposes.

## 21. TRADE AND BILLS RECEIVABLES AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

### Trade and bills receivables

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Trade receivables at amortised cost | **318,272** | 1,691,405 |
| Trade receivables at FVTPL | **2,446,499** | – |
| Bills receivables | **–** | 501,355 |
| | **2,764,771** | 2,192,760 |

The Group allows credit periods of 30 to 90 days to its trade customers from energy products trading business.

The following is an ageing analysis of trade receivables at FVTPL and trade receivables at amortised cost from contracts with customers presented based on the invoice dates which approximated the revenue recognition dates as at 31 December 2018:

| | **2018 HK$'000** |
|---|---|
| 0 to 30 days | **2,764,771** |

As at 31 December 2018, no trade receivables are past due at the end of the reporting period.

The following is an ageing analysis of trade receivables at amortised cost and bills receivables presented based on the invoice dates which approximated the revenue recognition dates as at 31 December 2017:

| | 2017 HK$'000 |
|---|---|
| 0 to 30 days | 1,971,658 |
| 31 to 60 days | 215,584 |
| 91 to 180 days | 5,518 |
| | 2,192,760 |

As at 31 December 2017, included in the Group's trade receivables were debtors with aggregate carrying amount of approximately HK$5,518,000 with ageing over 90 days, which was based on the invoice date, were past due as at the end of the reporting period. The Group had not provided for impairment loss for these balances as the directors of the Company considered these balances were of good credit quality as the debtors had no history of defaults and all of these balances had been subsequently settled.

No allowance was recognised for trade and bill receivables during the year ended 31 December 2017.

Before accepting any new customers, the management of the Group will assess the credit quality of the potential customers by reference to their past experience and they will define the credit limit by customer. Such credit limit is reviewed by the management of the Group periodically.

## 21. TRADE AND BILLS RECEIVABLES AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(continued)*

### Other receivables, deposits and prepayments

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Refundable deposit advanced to a supplier for purchase of petroleum products and related compensation receivables (note (i)) | **184,611** | 226,200 |
| Prepayment to suppliers for purchase of petroleum products and petrochemicals | **33,919** | 38,084 |
| Value added tax receivable | **2,605** | 798 |
| Other receivables (note (ii)) | **22,585** | 49,422 |
| Other deposits (note (iii)) | **820** | 812 |
| Other prepayments | **2,075** | 1,955 |
| | **246,615** | 317,271 |

Notes:

(i) Save as disclosed in note 7A, the Group entered into a purchase contract with a supplier for the purchase of petroleum products. As at 31 December 2017, the sum of outstanding balance of the refundable deposit advanced to the supplier and the compensation of non-performance was US$29,000,000 (equivalent to approximately HK$226,200,000) and this balance was secured by shares of a company listed on the Stock Exchange (the "Listed Company"), shares in a non-listed company, corporate guarantee from a listed company and a personal guarantee from the chairman of the supplier's holding company.

During the year ended 31 December 2018, the balance is partially settled by receipt of refund of US$6,800,000 (equivalent to approximately HK$53,040,000) in cash from the supplier and proceeds of approximately US$8,777,000 (equivalent to approximately HK$68,458,000) from the realisation of the pledged shares of the Listed Company. As at 31 December 2018, the sum of outstanding balance of this deposit, the related non-performance claim and the penalty interest receivable is US$23,668,000 (equivalent to approximately HK$184,611,000) and the directors of the Company are in negotiation with the supplier for repayment arrangement which intends to be in cash. Subsequent to the end of the reporting period, the repayment arrangement has been revised to obtaining cash and other assets. Up to the date of the consolidated financial statements are authorised for issue, the Group has received the cash of approximately HK$78,495,000 and obtained the other assets conditionally with expected fair value of approximately HK$100,762,000.

(ii) The other receivables mainly comprise insurance claim receivable, dividend receivable from an associate and freight charge receivable.

(iii) Included in other deposits, there is a rental deposit of approximately HK$579,000 (2017: approximately HK$611,000).

These balances were expected to be realised within one year from the end of the reporting period.

Details of impairment assessment of trade and bills receivables, other receivables and refundable deposits for the year ended 31 December 2018 are set out in note 33.

## 22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **2018** **HK$'000** |
|---|---|
| Financial assets mandatorily measured at FVTPL: | |
| Listed securities held for trading: | |
| — Equity securities listed in Hong Kong | **33,184** |
| — Equity securities listed outside Hong Kong | **279** |
| | **33,463** |

## 23. HELD FOR TRADING INVESTMENTS

| | 2017 HK$'000 |
|---|---|
| Equity securities listed in Hong Kong, at fair value | 41 |
| Equity securities listed outside Hong Kong, at fair value | 263 |
| | 304 |

## 24. DEPOSITS PLACED WITH BROKERS

The amounts represent margin deposits placed with brokers for trading derivatives. The amounts carry interest at variable interest rates of 0.001% (2017: 0.001%) per annum.

## 25. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposits represent the Group's deposits pledged to banks to secure certain banking facilities for trade financing granted to the Group and are therefore classified as current assets.

Bank balances and cash comprise cash on hand, balances in saving and current accounts, and short-term bank deposits with an original maturity of three months or less. As at 31 December 2018, the bank balances and cash of approximately HK$63,970,000 (2017: approximately HK$26,755,000) are denominated in RMB which is not freely convertible into other currencies.

Pledged bank deposits, balances in saving account and short-term bank deposits carry effective interest at prevailing market rates ranging from 0.01% to 2.07% (2017: 0.01% to 1.60%) per annum.

## 26. TRADE AND BILLS PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES AND CONTRACT LIABILITIES

### A. Trade and bills payables

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade payables at amortised cost | **298,318** | 1,702,712 |
| Trade payables designated at FVTPL | **1,432,428** | – |
| Bills payables | **–** | 501,186 |
| | **1,730,746** | 2,203,898 |

The following is an ageing analysis of trade payables designated at FVTPL and trade payables at amortised cost presented based on the invoice dates as at 31 December 2018:

| | **2018** |
|---|---|
| | **HK$'000** |
| 0 to 30 days | **1,295,893** |
| 31 to 60 days | **434,853** |
| | **1,730,746** |

The following is an ageing analysis of trade payables at amortised cost and bills payables presented based on the invoice dates as at 31 December 2017:

| | 2017 |
|---|---|
| | HK$'000 |
| 0 to 30 days | 1,453,278 |
| 31 to 60 days | 716,497 |
| 91 to 180 days | 34,123 |
| | 2,203,898 |

The credit period granted by suppliers on purchase of goods is normally 30 to 90 days.

## 26. TRADE AND BILLS PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES AND CONTRACT LIABILITIES *(continued)*

### B. Other payables and accrued charges

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Freight charges payables | **39** | 38,901 |
| Payables for purchase of property, plant and equipment | **–** | 2,392 |
| Accrued trading commissions | **–** | 544 |
| Accrued demurrage charges | **2,205** | 1,738 |
| Other accrued charges (note (i)) | **15,419** | 14,256 |
| Other payables (note (ii)) | **7,056** | 20,358 |
| | **24,719** | 78,189 |

Notes:

(i) Other accrued charges mainly comprise accrued freight charges, bank charges for letter of credit facilities, inspection fee, salaries and bonus and legal and professional fee.

(ii) Other payables mainly comprise an amount due to a broker and storage fee and professional fee payables, etc.

### C. Contract liabilities

| | **31 December 2018** **HK$'000** | 1 January 2018* HK$'000 |
|---|---|---|
| Trading of energy products | **518,509** | 1,277 |

* The amount in this column is after adjustment from the application of HKFRS 15.

Contract liabilities in relation to trading of energy products represent prepayments received from the customers prior to delivery of energy products. The Group has no particular policy on the amounts to be received prior to the delivery of energy products and it is negotiated with customers on contract by contract basis.

For the contract liabilities as at 1 January 2018, the entire balance is recognised as revenue in the profit or loss during the year ended 31 December 2018.

## 27. BANK BORROWINGS

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Secured bank borrowings payable within one year | **14,837** | – |

As at 31 December 2018, the bank borrowings are secured by the prepaid lease payments. Details of the pledged assets to secure the bank borrowings are set out in note 37.

The bank borrowings carry variable interest at one year prime rate published by National Interbank Funding Center of the PRC (the "NIFC Rate") plus a specified basis point per annum and will be matured within one year from the end of the reporting period. The bank borrowings are denominated in RMB, which is the functional currency of the relevant group entities.

## 28. DERIVATIVE FINANCIAL INSTRUMENTS

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| The carrying amount of derivative financial instruments is presented as: | | |
| Current assets | **1,932** | 93,266 |
| Current liabilities | **–** | 103,673 |

The Group has the following outstanding net-settled futures contracts.

The major terms of these contracts are as follows:

**At 31 December 2018**

| Notional amount | Maturity date | Strike prices |
|---|---|---|
| ***Brent futures contracts — long position:*** **US$10,804,820** | **31 January 2019** | **US$52.48 to US$53.33 per barrel** |
| ***Brent futures contracts — short position:*** **US$2,713,560** | **31 January 2019** | **US$54.10 to US$54.64 per barrel** |

## 28. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

At 31 December 2017

| Notional amount | Maturity date | Strike prices |
|---|---|---|
| *Brent futures contracts — long position:* | | |
| US$114,031,540 | 28 December 2017 to 31 October 2018 | US$50.74 to US$66.75 per barrel |
| *Brent futures contracts — short position:* | | |
| US$179,507,690 | 28 December 2017 to 31 October 2018 | US$51.16 to US$63.91 per barrel |
| *WTI futures contracts — long position:* | | |
| US$57,760,180 | 21 May 2018 | US$57.53 to US$58.01 per barrel |
| *Methyl Alcohol futures contracts — long position:* | | |
| RMB87,390 | 10 May 2018 | RMB2,913 per ton |
| *Methyl Alcohol futures contracts — short position:* | | |
| RMB87,240 | 10 May 2018 | RMB2,908 per ton |
| *Purified Terephthalic Acid futures contracts — short position:* | | |
| RMB218,910 | 10 May 2018 | RMB5,472 to RMB5,474 per ton |

The fair values of the derivative financial instruments are estimated based on the difference between the contracted strike prices and prevailing futures prices or published oil indexes at the end of the reporting period. Such prevailing futures prices or published oil indexes are derived from the relevant futures exchanges or oil prices publication as specified in the contracts.

Changes in fair value of derivative financial instruments for the year recognised in the consolidated statement of profit or loss and other comprehensive income mainly represent the changes in fair value of all settled and unsettled trading futures in relation to crude oil, petroleum products and petrochemicals.

## 29. SHARE CAPITAL

| | Number of shares | Amount |
|---|---|---|
| | | HK$'000 |
| Ordinary shares of HK$0.025 each | | |
| Authorised: | | |
| At 1 January 2017, 31 December 2017 and 31 December 2018 | 4,000,000,000 | 100,000 |
| Issued and fully paid: | | |
| At 1 January 2017 | 1,768,018,409 | 44,200 |
| Issue of shares (note (i)) | 353,603,681 | 8,840 |
| Exercise of share options (note (ii)) | 4,100,000 | 103 |
| At 31 December 2017 | 2,125,722,090 | 53,143 |
| Repurchase and cancellation of shares (note (iii)) | (1,310,000) | (33) |
| At 31 December 2018 | 2,124,412,090 | 53,110 |

Notes:

(i) Pursuant to the subscription agreement entered into between the Company and the subscriber on 17 July 2017, 353,603,681 ordinary shares of HK$0.025 each were issued at the subscription price of HK$0.658 per subscription share.

(ii) During the year ended 31 December 2017, 4,100,000 ordinary shares of HK$0.025 each were issued at HK$0.645 per share upon exercise of the share options under the share option scheme of the Company (the "Share Option Scheme") by the option holders. Details of the Share Option Scheme are set out in note 31.

(iii) During the year ended 31 December 2018, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

| Month of repurchase | Number of ordinary shares of HK$0.025 each '000 | Price per share Highest HK$ | Price per share Lowest HK$ | Aggregate consideration paid (including transaction costs) HK$'000 |
|---|---|---|---|---|
| September 2018 | **1,240** | **0.51** | **0.475** | **617** |
| October 2018 | **70** | **0.50** | **0.46** | **33** |
| | **1,310** | | | **650** |

The above ordinary shares were cancelled on 20 December 2018.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

The new shares rank pari passu with the existing shares in all respects.

## 30. RETIREMENT BENEFIT SCHEMES

The Group operates a MPF Scheme under the rules and regulations of the Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong. All the employees of the Group in Hong Kong are required to join the MPF Scheme. Contributions are made based on a percentage of the employees' salaries and are charged to the consolidated statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. No forfeited contribution is available to reduce the contribution payable in the future years at the end of the reporting period.

The Group's subsidiary operating in Macao, in compliance with the applicable regulations of Macao, participated in a defined contribution pension scheme operated by the local government. The subsidiary is required to contribute a fixed amount for each employee. The only obligation of the Group with respect to the pension scheme is to make the specified contributions.

The Group's subsidiaries operating in the PRC, in compliance with the applicable regulations of the PRC, participated in central pension schemes operated by the relevant local government authorities. The contribution is borne by the Group on a fixed percentage of the employees' salaries.

The Group's subsidiary operating in Singapore, in compliance with the applicable regulations of Singapore, participated in a defined contribution scheme operated by the local government. The subsidiary is required to contribute an amount based on the employees' salaries.

During the year, the total amount contributed by the Group to these schemes and cost charged represents contribution paid or payable to these schemes by the Group at rates or amount specified in the rules of these schemes. The amount of contributions made by the Group in respect of retirement benefit schemes during the year is disclosed in note 10.

The Group has no significant obligation apart from the contribution as above at the end of the reporting period.

## 31. SHARE-BASED PAYMENT TRANSACTIONS

### Equity-settled share option schemes

The Share Option Scheme was approved and adopted by the written resolutions of all shareholders of the Company passed on 28 November 2008, to recognise and acknowledge the contributions of selected participants to the growth of the Group.

A new share option scheme (the "New Share Option Scheme") was adopted by an ordinary resolution of the shareholders at annual general meeting of the Company on 15 May 2014. The New Share Option Scheme constitutes a share option scheme governed by Chapter 17 of the Listing Rules and will remain in force for 10 years from 15 May 2014. As a result of the adoption of the New Share Option Scheme, the Share Option Scheme was terminated. Upon termination of the Share Option Scheme, no further option can be offered thereafter but any options granted prior to such termination but not yet exercised shall continue to be valid and exercisable in accordance with the Share Option Scheme.

## 31. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

### Equity-settled share option schemes *(continued)*

**Share Option Scheme**

Under the Share Option Scheme, the board of directors of the Company (the "Board") might, in its absolute discretion, offer to grant options to any employee, executive and officer of the Group, any director (including non-executive director and independent non-executive director) and any adviser, consultant, supplier, customer and/or agent of the Group whom the Board considered have contributed or will contribute to the Group.

The maximum number of shares in respect of which options might be granted under the Share Option Scheme must not in aggregate exceed 10% of the total number of shares in issue as at the date on which the shares of the Company are listed on the Stock Exchange, excluding for this purpose shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). The number of shares which might be issued upon exercise of all outstanding options granted and yet to be exercised at any time under the Share Option Scheme shall not exceed 30% of the shares in issue of the Company from time to time.

The total number of shares issued and which fall to be issued upon the exercise of the options granted under the Share Option Scheme (including both exercised and outstanding options) to any individual in any 12-month period up to the date of offer to grant shall not exceed 1% of the shares of the Company in issue as at the date of offer to grant. Any further grant of options in excess of this 1% limit shall be subject to issuance of a circular by the Company and approval by the Company's shareholders in accordance with the Share Option Scheme. Options granted to connected persons (a substantial shareholder or an independent non-executive director or any of their respective associates) in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Subject to the rules of the Share Option Scheme, options may be exercised, in whole or in part, at any time during the period from the date of acceptance of an offer of the grant of such option to the earlier of the date on which such option lapses and the tenth anniversary of the Share Option Scheme. Options granted must be accepted by the prescribed acceptance date. Upon acceptance of the option, the grantee shall pay HK$1 to the Company by way of consideration for the grant.

The exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the share, the closing price of the Company's shares on the date of offer; and the average closing price of the shares for the five business days immediately preceding the date of offer.

On 7 May 2009, a total of 40,000,000 (160,000,000 share options after share subdivision with effect from 18 August 2009) share options were granted to certain employees of the Group and directors of the Company and some individuals associated with suppliers and consultants under the Share Option Scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of HK$2.58 (HK$0.645 after share subdivision with effect from 18 August 2009).

Options granted on 7 May 2009 are exercisable during the period starting from 8 May 2009 to 28 November 2018. The options granted under the Share Option Scheme has vesting period in three tranches of 40%, 30% and 30% of its options granted from the grant date to 8 May 2009, 8 May 2010 and 8 May 2011 respectively.

## 31. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

### Equity-settled share option schemes *(continued)*

**New Share Option Scheme**

Under the New Share Option Scheme, the Board may, in its absolute discretion, offer to grant options to any employee, executive and officer of the Group, any director (including non-executive director and independent non-executive director) and any supplier, agent, customer, distributor, business associate or partner, professional, adviser, consultant or contractor, and any shareholder of any member of the Group whom the Board considered have contributed or will contribute to the Group.

The maximum number of shares in respect of which the options may be granted under the New Share Option Scheme must not in aggregate exceed 10% of the total number of shares in issue at the date of approval of the New Share Option Scheme. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised at any time under the New Share Option Scheme shall not exceed 30% of the shares in issue of the Company from time to time.

The total number of shares issued and which fall to be issued upon the exercise of the options granted under the New Share Option Scheme (including both exercised and outstanding options) to any individual in any 12-month period up to the date of offer to grant shall not exceed 1% of the shares of the Company in issue as at the date of offer to grant. Any further grant of options in excess of this 1% limit shall be subject to issuance of a circular by the Company and approval by the Company's shareholders in accordance with the New Share Option Scheme. Options granted to connected persons in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Subject to the rules of the New Share Option Scheme, options may be exercised, in whole or in part, at any time during the period from the date of acceptance of an offer of the grant of such option to the earlier of the date on which such option lapses and the tenth anniversary of the New Share Option Scheme. Options granted must be accepted by the prescribed acceptance date. Upon acceptance of the option, the grantee shall pay HK$1 to the Company by way of consideration for the grant.

The exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the share, the closing price of the Company's shares on the date of offer; and the average closing price of the shares for the five business days immediately preceding the date of offer.

On 5 September 2014, a total of 138,000,000 share options were granted to certain independent advisers under the New Share Option Scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of HK$0.78. The share options granted on 5 September 2014 were fully vested upon the date of grant and are exercisable during the period from 6 September 2014 to 14 May 2024. The estimated fair values of the share options and each share option at the date of grant was HK$41,372,000 and HK$0.2998, respectively.

As the fair value of advisory services provided by the advisers cannot be measured reliably, the fair value of the share options was determined using the Black-Scholes pricing model. Where relevant, the expected life used in the model had been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the share option), and behavioural considerations. Expected volatility was based on the historical share price volatility over the past 6 years upon the listing of the Company's shares in the Stock Exchange. The risk-free interest rate was based on 9.69 years yield of Hong Kong Sovereign Curve at the date of grant.

## 31. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

### Equity-settled share option schemes *(continued)*

**New Share Option Scheme** *(continued)*

The variables and assumptions used in computing the fair value of the share options were based on the best estimate of the directors of the Company. The value of an option varied with different variables of certain subjective assumptions.

The following table discloses movements of the Company's share options held by employees, directors of the Company and other eligible participants during the year:

*Share Option Scheme*

| Eligible participants | Outstanding at 1 January 2017 | Reclassification during the year | Exercised during the year | Outstanding at 31 December 2017 | **Lapsed during the year** | **Outstanding at 31 December 2018** |
|---|---|---|---|---|---|---|
| Directors (note (i)) | 360,000 | (360,000) | – | – | **–** | **–** |
| Employees (note (ii)) | 640,000 | (400,000) | – | 240,000 | **(240,000)** | **–** |
| Others (notes (i), (ii) and (iii)) | 29,280,000 | 760,000 | (4,100,000) | 25,940,000 | **(25,940,000)** | **–** |
| | 30,280,000 | – | (4,100,000) | 26,180,000 | **(26,180,000)** | **–** |

*New Share Option Scheme*

| **Eligible participants** | **Outstanding at 31 December 2017 and 31 December 2018** |
|---|---|
| Others (note (iv)) | **138,000,000** |

Notes:

(i) The reclassification represented the resignation of a director of the Company during the year ended 31 December 2017.

(ii) The reclassification represented the retirement of employees during the year ended 31 December 2017.

(iii) Others represented individuals associated with suppliers and consultants who had provided consultancy services (mainly for selling and marketing aspects) to the Group on continuous basis for two years until 8 May 2011 or some resigned employees/directors, whose options, at discretion of the Board were not cancelled or forfeited.

(iv) Others represented advisers who had provided advisory services (mainly for business opportunity for trading of crude oil) to the Group.

The number and the exercise price of options of Share Option Scheme have been adjusted due to the share subdivision of the Company with effect from 18 August 2009. Each share option was subdivided into 4 new shares options with exercise price of one-fourth of the original exercise price.

In respect of the share options under the Share Option Scheme exercised during the year ended 31 December 2017, the weight average share price at the dates of exercise was HK$1.57. All outstanding share options under the Share Option Scheme are lapsed upon expiry on 28 November 2018.

As at 31 December 2018 and 2017, all share options under the New Share Option Scheme were exercisable. No share option under the New Share Option Scheme is exercised during the year ended 31 December 2018.

## 32. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from the prior year.

The capital structure of the Group consists of debt representing bank borrowings disclosed in note 27, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising share capital, share premium, retained profits and other reserves as disclosed in the consolidated statement of changes in equity.

The directors of the Company review the capital structure on a continuous basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, issue of new share issues, repurchase of shares as well as issue of new debt or redemption of existing debt.

## 33. FINANCIAL INSTRUMENTS

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| **Categories of financial instruments** | | |
| **Financial assets** | | |
| FVTPL | | |
| Mandatorily measured at FVTPL | | |
| — Held for trading investments | **33,463** | – |
| — Trade receivables | **2,446,499** | – |
| Held for trading investments | **–** | 304 |
| Derivative financial instruments | **1,932** | 93,266 |
| Loans and other receivables (including cash and cash equivalents) | **896,188** | 3,308,833 |
| **Financial liabilities** | | |
| FVTPL | | |
| Designated as at FVTPL | | |
| — Trade payables | **1,432,428** | – |
| Derivative financial instruments | **–** | 103,673 |
| Amortised cost | **321,150** | 2,263,298 |

### Financial risk management objectives and policies

The Group's major financial instruments include held for trading investments, financial assets at fair value through profit or loss, trade and bills receivables, other receivables and deposits, deposits placed with brokers, pledged bank deposits, bank balances and cash, trade and bills payables, other payables, bank borrowings and derivative financial instruments. The risks associated with these financial instruments include market risks (interest rate risk, currency risk and other price risks), liquidity risk and credit risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no significant change to the Group's exposure to financial risks or the manner in which it manages and measures the risks.

## 33. FINANCIAL INSTRUMENTS *(continued)*

### Financial risk management objectives and policies *(continued)*

**Market risks**

*Interest rate risk*

The Group's cash flow interest rate risk primarily relates to its variable-rate deposits placed with brokers, pledged bank deposits, bank balances and bank borrowings, as set out in notes 24, 25 and 27 respectively. The Group's cash flow interest rate is mainly concentrated on fluctuation of NIFC Rate arising from the bank borrowings. The Group aims at keeping borrowings at variable rates. The Group manages the interest rate exposure based on the interest rate level as well as potential impact on the Group's results arising from volatility of the interest rate. The management of the Group monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

During the year ended 31 December 2018, the total interest income recognised by the Group from financial assets measured at amortised cost is approximately HK$76,698,000 (2017: approximately HK$14,601,000). During the year ended 31 December 2018, the total interest expense recognised by the Group from financial liabilities measured at amortised cost is approximately HK$12,373,000 (2017: approximately HK$13,747,000).

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank balances, pledged bank deposits, deposits placed with brokers and bank borrowings at the end of the reporting period. The analysis is prepared assuming the amount of bank balances, pledged bank deposits, deposits placed with brokers and bank borrowings outstanding at the end of the reporting period are outstanding for the whole year. A 10 (2017: 10) basis points increase or decrease is used for bank balances, pledged bank deposits, deposits placed with brokers and a 50 (2017: 50) basis points increase or decrease is used for bank borrowings which represents assessment of reasonably possible changes in interest rates by the management of the Group.

For bank balances, pledged bank deposits and deposits placed with brokers, if the interest rate increases by 10 (2017: 10) basis points and all other variables are held constant, the Group's profit for the year would increase by approximately HK$359,000 (2017: approximately HK$843,000).

For bank borrowings, if interest rate increases/decreases by 50 (2017: 50) basis points and all other variables are held constant, the Group's profit for the year would decrease/increase by approximately HK$74,000 (2017: nil).

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent interest rate risk as exposure at the end of the reporting period does not reflect the exposure during the year.

## 33. FINANCIAL INSTRUMENTS *(continued)*

### Financial risk management objectives and policies *(continued)*

**Market risks** *(continued)*

*Currency risk*

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Functional currency as US$ against | | | | |
| HK$ | **32,880** | 45,422 | **503** | 474 |
| Euro | **253** | 354 | **–** | – |
| RMB | **51,306** | 1 | **–** | – |
| Other currencies | **578** | 2,075 | **8** | 8 |
| Functional currency as RMB against | | | | |
| US$ | **119** | 120 | **–** | – |
| HK$ | **1** | 2 | **–** | – |
| Functional currency as HK$ against | | | | |
| US$ | **60** | 27 | **–** | – |

The majority of the Group's sales and purchases are denominated in the functional currency of the Group. Occasionally, some purchases are denominated in foreign currencies.

The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

For entities with US$ as functional currency holding monetary assets denominated in HK$ or vice versa, the directors of the Company consider that, as HK$ is pegged to US$, the Group is not subject to significant foreign currency risk from change in foreign exchange rate of HK$ against US$ and vice versa.

Sensitivity analysis

If US$ against RMB as functional currency increases/decreases by 5%, with all other variables are held constant, the Group's profit for the year would increase/decrease by approximately HK$6,000 (2017: approximately HK$6,000). If RMB against US$ as functional currency increases/decreases by 5%, with all other variables held constant, the Group's profit for the year would increase/decrease by approximately HK$2,565,000 (2017: nil). 5% is the sensitivity rate used by the management of the Group in the assessment of the reasonably possible change in foreign exchange rate.

The directors of the Company consider that, other than those mentioned above, the sensitivity of the Group's exposure against the changes in other foreign exchange rates is not significant as the foreign currency denominated monetary assets and liabilities of individual group entities were insignificant at the end of the reporting periods.

## 33. FINANCIAL INSTRUMENTS *(continued)*

### Financial risk management objectives and policies *(continued)*

**Market risks** *(continued)*

*Other price risks*

(i) *Oil price risk*

The Group has entered into derivative contracts for hedging and proprietary trading activities, including futures in both over-the-counter and different exchanges, in accordance with risk management policy of the Group. Derivative transactions entered into for risk management purpose will be monitored for suitability in terms of size with reference to the corresponding inventory held/shipment involved. Under the risk management policy, the open derivative positions are limited and monitored by different risk tolerance thresholds, including size thresholds for the equivalent physical cargo quantities, a sensitivity threshold based on absolute monetary amount, and a group threshold on net current assets. The management of the Group closely monitors the oil price trend in the market and other sources and its inventory position. Based on the oil price analysis and expected trading period, the management of the Group reduces the risk exposure by entering the long and short position of respective derivative financial instruments.

The Group's derivative financial instruments are measured at fair value provided by financial institutions with reference to the quoted crude oil futures prices, oil indexes or oil prices publication as specified in the contract.

As disclosed in notes 3, 21, and 26, the Group's certain sales and purchases are under provisional pricing arrangements and the final settlement prices are subject to the changes in prevailing spot price over a specified future period after completion of the sales and purchases of goods.

Therefore, the Group is exposed to oil price risk and the management of the Group monitors the price movements and takes appropriate actions when it is required.

Sensitivity analysis

If the referenced oil prices/indexes have been 10% higher/lower and all other variables are held constant, the Group's profit for the year would (a) increase/decrease by approximately HK$6,504,000 (2017: decrease/increase by approximately HK$7,085,000) in relation to derivative financial instruments and (b) increase/decrease by approximately HK$107,018,000 (2017: nil) in relation to net open position of trade receivables and trade payables at FVTPL. The sensitivity rate of 10% represents assessment of the reasonably possible change in the referenced oil prices/indexes by the management of the Group.

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent risk of the oil prices/indexes as the year end exposure does not reflect the exposure during the year.

## 33. FINANCIAL INSTRUMENTS *(continued)*

### Financial risk management objectives and policies *(continued)*

**Market risks** *(continued)*

*Other price risks (continued)*

(ii) *Equity price risk*

The Group is exposed to equity price risk through its investments in equity securities measured at FVTPL. As at 31 December 2018, the Group's equity price risk is mainly concentrated on equity investments in entities operating in oil and gas industry and other financial industry sectors with shares quoted in the Stock Exchange, New York Stock Exchange and Toronto Stock Exchange (2017: the Stock Exchange, New York Stock Exchange and Toronto Stock Exchange).

The Group's objective is to earn relatively competitive returns by investing in a diverse portfolio of high quality and liquid securities.

Sensitivity analysis

The sensitivity analysis has been determined based on the exposure to equity price risk at the end of the reporting period. If the market prices of the equity securities has been 10% higher/lower and all other variables are held constant, the Group's profit for the year would increase/decrease by approximately HK$3,346,000 (2017: approximately HK$30,000).

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent risk of the equity price as the year end exposure does not reflect the exposure during the year.

**Liquidity risk**

In management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Group monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

As at 31 December 2018, the Group has available unutilised short-term bank loan facilities of US$640,000,000 (equivalent to approximately HK$4,992,000,000) (2017: US$381,696,000 (equivalent to approximately HK$2,977,229,000)) and RMB35,000,000 (equivalent to approximately HK$39,945,000) (2017: RMB35,000,000 (equivalent to approximately HK$41,871,000)).

The following table details the Group's remaining contractual maturities for its financial liabilities based on the agreed repayment dates. For non-derivative liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cashflows. For derivative financial instruments settled on a net basis, undiscounted contractual net cash outflow are presented. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management of the Group considers that the contracted maturities are essential for an understanding of the timing of the cash flows of derivatives financial instruments.

## 33. FINANCIAL INSTRUMENTS *(continued)*

### Financial risk management objectives and policies *(continued)*

**Liquidity risk** *(continued)*

To the extent that interests are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

| | Weighted average effective interest rate % | On demand or less than 1 month HK$'000 | 1 month to 3 months HK$'000 | 3 months to 1 year HK$'000 | Over 1 year HK$'000 | Total undiscounted cash flows HK$'000 | Total carrying amount HK$'000 |
|---|---|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Trade and bills payables | **N/A** | **298,318** | **–** | **–** | **–** | **298,318** | **298,318** |
| Other payables | **N/A** | **7,995** | **–** | **–** | **–** | **7,995** | **7,995** |
| Bank borrowings | **5.23** | **7,925** | **58** | **7,198** | **–** | **15,181** | **14,837** |
| | | **314,238** | **58** | **7,198** | **–** | **321,494** | **321,150** |
| Derivatives — net settlement | | | | | | | |
| Futures contracts | **N/A** | **–** | **–** | **–** | **–** | **–** | **–** |
| At 31 December 2017 | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Trade and bills payables | N/A | 1,677,655 | 526,243 | – | – | 2,203,898 | 2,203,898 |
| Other payables | N/A | 54,672 | 4,728 | – | – | 59,400 | 59,400 |
| | | 1,732,327 | 530,971 | – | – | 2,263,298 | 2,263,298 |
| Derivatives — net settlement | | | | | | | |
| Futures contracts | N/A | 37,786 | – | 65,887 | – | 103,673 | 103,673 |

## 33. FINANCIAL INSTRUMENTS *(continued)*

### Financial risk management objectives and policies *(continued)*

**Credit risk and impairment assessment**

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

*Trade receivables arising from contracts with customers*

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management of the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Under HKAS 39, impairment losses are made for irrecoverable amounts. Upon the application of HKFRS 9 on 1 January 2018, the Group applies simplified approach on trade receivables to assess for ECL prescribed by HKFRS 9. To measure ECL of trade receivables at amortised cost, the Group applies internal credit rating for its customers and they are assessed individually by reference to past default experience, current past due exposure of the debtors and an analysis of the debtors' current financial position. The ECL rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information (for examples, the current and forecasted global economy and demand for energy products which reflect the general economic conditions of the industry in which the debtors operate) that is available without undue cost or effort. Such forward-looking information is used by the management of the Group to assess both the current as well as the forecast direction of conditions at the reporting date.

Based on the assessment performed by the management of the Group, it is considered that the ECL for trade receivables at amortised cost, which is estimated based on ECL rate of 0.1% and the ECL rate is determined on debtor by debtor basis, is insignificant as at 1 January 2018 and 31 December 2018. As disclosed in note 21, all trade receivables as at 31 December 2018 are aged within 30 days and the directors of the Company are of the opinion that they are at good credit quality. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk on the trade receivables. As at 31 December 2018, 48% (2017: 58%) of trade receivables is due from the Group's largest customer and 95% (2017: 91%) of trade receivables is due from the five largest customers. These customers are mainly large and established oil trading companies or/and foreign state-owned energy companies with good financial backgrounds. The management of the Group closely monitors the subsequent settlement by the customers. At the same time, the management of the Group endeavours to diversify and expand the customer base in order to mitigate the concentration of credit risk through establishing new business relationships with non state-owned licensed import agents and overseas oil trading companies.

*Other financial assets at amortised costs*

For other receivables and deposits, the management of the Group makes periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also available reasonable and supportive forward-looking information starting from 1 January 2018. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balance of the other receivables and deposits. The management of the Group considered that the ECL rates applied for other receivables and deposits ranging from 0.1% to 0.3% as at 1 January 2018 and 31 December 2018 taking into account of repayment history and loss given default.

The bank balances and deposits placed with brokers are placed in various authorised financial institutions either with high credit ratings or good financial background and the directors of the Company consider the credit risk of such authorised financial institutions is low.

## 33. FINANCIAL INSTRUMENTS *(continued)*

### Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

**(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis**

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and key input(s) used).

| Financial assets/ financial liabilities | Fair value as at 31 December 2018 | Fair value as at 31 December 2017 | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|---|---|---|
| (1) Derivative financial instruments | **Assets — HK$1,932,000**<br>**Liabilities — Nil** | Assets — HK$93,266,000<br>Liabilities — HK$103,673,000 | Level 2 | Difference between the contracted strike prices and prevailing futures prices or published indexes. Such prevailing futures prices or published indexes are derived from the relevant futures exchanges or prices publication as specified in the contracts. |
| (2) Held for trading investments | **N/A** | Listed equity securities in USA:<br>— Oil and gas industry<br>— HK$21,000<br>Listed equity securities in Hong Kong:<br>— Other financial industry<br>— HK$41,000<br>Listed equity securities in Canada:<br>— Oil and gas industry<br>— HK$242,000 | Level 1 | Quoted bid prices in active markets. |

## 33. FINANCIAL INSTRUMENTS *(continued)*

### Fair value measurements of financial instruments *(continued)*

**(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis** *(continued)*

| Financial assets/ financial liabilities | Fair value as at 31 December | | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|---|---|---|
| | **2018** | 2017 | | |
| (3) Financial assets at FVTPL — listed securities held for trading | **Listed equity securities in USA: — Oil and gas industry — HK$56,000**<br>**Listed equity securities in Hong Kong: — Other financial industries — HK$33,184,000**<br>**Listed equity securities in Canada: — Oil and gas industry — HK$223,000** | N/A | Level 1 | Quoted bid prices in active markets. |
| (4) Trade receivables at FVTPL | **HK$2,446,499,000** | N/A | Level 2 | Derived from quoted prices in active markets. |
| (5) Trade payables designated at FVTPL | **HK$1,432,428,000** | N/A | Level 2 | Derived from quoted prices in active markets. |

There were no transfers between Level 1 and 2 in the year.

## 33. FINANCIAL INSTRUMENTS *(continued)*

### Fair value measurements of financial instruments *(continued)*

**(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis** *(continued)*

Fair value hierarchy as at 31 December 2018 and 2017

| | At 31 December 2018 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| **Financial assets** | | | | |
| Financial assets at FVTPL | | | | |
| Listed securities held for trading | **33,463** | **–** | **–** | **33,463** |
| Trade receivables at FVTPL | **–** | **2,446,499** | **–** | **2,446,499** |
| Derivative financial instruments | **–** | **1,932** | **–** | **1,932** |

| | At 31 December 2018 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| **Financial liabilities** | | | | |
| Trade payables designated at FVTPL | **–** | **1,432,428** | **–** | **1,432,428** |

| | At 31 December 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Financial assets** | | | | |
| Held for trading investments | 304 | – | – | 304 |
| Derivative financial instruments | – | 93,266 | – | 93,266 |

| | At 31 December 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Financial liabilities** | | | | |
| Derivative financial instruments | – | 103,673 | – | 103,673 |

**(ii) Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis**

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

## 33. FINANCIAL INSTRUMENTS *(continued)*

### Financial assets and financial liabilities subject to offsetting enforceable master netting arrangements and similar agreements

The disclosures set out in the tables below include financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the Group's consolidated statement of financial position.

The amounts recognised for the derivative financial assets, derivative financial liabilities, deposits placed with brokers and amount due to a broker (included in other payables) in relation to futures contracts do not meet the criteria for offsetting in the Group's consolidated statement of financial position since the right of set-off of the recognised amounts is only enforceable upon an event of default.

| | Gross amounts of recognised financial assets (liabilities) HK$'000 (note (i)) | Gross amounts of recognised financial assets (liabilities) set off in the consolidated statement of financial position HK$'000 | Net amounts of financial assets (liabilities) presented in the consolidated statement of financial position HK$'000 (note (i)) |
|---|---|---|---|
| **At 31 December 2018** | | | |
| **Financial assets** | | | |
| Deposits placed with brokers | **112,479** | **–** | **112,479** |
| Derivative financial instruments | | | |
| — futures contracts | **1,932** | **–** | **1,932** |
| Total | **114,411** | **–** | **114,411** |
| **Financial liabilities** | | | |
| Amount due to a broker | **(4,576)** | **–** | **(4,576)** |
| Derivative financial instruments | | | |
| — futures contracts | **–** | **–** | **–** |
| Total | **(4,576)** | **–** | **(4,576)** |
| **At 31 December 2017** | | | |
| **Financial assets** | | | |
| Deposits placed with brokers | 83,461 | – | 83,461 |
| Derivative financial instruments | | | |
| — futures contracts | 93,266 | – | 93,266 |
| Total | 176,727 | – | 176,727 |
| **Financial liabilities** | | | |
| Derivative financial instruments | | | |
| — futures contracts | (103,673) | – | (103,673) |

## 33. FINANCIAL INSTRUMENTS *(continued)*

### Financial assets and financial liabilities subject to offsetting enforceable master netting arrangements and similar agreements *(continued)*

| | Net amounts of recognised financial assets (liabilities) HK$'000 | Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000 (note (ii)) | Cash collateral HK$'000 (note (ii)) | Net amounts HK$'000 |
|---|---|---|---|---|
| **At 31 December 2018** | | | | |
| **Financial assets** | | | | |
| Counterparty A | **50,164** | **–** | **–** | **50,164** |
| Counterparty B | **38,984** | **–** | **–** | **38,984** |
| Counterparty C | **15,527** | **–** | **–** | **15,527** |
| Counterparty D | **8,273** | **–** | **–** | **8,273** |
| Counterparty E | **1,141** | **–** | **–** | **1,141** |
| Others | **322** | **–** | **–** | **322** |
| | **114,411** | **–** | **–** | **114,411** |
| **Financial liabilities** | | | | |
| Others | **(4,576)** | **–** | **–** | **(4,576)** |
| At 31 December 2017 | | | | |
| **Financial assets** | | | | |
| Counterparty A | 86,093 | (58,138) | – | 27,955 |
| Counterparty B | 7 | – | – | 7 |
| Counterparty C | 36,831 | – | – | 36,831 |
| Counterparty D | 944 | (4) | – | 940 |
| Counterparty E | 43,812 | (43,812) | – | – |
| Others | 9,040 | – | – | 9,040 |
| | 176,727 | (101,954) | – | 74,773 |
| **Financial liabilities** | | | | |
| Counterparty A | (58,138) | 49,803 | 8,335 | – |
| Counterparty D | (4) | 2 | 2 | – |
| Counterparty E | (45,531) | 43,461 | 351 | (1,719) |
| | (103,673) | 93,266 | 8,688 | (1,719) |

## 33. FINANCIAL INSTRUMENTS *(continued)*

### Financial assets and financial liabilities subject to offsetting enforceable master netting arrangements and similar agreements *(continued)*

Notes:

(i) The gross amounts of the recognised financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that have been disclosed in the above tables are measured as follows:

— Deposits placed with brokers — amortised cost

— Amount due to a broker — amortised cost

— Derivative financial instruments — fair value

(ii) If a default event occurs, the brokers are able to exercise the right to offset against any favourable contract and the deposits placed by the Group. The amounts are measured on the same basis as the recognised financial assets and financial liabilities.

## 34. RELATED PARTY TRANSACTIONS

### (i) Transactions

Save as disclosed elsewhere in the consolidated financial statements, the Group has the following transactions with its related parties during the year:

| Name of related party | Nature of transaction | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| Strong Property Limited | Rental expenses | **1,911** | 1,680 |
| Srithai | Rental expenses | **5,382** | 64,272 |

Strong Property Limited is owned and controlled by one key management personnel of the Group and Srithai is an associate of the Company.

### (ii) Compensation of key management personnel

The remuneration of directors of the Company and the other members of key management of the Group during the year are set out in note 11.

The remuneration of key management personnel is determined by the directors of the Company having regard to the performance of individuals and market trends.

## 35. OPERATING LEASE COMMITMENTS

### The Group as lessee

At the end of the reporting period, the Group has outstanding commitments under non-cancellable operating leases in respect of storage facilities and premises which fall due as follows:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Within one year | **2,796** | 11,801 |
| In the second to fifth year inclusive | **682** | 925 |
| | **3,478** | 12,726 |

Leases are negotiated and rentals are fixed for an average of two (2017: two) years.

## 36. CAPITAL COMMITMENTS

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment | **–** | 815 |

As at 31 December 2017, the Group entered into a subscription agreement with an independent third party to make a capital commitment to the fund investment of US$90,000,000 (equivalent to approximately HK$702,000,000), representing 18% of the initial size of the fund. The Group would have no obligation to invest under the subscription agreement unless all the conditions precedent has been fulfilled or waived on or before 31 March 2018 or such later date as mutually agreed by both parties. Details of this investment were set out in the Company's announcement on 7 September 2017. None was paid to the fund investment during the year ended 31 December 2018 and this fund investment had lapsed as at 31 March 2018. Details of the lapse of this fund investment are set out in the Company's announcement dated 21 June 2018.

## 37. PLEDGE OF ASSETS

The carrying amounts of assets that have been pledged as collaterals to secure bank borrowings and certain banking facilities are as follows:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Prepaid lease payments | **17,318** | 18,615 |
| Pledged bank deposits | **42,207** | 44,585 |
| | **59,525** | 63,200 |

## 38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

| | **Dividend payable** HK$'000 (note (i)) | **Interest payable** HK$'000 (note (i)) | **Bank borrowings** HK$'000 (Note 27) | **Total** HK$'000 |
|---|---|---|---|---|
| **At 1 January 2017** | – | – | 1,178,306 | 1,178,306 |
| Dividends declared | 127,303 | – | – | 127,303 |
| Financing cash flows (note (ii)) | (127,303) | – | (1,178,690) | (1,305,993) |
| Foreign exchange translation | – | – | 384 | 384 |
| **At 31 December 2017** | **–** | **–** | **–** | **–** |
| Finance costs recognised | **–** | **12,373** | **–** | **12,373** |
| Financing cash flows (note (ii)) | **–** | **(12,373)** | **15,445** | **3,072** |
| Foreign exchange translation | **–** | **–** | **(608)** | **(608)** |
| **At 31 December 2018** | **–** | **–** | **14,837** | **14,837** |

Notes:

(i) Interest payable and dividend payable are included in other payables.

(ii) The financing cash flows represent the net amount of proceeds from bank borrowings, payment of finance costs, payment of dividends and repayment of bank borrowings.

## 39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Non-current assets | | |
| Interests in subsidiaries | **251,189** | 251,189 |
| Amounts due from subsidiaries | **1,040,316** | 925,689 |
| | **1,291,505** | 1,176,878 |
| Current assets | | |
| Deposits and prepayments | **862** | 2,957 |
| Held for trading investments | **–** | 41 |
| Financial assets at FVTPL | **19,127** | – |
| Deposits placed with brokers | **1,361** | 9,419 |
| Bank balances and cash | **9,706** | 140,695 |
| | **31,056** | 153,112 |
| Current liabilities | | |
| Other payables and accrued charges | **1,609** | 1,633 |
| Amounts due to subsidiaries | **238,336** | 239,456 |
| | **239,945** | 241,089 |
| Net current liabilities | **(208,889)** | (87,977) |
| Net assets | **1,082,616** | 1,088,901 |
| Capital and reserves | | |
| Share capital | **53,110** | 53,143 |
| Reserves | **1,029,506** | 1,035,758 |
| Total equity | **1,082,616** | 1,088,901 |

## 39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Movement in the Company's reserves:

| | Share premium<br>HK$'000 | Share option reserve<br>HK$'000 | Contribution surplus<br>HK$'000 | Retained profits<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|---|
| **At 1 January 2017** | 339,520 | 51,564 | 118,111 | 429,919 | 939,114 |
| Loss and total comprehensive expense for the year | – | – | – | (2,425) | (2,425) |
| Issue of shares | 223,831 | – | – | – | 223,831 |
| Issue of shares upon exercise of share options | 3,714 | (1,173) | – | – | 2,541 |
| Dividends paid | – | – | – | (127,303) | (127,303) |
| **At 31 December 2017** | **567,065** | **50,391** | **118,111** | **300,191** | **1,035,758** |
| Loss and total comprehensive expense for the year | **–** | **–** | **–** | **(5,635)** | **(5,635)** |
| Repurchase of shares | **(617)** | **–** | **–** | **–** | **(617)** |
| **At 31 December 2018** | **566,448** | **50,391** | **118,111** | **294,556** | **1,029,506** |

## 40. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries are as follows:

| Name of entity | Place of incorporation/ establishment | Principal place of business | Equity interest and voting rights attributable to the Group 2018 % | 2017 % | Issued and fully paid share capital/ registered capital | Principal activity |
|---|---|---|---|---|---|---|
| Wide Sea International Limited ("Wide Sea") | British Virgin Islands ("BVI") | Hong Kong | **100** | 100 | US$2 | Investment holding |
| Saint Ocean Investment Limited ("Saint Ocean") | BVI | Hong Kong | **100** | 100 | US$2 | Investment holding |
| Strong Petrochemical Limited | Hong Kong | Hong Kong | **100** | 100 | HK$20,000,000 | Trading of crude oil, petroleum products and petrochemicals |
| Strong Petrochemical (Macao) | Macao | Macao | **100** | 100 | MOP100,000 | Trading of crude oil, petroleum products and petrochemicals |
| 南通潤德石油化工有限公司# Strong Petrochemical (Nantong) Logistics Co., Limited* | PRC | PRC | **100** | 100 | US$12,500,000 | Provision of petroleum products and petrochemicals storage services |
| Strong Petroleum Singapore Private Ltd. | Singapore | Singapore | **100** | 100 | Singapore Dollar 1,000,000 | Trading of crude oil, petroleum products and coal |
| 南通海峽國際貿易有限公司# Nantong Strong International Trading Company Limited* | PRC | PRC | **100** | 100 | US$5,000,000 | Trading of petroleum products and petrochemicals |
| 淄博海峽匯能石油化工有限公司# Zibo Strong Huineng Petrochemical Limited* | PRC | PRC | **100** | 100 | RMB10,000,000 | Trading of petroleum products |

The above table lists the principal subsidiaries of the Company which, in the opinion of the directors of the Company, principally affect the results and net assets of the Group. To give full details of subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

All of the subsidiaries are owned indirectly by the Company except for Wide Sea and Saint Ocean which are owned directly by the Company.

* The English names of these entities established in the PRC are for identification purpose only.

\# Wholly foreign owned enterprise registered in the PRC.

None of the subsidiaries had any debt securities subsisting at the end of the reporting period or at any time during the year.

The PRC subsidiaries maintained RMB denominated bank balances. The remittance of these funds out of the PRC is subject to exchange restriction imposed by the PRC government.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in Hong Kong. The principal activities of these subsidiaries are either investment holding or inactive.

## 41. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 17 January 2019, the Group enters into a secured loan agreement with a borrower and, pursuant to the agreement, the Group advances a loan of HK$20,000,000, with a fixed interest rate of 16% per annum and maturity in three months from the date of grant, to the borrower. The borrower is also granted an option to extend the loan for three more months upon maturity and the fixed interest rate will be raised to 20% per annum. Details of this loan arrangement are set out in the Company's announcement dated 17 January 2019.

On 24 February 2019 and 11 March 2019, the Group enters into a sale and purchase agreement and a supplemental sale and purchase agreement with a vendor respectively, and, pursuant to these agreements, the Group agrees to purchase and the vendor agrees to sell 51% of the entire allotted and issued share capital of a private company in the BVI at a consideration of US$3,000,000 (equivalent to approximately HK$23,400,000) which will be settled by way of assigning the equivalent amount of the Group's refundable deposit advance to a supplier for purchase of petroleum products as disclosed in note 21. The major asset of this private company is interest in a subsidiary in the PRC which is engaged in petrochemicals storage business.

On 5 March 2019, the Group enters into a sale and purchase agreement with a vendor and, pursuant to the agreement, the Group conditionally agrees to purchase and the vendor conditionally agrees to sell the entire issued capital of a private company in Hong Kong at a consideration of HK$78,000,000 which will be settled by way of assigning the equivalent amount of the Group's refundable deposit advanced to a supplier for purchase of petroleum products as disclosed in note 21. The major assets of this private company are investment properties located in Hong Kong. Details of this acquisition are set out in the Company's announcement dated 5 March 2019.

## 42. MAJOR NON-CASH TRANSACTIONS

In November 2018, the Group purchases crude oil from an entity (the "Entity") with a fixed price of US$69,053,000 and the crude oil is then sold to the Group's customer. In the same month, the Entity places a purchase order to the Group for crude oil with a fixed price of US$63,712,000. The Group arranges to settle the trade payable of US$5,341,000 with the Entity and to transfer the remaining trade payable of US$63,712,000 (equivalent to approximately HK$496,952,000) to contract liabilities which are regarded as the Entity's prepayment in relation to its crude oil purchase order. Subsequent to the end of the reporting period, the Group has delivered the crude oil to the Entity.